

GASB Addresses Majority Equity Interests

The Governmental Accounting Standards Board (GASB) issued Statement No. 90, *Majority Equity Interests*, in August 2018. This new standard aims to provide consistency in the reporting of majority equity interests and improve the relevance of information related to certain component units.

Definition of an Equity Interest

GASB 90 uses the same definition of equity interest that was used in GASB 61, *The Financial Reporting Entity: Omnibus*. Under that definition, an equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. Being explicit and measurable means the government has a present or future claim to the entity's net resources and the method for measuring the government's share of the entity's net resources is determinable. A footnote clarifies that a residual interest in assets of an organization upon dissolution alone is not considered to be an equity interest.

Is the Equity Interest an Investment?

The first determination to be made is whether the government's ownership of the majority equity interest meets the definition of an investment from GASB 72, *Fair Value Measurement and Application*. Under that definition, an investment is a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

Equity Interest Is an Investment

If the equity interest meets the definition of an investment, then it should be reported as an investment. If it is an investment, the government should not report the investee as a component unit.

If the investment is reported for a special-purpose government engaged only in fiduciary activities, a fiduciary fund, an endowment or permanent fund, the investment should be measured at fair value. Otherwise, if the investment is reported by any other type of government or fund, the investment will be measured using the equity method.

Equity Interest Is Not an Investment

If the equity interest does not meet the definition of an investment, GASB 90 says the government is deemed to be financially accountable for the investee and would report the other entity as a component unit. Normal criteria for determining presentation of the component unit (discrete or blended) would apply.

The government's equity interest should be reported as an asset in the appropriate fund. However, if the component unit is reported as blended, then the equity interest would be eliminated in the blending process.

Acquiring a 100 Percent Equity Ownership

If a government acquires a 100 percent equity interest in a component unit, GASB 90 refers to the guidance in GASB 69, *Government Combinations and Disposals of Government Operations*, for government acquisitions.

Effective Date & Transition

The requirements of GASB 90 are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. Most provisions will be applied on a retroactive basis; however, provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest will be applied prospectively.

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