

To the Mayor and Members of the City Council**October 11, 2016****Page 1 of 2****SUBJECT: IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 72, "FAIR VALUE MEASUREMENT AND APPLICATION"****Background**

On March 2, 2015 the Governmental Accounting Standards Board (GASB) issued Statement Number 72, requiring local governments to change the way they are completing the fair value measurements of investments. This accounting standard is effective for the City's current fiscal year and implementation will be included in the 2016 Comprehensive Annual Financial Report.

The objective of this Statement is to improve financial reporting by clarifying the definition of fair value, establishing general principles for measuring fair value, providing additional application guidance, and enhancing disclosures about fair value measurements.

Prior to the issuance of Statement 72, state and local government have been required to disclose how they arrived at their measures of fair value, if those values were not based on quoted market prices. The City's current valuation practices use market prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets or liabilities. Under the new guidance, these disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. In fewer words, some valuations are more precise and reliable than others. The new guidance establishes a hierarchy of inputs to valuation techniques which has levels 1, 2 and 3. All three levels are designed for the development of a more consistent and measureable valuation. These levels are defined as:

- Level 1 data: Quoted prices from an active market for identical assets or liabilities
- Level 2 data: Quoted prices from an inactive market for similar or identical assets or liabilities
- Level 3 data: Unobservable in the market and are the least reliable

Overall Effect on the Financial Reporting of Fair Value Measurements

The hierarchy is not meant to be an indication of the risk of an investment but rather an indication of the reliability and precision of the fair value measurement that is included in the financial statements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

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The City has been using Level 1 data in the past, and plans to continue this approach to the valuation of our investments. Therefore, no financial or reporting impact should be seen. Rather, the disclosures on investments will require us to provide how we got to the fair value of our investments. To ensure compliance with this statement, the Treasury Division of the Department of Finance will require that entities that are selected to invest City funds provide Level 1 information required by Statement No. 72 for each investment held at each fiscal period-end. The Financial Reporting Division of the Department of Finance will utilize this information in preparing the disclosures for the financial statements.

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517

**David Cooke
City Manager**