



North Carolina Office of the State Controller

Financial Reporting Update

GASB 90 Effective for FY 2020

October 9, 2019

In August 2018, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 90, *Majority Equity Interests* (GASB 90). GASB 90 improves consistency and comparability in the reporting of a government's majority equity interest in a legally separate organization.

GASB 90 defines a majority equity interest as 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. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method of measuring the government's share is determinable.

After the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*, (GASB 72) questions began to surface from stakeholders whether to report the majority equity interest as a component unit under GASB Statement No. 14, *The Financial Reporting Entity*, or as an investment under GASB 72. GASB 90 clarifies those questions.

If the government's primary purpose for holding the majority equity interest in a legally separate organization meets the definition of an investment per GASB 72, the government should report the majority equity interest as an investment. The investment should be measured using the equity method in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, (GASB 62) unless the equity interest is held by a special purpose government engaged only in fiduciary activities, a fiduciary fund, an endowment, or a permanent fund, then it should be measured at fair value in accordance with GASB 72.

If the government's primary purpose for holding the majority equity interest in a legally separate organization does not meet the definition of an investment, the government should report the legally separate organization as a component unit. Holding a majority equity interest results in the government being financially accountable for that organization.

A majority equity interest in an organization reported as a component unit also should be reported as an asset of the government or fund that holds the equity interest measured using the equity method in accordance with GASB 62. However, if the component unit is blended, the asset and the net position associated with the equity interest should be eliminated at blending.

When acquiring 100% equity interest in a legally separate entity that is reported as a component unit, the component unit should measure its assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with GASB 69, *Government Combinations and Disposals of Government Operations*, at the date of acquisition. Net resources exchanged to



acquire the equity interest should be considered plus the balances of any equity interest asset and deferred outflows of resources prior to the completion of acquisition. The net position acquired should be equal to the net position of the component unit after measuring the assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The Statement of Activities of the component unit should include only those transactions that occurred subsequent to the acquisition of the 100% equity interest.

Majority equity interests are distinct from joint ventures. A joint venture is defined by GASB as a 'legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility.' No single participant has the ability to unilaterally control the financial or operating policies of that joint venture. As such, by definition, a government cannot have a majority equity interest in a joint venture. Joint ventures should continue to be reported according to previously issued guidance.

The provisions of GASB 90 should be applied retroactively if the majority equity interest is reported as an investment. The provisions of GASB 90 should be applied prospectively if the majority equity interest is reported as a component unit.

To gain additional understanding of GASB 90, please refer to the following resource:

- The GASB webpage from which you can access a PDF file of GASB 90 as well as other GASB pronouncements – [GASB Pronouncements](#)

Thank you for your time and attention to this important change. Questions regarding this specific update should be directed to Elizabeth Colcord at (919) 707-0526 or Elizabeth.Colcord@osc.nc.gov.