

Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72, Fair Value Measurement and Application

Overview

GASBS No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. One purpose of this statement is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. A summary of some of the requirements follow; however, this is not authoritative. Refer to GASBS No. 72 for authoritative and detailed guidance.

GASBS No. 72 revised the GASBS No. 31 definition of investments as a security or other asset that:

- a) a government holds primarily for the purpose of income or profit, and
- b) has present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The investment designation would be made at acquisition and would remain for the life of the asset, even if usage changes over time. An asset initially reported as a capital asset and later held for sale would not subsequently be reclassified as an investment. If an investment does not have a readily determinable fair value, the statement permits, in certain circumstances, to establish fair value by using the net asset value per share (or its equivalent) of the investment.

GASBS No. 72 also revised the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72, *Fair Value Measurement and Application*

Fair Value: Valuation Techniques & Approaches Overview

Fair value is determined using valuation techniques consistent with one or more of the following three approaches:

- **Market approach:** Uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or groups of assets and liabilities
- **Cost approach:** Reflects the amount that would be required currently to replace the service capacity of an asset
- **Income approach:** Converts future amounts (for example, cash flows or income and expenses) to a single current (discounted) amount

Valuation techniques should be used that are appropriate under the circumstances and for which sufficient data are available, maximize the use of relevant observable inputs and minimize use of unobservable inputs.

Valuation techniques should be consistently applied from period to period. However, a change is appropriate if it results in a measurement more representative of fair value (i.e., new markets develop, new information becomes available, previously used information is no longer available, valuation techniques improve, market conditions change). A revision resulting from a change in valuation technique or its application should be accounted for as a change in accounting estimate.

GASBS No. 72 does not prioritize the three approaches for valuation techniques; however, it does prioritize inputs to the valuation techniques using a hierarchy with three categories – Level 1, Level 2, and Level 3. The fair value hierarchy gives highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Continued on next page

**Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72,
*Fair Value Measurement and Application***

**Fair Value:
Valuation
Techniques &
Approaches
Overview,
continued**

Fair Value Hierarchy

- **Level 1 inputs:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. Examples of markets which might be observable include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.

 - **Level 2 inputs:** Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 2 inputs include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability, such as: 1) Interest rates and yield curves observable at commonly quoted intervals 2) Implied volatilities, and 3) Credit spreads
 - Market-corroborated inputs

 - **Level 3 inputs:** Unobservable inputs for an asset or liability. Level 3 inputs should be used only when relevant Level 1 and Level 2 inputs are unavailable. Governments may use their own data to develop unobservable inputs if there is no information available without undue cost and effort.
-

**Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72,
*Fair Value Measurement and Application***

Liabilities

Measurement of the fair value of a liability (i.e., interest rate swap in a liability position) assumes the following:

- Liability is transferred to a market participant at the measurement date.
- Liability would remain outstanding and the market participant transferee would be required to fulfill the obligation.
- Liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

If the liability is held by other parties as assets, the statement provides guidance regarding measuring the fair value of the liability.

Net Asset Value (NAV) Per Share (or its equivalent)

A government is permitted to establish the fair value of an investment in a nongovernmental entity that does not have a readily determinable fair value by using the net asset value per share (or its equivalent). This method of determining fair value is permitted if the NAV per share (or its equivalent) of the investment is calculated as of the government's measurement date generally in a manner consistent with the FASB's measurement principles for investment companies. Otherwise, an adjustment to the most recent NAV per share (or its equivalent) may be required.

Investments measured at NAV per share (or its equivalent) would be excluded from the fair value hierarchy (Level 1, 2 or 3). The NAV per share (or its equivalent) is not permitted for valuation if it is probable the government will sell the investment at a different amount from the NAV per share (or its equivalent). The statement outlines the criteria that must be met for a probable sale.

Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: [GASBS No. 72, Fair Value Measurement and Application](#)

Acquisition Value

GASBS No. 72 requires the following types of items received to be reported at acquisition value:

- Donated capital assets
- Donated works of art, historical treasures, and similar assets
- Capital assets received in a service concession arrangement

Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction or the amount for which a liability could be liquidated with the counterparty at the acquisition date. GASB believes, for the above assets, an entry-price measurement is more appropriate than an exit-price measurement because a) the transaction represents the government acquiring the asset and b) it would result in a similar measurement as if the government had purchased the asset.

Exception: **GASBS No. 72** did not amend **GASBS No. 48**, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; therefore, capital assets transferred, purchased, or donated from an entity within the same financial reporting entity (intra-entity) should continue to be reported at the carrying value of the transferor. For a listing of the **[GASBS No. 48 Commonwealth of Virginia Intra-Entity Reporting List](#)**, go to DOA's website and click on the "Financial Statement Directives" link.

Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72, Fair Value Measurement and Application

**Investment
Measurements
Per Other
Statements**

The following investments would be measured in accordance with existing literature rather than at fair value:

- Investments in nonparticipating interest-earning investment contracts using a cost-based measure per **GASBS No. 31**,
- Investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of **GASBS No. 31** and **GASBS No. 59**,
- Money market investments and participating interest-earning investment contracts that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools should be measured at amortized cost per **GASBS No. 31**,
- External investment pools that meet **GASBS No. 79*** requirements to report all investments at amortized cost,
- Investments in external investment pools that meet **GASBS No. 79*** requirements to report all investments at amortized cost,
- Synthetic guaranteed investment contracts that are fully benefit-responsive should be measured at contract value per **GASBS No. 53**, and
- Investments in life insurance contracts that do not meet the definition of a life settlement contract should be measured at cash surrender value.

***Note:** **GASBS No. 79**, *Certain External Investment Pools and Pool Participants*, includes amendments to **GASBS No. 72**. If an external investment pool meets all criteria in **GASBS No. 79** to report all investments at amortized cost and does report all investments at amortized costs, the pool's participants must also measure their investment in the external investment pool at amortized cost.

Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72, Fair Value Measurement and Application

Equity Interests in Common Stock

Equity interests in common stock as described in GASBS No. 62 and meeting certain criteria in GASBS No. 62 should be reported using the equity method of accounting **except** for the following:

- 1) Common stock held by:
 - External investment pools
 - Pension or other postemployment benefit plans
 - Internal Revenue Code Section 457 deferred compensation plans
 - Endowments (including permanent and term endowments) or permanent funds
- 2) Investments in certain entities that calculate net asset value per share (or its equivalent) as provided in GASBS No. 72 and previously discussed
- 3) Equity interest ownership in joint ventures or component units as provided in GASBS No. 14, as amended.

Equity interests in common stock that do not meet both the definition of an investment and the criteria in GASBS No. 62 for using the equity method should be accounted for using the cost method as provided in GASBS No. 62.

Disclosures

Disclosures should be organized by type of asset or liability and the statement provides guidance on what to consider when determining the level of detail and disaggregation, and how much emphasis to place on each disclosure requirement. Recurring fair value measurements of assets or liabilities are those other statements require or permit at the end of each reporting period. Nonrecurring fair value measurements of assets or liabilities are those that other statements require or permit in particular circumstances. The following disclosures are required:

For recurring and nonrecurring fair value measurements:

- Fair value measurement at the end of the reporting period,
- Level of fair value hierarchy – Level 1, Level 2, Level 3 (excluding any investments measured at NAV per share or its equivalent),
- A description of the valuation techniques used in the fair value measurement, and
- If there has been a change in valuation technique that has a significant impact on the result, that change and the reason(s) for making it.

For nonrecurring fair value measurements:

- Reason(s) for the measurement.
-

**Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72,
*Fair Value Measurement and Application***

**Additional
Disclosures**

Additional disclosures are required for investments in entities that meet all of the following criteria: (a) calculate the NAV per share (or its equivalent), regardless of whether the method of determining fair value in **GASBS No. 72**, paragraph 71, has been applied; (b) do not have a readily determinable fair value; and (c) are measured at fair value on a recurring or nonrecurring basis during the period. These disclosures are to address the nature and risks of these investments and whether such investments are probable of being sold at an amount different from NAV per share (or its equivalent). Additional disclosures for each type of investment include:

- Fair value measurement of the investment type and a description of the significant investment strategies of the investee(s) in that type,
 - For investments that can never be redeemed with the investees, but a government receives distributions through the liquidation of the underlying assets of the investees: the government's estimate of the period over which the underlying assets are expected to be liquidated by the investees,
 - Amount of unfunded commitments related to that investment type,
 - General description of the redemption terms and conditions,
 - Circumstances in which an otherwise redeemable investment in the type (or a portion thereof) might not be redeemable,
 - For otherwise redeemable investments that are restricted from redemption as of the measurement date: the estimate of when the restriction from redemption might lapse; if an estimate cannot be made, disclose that fact and how long the restriction has been in effect,
 - Any other significant selling restrictions,
 - Fair value of investments for any probable sales at an amount different from NAV per share (or its equivalent) and any remaining actions required to complete the sale, and
 - If a sale is planned but not all assets have been identified, the government's plans to sell and any remaining actions required to complete the sale.
-

Attachment HE-10 – TAB 7 Part 22 & Attachment HE-11: GASBS No. 72, Fair Value Measurement and Application

Foundations

Since foundations follow FASB rather than GASB standards, GASBS No. 72 is not applicable to the foundations reported as discrete component units of the higher education institution in accordance with GASBS No. 39 and are reported on the Attachment HE-10's Combining FST tab.

**Attachments
HE-10 and
HE-11**

The following tabs of the Attachment HE-10, Financial Statement Template, and the Attachment HE-11, Schedule of Cash, Cash Equivalents, and Investments as of June 30, request information regarding GASBS No. 72.

Attachment HE-10 TAB 7, Miscellaneous: Parts 22a to 22e
Attachment HE-11 Detail tab: Parts 9a to 9d
Attachment HE-11 Cash Equiv. & Inv Not w Tr. tab
Attachment HE-11 Recordation tab

Refer to the instructions to these attachments and the attachments for additional information.

This Page Intentionally Left Blank