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Governmental Accounting Standards Series

Statement No. 90 of the Governmental Accounting Standards Board

Majority Equity Interests

an amendment of GASB Statements No. 14 and No. 61

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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Summary

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the 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. Those provisions should be applied on a prospective basis.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit.

How the Board Considered Costs and Benefits in the Development of This Statement

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. The Board believes that the expected benefits that will result from the information provided through implementation of this Statement—more consistent and comparable information about majority equity interests held by governments and more relevant information for certain component units—justify potential initial and ongoing costs.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

Statement No. 90 of the
Governmental Accounting
Standards Board

Majority Equity Interests

an amendment of GASB Statements No. 14 and No. 61

August 2018

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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August 2018

INTRODUCTION

1. The primary objectives of this Statement are to improve consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations and to improve the relevance of financial statement information for certain component units.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This Statement also provides guidance for reporting a component unit if a government acquires a 100 percent equity interest in that component unit. The requirements of this Statement apply to the financial statements of all state and local governments.

3. For purposes of applying this Statement, 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. 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 for measuring the government's share of the entity's net resources is determinable.[1]

4. This Statement supersedes Implementation Guide No. 2016-1, *Implementation Guidance Update—2016,* Question 4.11. This Statement amends Statement No. 14, *The Financial Reporting Entity,* paragraphs 21, 55, 70, and 131; Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* paragraph 7; Statement No. 61, *The Financial Reporting Entity: Omnibus,* paragraphs 6 and 10; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* paragraphs 202 and 205; Statement No. 72, *Fair Value Measurement and Application,* paragraphs 69 and 77; and *Implementation Guide No. 2015-1,* Questions 4.17.1 and 4.18.11.

Reporting a Majority Equity Interest in a Legally Separate Organization

5. A government can own or acquire a majority of the equity interest in a legally separate organization (for example, through acquisition of voting stock of a corporation or acquisition of interest in a partnership). If a government's holding of that equity interest meets the definition of an investment in paragraph 64 of Statement 72, the equity interest should be reported as an investment and measured using the equity method in accordance with paragraphs 205–209 of Statement 62, as amended, except as provided in paragraph 6 of this Statement. If a government's holding of that equity interest meets the definition of an investment, the legally separate organization should not be reported as a component unit of the government.

6. If a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund holds a majority equity interest in a legally separate organization that meets the definition of an investment, that majority equity interest should be measured in accordance with the requirements in paragraph 64 of Statement 72.

[1]The definition of equity interest is not intended to include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property.

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

8. 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 paragraphs 205–209 of Statement 62, as amended. However, if the component unit is blended, the asset and net position associated with the equity interest held by the government or fund should be eliminated in the blending process. In financial statements prepared using the current financial resources measurement focus, the asset representing the government's equity interest should be limited to amounts appropriately reported under the current financial resources measurement focus.

Reporting a Component Unit If a Government Acquires a 100 Percent Equity Interest

9. If a government acquires a 100 percent equity interest in a legally separate organization that is reported as a component unit in accordance with paragraphs 7 and 8, the component unit should measure its assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with the provisions of paragraphs 29–42, 44, and 45 of Statement No. 69, *Government Combinations and Disposals of Government Operations,* as amended, at the date on which the government acquires the 100 percent equity interest. In applying those measurement provisions, the consideration provided should include the net resources exchanged to complete the acquisition of the 100 percent equity interest plus the balances of any equity interest asset and deferred outflow of resources recognized prior to the completion of the acquisition in accordance with paragraph 8. In addition, the net position acquired should be equal to the net position of the component unit after measuring assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with the provisions of paragraphs 29–36 of Statement 69. The flows statements of the component unit should include only those transactions that occurred subsequent to the acquisition of the 100 percent equity interest.

EFFECTIVE DATE AND TRANSITION

10. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. Except as discussed in paragraph 11, in the period this Statement is first applied, changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. Also, the reason for not restating prior periods presented should be disclosed. In the first period that this Statement is applied, the notes to financial statements should disclose the nature of the restatement and its effect.

11. The requirements in paragraphs 8 and 9 of this Statement should be applied on a prospective basis.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

David A. Vaudt, *Chairman*
Jeffrey J. Previdi, *Vice Chairman*
James E. Brown
Brian W. Caputo
Michael H. Granof
Kristopher E. Knight
David E. Sundstrom

Appendix A

BACKGROUND

A1. As a result of the issuance of Statement 72, some stakeholders requested that the Board clarify whether a government reporting a majority equity interest in a legally separate organization should apply the guidance for reporting component units in Statement 14, as amended, or the guidance for reporting investments in Statement 72. Specifically, questions arose regarding circumstances in which a government's primary purpose for holding a majority equity interest in a legally separate organization was to obtain income or profit, which met the definition of an investment, but the organization also met the criteria to be reported as a component unit.

A2. In April 2016, the Board initiated pre-agenda research to evaluate how governments were reporting a majority equity interest in a legally separate organization and to consider whether accounting and financial reporting guidance for such organizations should be modified. With the assistance of various stakeholder organizations, the research identified governments that hold majority equity interests in legally separate organizations. The research included examining the presentation of those types of legally separate organizations in those governments' financial statements. Interviews were conducted with preparers and auditors with knowledge of reporting majority equity interest transactions to identify (a) the types of legally separate organizations in which governmental entities hold a majority equity interest, (b) how those legally separate organizations were reported in the government's financial statements, and (c) what issues were encountered in determining that presentation. Interviews also were conducted with users of governmental financial information to obtain their views regarding the presentation of a government's majority equity interest in a legally separate organization.

A3. Based on feedback from those preparer and auditor interviews, a survey was developed and distributed to preparers and auditors who participated in the interviews and to other knowledgeable stakeholders to better understand their views about whether there should be a difference between (a) reporting an organization that remains legally separate following acquisition by a government and (b) reporting an organization that does not remain legally separate following acquisition but, rather, becomes part of the acquiring government's legal entity.

A4. The results of the research were discussed by the Board in November 2016 and by the Governmental Accounting Standards Advisory Council (GASAC) in December 2016. The pre-agenda research confirmed that many stakeholders have challenges in determining the appropriate reporting guidance to apply when reporting a majority equity interest in a legally separate organization, resulting in inconsistent reporting across governments. The research also indicated that some stakeholders consider the substance of an acquisition of an organization that remains legally separate to be substantively the same as an acquisition in which the acquired organization becomes part of the acquiring government's legal entity. In December 2016, the Board added the Equity Interest Ownership Issues project to the GASB's current technical agenda. Deliberations began in March 2017.

A5. In November 2017, the Board issued an Exposure Draft, *Accounting and Financial Reporting for Majority Equity Interests.* The Board received 20 responses to the Exposure Draft from organizations and individuals. As discussed throughout Appendix B, comments and suggestions from those sources contributed to the Board's deliberations in developing the requirements of this Statement. In addition, feedback was provided by members of the GASAC at four of their meetings during the Board's deliberations.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability of This Statement

B2. This Statement specifies the accounting and financial reporting guidance for a government's majority equity interest in an organization that remains legally separate following its acquisition. The scope of this Statement also includes guidance for reporting a component unit in which the government acquires a 100 percent equity interest. Because of issues related to reporting by a component unit in which an equity interest also is held by an entity other than the government, the provisions of this Statement are limited to the acquisition of a 100 percent equity interest.

B3. Some respondents to the Exposure Draft requested that the Board reexamine the accounting and financial reporting requirements related to joint ventures in addition to majority equity interests. A joint venture is defined for accounting and financial reporting purposes in paragraph 69 of Statement 14 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 the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility." That paragraph further states that *joint control* as used in the definition of a joint venture means "that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture." By definition, a government cannot hold a majority equity interest in a joint venture; therefore, the Board concluded that the additional accounting and financial reporting requirements related to joint ventures are outside the scope of this Statement.

Reporting a Majority Equity Interest in a Legally Separate Organization

B4. A primary objective of this Statement is to clarify circumstances in which a government should report a majority equity interest in a legally separate organization as an investment as opposed to a component unit. Paragraph 55 of Statement 14, as amended, required a government to report a majority equity interest in a legally separate organization as either a component unit or an investment. That paragraph previously stated that a government's intent for acquiring the majority equity interest in a legally separate organization should be the determinant for classification as a component unit or as an investment and provided guidance for assessing that intent. However, there was no indication of which reporting alternative should have priority in circumstances in which the government's intent was both to provide services and to obtain income or profit. Subsequent to the issuance of Statement 14, the Board defined an investment in paragraph 64 of Statement 72 as "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." Some stakeholders questioned how that definition affected application of paragraph 55 of Statement 14, as amended.

B5. In addition, if the organization in which the government holds a majority equity interest was reported as a discretely presented component unit, the government also previously was required to recognize an asset for its majority equity interest in the component unit. That asset was required to be measured in the same manner as a joint venture in which participants have an equity interest, as described in paragraphs 72–74 of Statement 14, as amended. In financial statements prepared using the economic resources measurement focus, the asset was required to be measured initially at cost. In subsequent periods, that asset's measurement was adjusted for the government's share of the change in net position, with elimination of any profit on any operating transactions between the government and the discretely presented component unit.

B6. To provide further clarification for determining which guidance to follow when reporting a majority equity interest in a legally separate organization, the Board considered two alternatives: (a) if the legally separate organization meets the criteria for a component unit, it should be reported as a component unit regardless of whether the government's majority equity interest also meets the definition of an investment and (b) if the majority equity interest meets the definition of an investment, it should be reported as an investment regardless of whether the legally separate organization also meets the criteria to be reported as a component unit. The Board generally believes that legally separate organizations that meet the criteria to be reported as component units should be reported as component units. However, because an investment, by definition, has to be held primarily for the ability to generate income or profit and has a present service capacity based solely on its ability to generate cash or to be sold to generate cash, the Board determined that governments first should consider whether a majority equity interest in a legally separate organization meets the definition of an investment. The Board believes that the definition of an investment is met, for example, when the majority equity interest in a legally separate organization is held by a special-purpose government engaged only in fiduciary activities or as part of the fiduciary activities of a government, such as those reported in private-purpose trust funds or pension (and other employee benefit) trust funds. In those circumstances, the majority equity interest has a present service capacity based solely on its ability to generate cash or to be sold to generate cash because of the government's fiduciary duty to put the interests of the beneficiaries ahead of its own.

B7. Some respondents to the Exposure Draft disagreed with reporting a majority equity interest in a legally separate organization that does not meet the definition of an investment as a component unit. Those respondents do not believe that financial control of an organization is equivalent to financial accountability, which is the basis for the definition of a component unit, and noted that paragraph 20 of Statement 14, as previously amended, did not include consideration of financial control in determining whether an organization is a component unit. Instead, paragraph 20, as previously amended, stated that component units are legally separate organizations "for which the elected officials of the primary government are financially accountable. . . . In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. . . ." Paragraph 21 of Statement 14, as previously amended, further provided that a government is financially accountable if (a) the government appoints a voting majority of the organization's governing body and is able to impose its will on that organization, (b) the government appoints a voting majority of the organizations' governing body and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the government, or (c) the organization is fiscally dependent on the government and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the government.

B8. The Board noted that previous financial reporting guidance required the reporting of a majority equity interest in a legally separate organization as a component unit if the *intent* of ownership is to enhance the ability to provide services, as discussed in paragraph B4, rather than considering whether financial accountability is met. The Board also considered amendments to the definition of a component unit, including (a) amending the definition of financial accountability to state that holding a majority equity interest results in the government being financially accountable, (b) establishing that it would be misleading to exclude an entity for which the government holds a majority equity interest, and (c) amending the definition of a component unit to add entities for which the government holds a majority equity interest as an additional type of component unit. The Board concluded that if a government holds a majority equity interest in a legally separate entity, the government implicitly directs the manner in which the entity is governed. Therefore, the Board decided to amend the definition of financial accountability to explicitly state that holding a majority equity interest results in the government being financially accountable for that legally separate organization.

B9. The Board also considered the measurement of a majority equity interest in a legally separate organization. Statement 72 required an investment in common stock to be measured using the equity method, as described in Statement 62, as amended, with exclusions if held by external investment pools, pension or other postemployment benefit plans, Internal Revenue Code Section 457 deferred compensation plans, and endowments (including permanent and term endowments) or permanent funds. Those excluded investments were measured at fair value. However, Statement 72 did not specifically state whether governments should apply the equity method to other types of ownership interests, such as a partnership interest. As stated in paragraph B5, a government with a majority equity interest in a legally separate organization reported as a discretely presented component unit was required to recognize and measure an asset related to that majority equity interest in accordance with paragraphs 73 and 74 of Statement 14, as amended.

B10. After considering the various ways in which a majority equity interest in a legally separate organization was being measured, the Board determined that the measurement of a majority equity interest in a legally separate organization that meets the definition of an investment has similar characteristics to an investment in common stock and therefore should be measured in a similar manner. As a result, this Statement requires application of the equity method, as described in Statement 62, as amended, to measure a majority equity interest in a legally separate organization, except for circumstances in which the majority equity interest is being held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. In those circumstances, the majority equity interest should be measured at fair value.

B11. Some respondents to the Exposure Draft advocated that in all circumstances, fair value should be applied to measure a majority equity interest in a legally separate organization that meets the definition of an investment. The Board recognizes that applying the equity method, as described in Statement 62, as amended, generally will result in different measurements than applying fair value. The Board also noted that those differences occur in measuring (a) a government's holding of an equity interest in common stock that meets the requirements to apply the equity method, as described in Statement 62, as amended, because of the government's ability to exercise significant influence over operating and financial policies of the investee and (b) a government's holding of an equity interest other than in common stock, which it is required to measure using fair value. After considering those alternatives, the Board continues to believe that a government's holding of a majority equity interest should be measured similar to an investment in common stock, which is required to be measured using the equity method except for investments held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund.

B12. For a majority equity interest in a legally separate organization that does not meet the definition of an investment, this Statement carries forward the requirement that the government or fund that has the majority equity interest report an asset in accordance with paragraph 55 of Statement 14, as amended. The Board also determined that the measurement guidance in Statement 62, as amended, is more appropriate in that circumstance than the provisions for reporting participation in joint ventures for which there is an equity interest required by paragraphs 73 and 74 of Statement 14, as amended.

B13. Some respondents to the Exposure Draft disagreed with the requirement for a government to recognize an asset related to its majority equity interest in a legally separate organization reported as a component unit. Those respondents believe that approach results in the asset being reported multiple times in the financial statements of the reporting entity because the net position of the component unit also is reported. The Board recognizes that if the component unit is discretely presented, the reporting entity's financial statements would include both the net position of the discretely presented component unit and the government's equity interest in that component unit. However, the Board noted that if an optional total column for the reporting entity is presented, the equity interest is eliminated.

Reporting a Component Unit in Which a Government Acquired a 100 Percent Equity Interest

B14. During the deliberations that led to the issuance of Statement 69, the Board considered whether a component unit in which the government acquires a 100 percent equity interest should remeasure its assets, deferred outflows of resources, liabilities, and deferred inflows of resources (hereinafter, financial statement elements) in accordance with the provisions of that Statement. At that time, the Board determined that it was not appropriate to reconsider the financial reporting entity concepts and related financial reporting requirements for an acquisition of an organization that meets the criteria of a component unit. However, in developing this Statement, the Board agreed to revisit the reporting requirements for wholly owned legally separate organizations in conjunction with the previously discussed guidance for reporting a majority equity interest in a legally separate organization.

B15. An organization that is acquired by a government but (a) continues to exist as a legally separate organization and (b) meets the criteria to be reported as a component unit, is required by paragraph 43 of Statement 14 to be reported in the financial statements of the government in layers "from the bottom up." That approach resulted in reporting financial statement elements of the component unit at their *carrying values* in the financial statements of both the component unit and the government. In addition, the financial statements of the acquired component unit included activities prior to the acquisition date if that date was not the same as its year-end. However, different reporting is required by a government that acquires a legally separate organization that becomes part of the government's legal entity at acquisition. Paragraph 32 of Statement 69 requires that the financial statement elements in those acquisitions be measured at *acquisition value,* with the exceptions listed in paragraphs 33–36 of that Statement. As a result, financial statement elements are remeasured at the acquisition date based on allocating the consideration provided by the acquiring government. Also, the financial statements of the government would not report activity of the acquired organization in the flows statements that occurred prior to the acquisition date.

B16. During the deliberations that led to Statement 69, the Board determined that acquisition value provides a more relevant measurement of the acquired financial statement elements, with exceptions for certain assets and liabilities for which other measurement provisions exist (as listed in paragraphs 33–36 of that Statement). The Board believes that acquisition value, subject to those exceptions, also is a more relevant measurement of the financial statement elements of a component unit in which the government acquires a 100 percent equity interest. The Board believes acquisition value better reflects the consideration exchanged by the government in acquiring those component units. As previously noted, because of issues outside the scope of this project, the Board decided to require acquisition value only in circumstances in which a 100 percent equity interest is acquired in a legally separate organization that is reported as a component unit.

B17. A respondent to the Exposure Draft requested that the Board not issue requirements to apply acquisition value in those circumstances until the Board has considered application of acquisition value to less than 100 percent equity interest holdings. However, the Board decided that applying acquisition value if a government acquires a 100 percent equity interest in a legally separate organization will increase comparability between such acquired component units and government acquisitions of entities that lose their legally separate status upon acquisition.

B18. The Board also discussed how acquisition value should be applied in circumstances in which a 100 percent equity interest in a component unit is acquired. Because of the current requirements to report a component unit from the bottom up (as noted in paragraph B15), a change in measurement is applied to both reporting the component unit in the government's financial statements and the stand-alone reporting of the component unit. In applying acquisition value, the Board determined that the balances of any majority equity interest asset and deferred outflow of resources that had been previously recognized at the date of acquisition (for example, if the acquisition occurred in steps across periods) should be treated as part of the acquisition price.

B19. The Board considered whether the net effect of applying acquisition value should be reported as a special item in the statement of changes in net position of the component unit. Such treatment would be similar to the requirements of Statement 69 for reporting differences between the consideration provided and the acquisition value in acquisitions of activities that are no longer legally separate after the acquisition. However, the Board was concerned about the comparability of reporting in circumstances in which the acquisition occurs at a time other than the beginning of the component unit's reporting period. Instead, the Board believes that the change in ownership effectively terminates the pre-acquisition entity and creates a new, separate entity for accounting and financial reporting purposes, resulting in the need for "fresh-start" reporting. As a result, transactions of the component unit presented in both the component unit's stand-alone and the reporting entity's flows statements should be limited to those that occurred subsequent to the acquisition of the 100 percent equity interest in the stand-alone financial statements of the component unit. The Board also believes that such reporting is more relevant and provides consistency in the reporting of information in a government's statement of changes in net position related to the activities of (a) a legally separate organization that does not remain legally separate after acquisition and (b) a component unit in which the government holds a 100 percent equity interest.

Considerations Related to Benefits and Costs

B20. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B21. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B22. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B23. The primary source of information on the expected benefits of this Statement is the pre-agenda research, which showed diversity in practice in reporting a majority equity interest in a legally separate organization. Diversity in practice diminishes the comparability of reported information, which makes that information less useful. This Statement will reduce diversity in practice by providing uniform guidance. Financial statement users will benefit through increased comparability in financial reporting of a government's majority equity interest in a legally separate organization, including those in which a government acquires a 100 percent equity interest.

B24. Although the Board recognizes that it is difficult to accurately measure the costs of implementing new standards, the Board believes that implementation costs related to the requirements in this Statement will be minimal. As a result, considering the benefits of the increased comparability of financial statements and the anticipated minimal incremental implementation costs, the Board believes that the expected benefits of this Statement justify the perceived costs.

Effective Date and Transition

B25. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The Board concluded that this effective date is appropriate because governments implementing the guidance in this Statement will have ready access to the information to make the determinations required by this Statement. Some governments may wish to implement the guidance earlier than the effective date, which this Statement encourages.

B26. With respect to transition, the Board concluded that it generally is appropriate to require retroactive application of the provisions of this Statement, if practicable, for the requirements related to the reporting of a majority equity interest in a legally separate organization. The phrase *if practicable* has been used in other GASB standards in a similar context as used in this Statement with respect to transition provisions that require restating the financial statements for all prior periods presented. The Board believes that reasonable efforts should be employed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should not be considered equivalent to *not practicable.*

B27. For the provisions in this Statement related to reporting a component unit in which the government holds a majority equity interest, the Board concluded that it may be impractical to retroactively apply the requirements. Because the provisions related to measuring a majority equity interest in paragraphs 72–74 of Statement 14, as amended, are different than the provisions related to applying the equity method in paragraphs 205–209 of Statement 62, as amended, the information may not be available to determine the necessary adjustments to the measurement of the majority equity interest. As a result, the Board determined that those requirements should be applied prospectively.

B28. For the provisions in this Statement related to reporting a component unit in which the government acquired a 100 percent equity interest, the Board concluded that it may be impractical to retroactively apply the requirements. For acquisitions of those component units that occurred in prior years, the information may not be available to determine the necessary adjustments to financial statement elements. As a result, the Board determined that those requirements also should be applied prospectively.

Appendix C

CODIFICATION INSTRUCTIONS

Codification of Governmental Accounting and Financial Reporting Standards—December 2018 Update

C1. The instructions that follow update the June 30, 2018 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) for the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

DEFINING THE FINANCIAL REPORTING ENTITY SECTION 2100

Sources: [Add GASBS 90.]

.111 [Replace *(see paragraphs .120–.136)* and *(see paragraphs .138–.140)* with *(see paragraphs .120–.137)* and *(see paragraphs .139–.142)*.] [GASBS 14, ¶12, as amended by GASBS 34, ¶6 and GASBS 61, ¶4; GASBS 90, ¶7]

.119 [Replace *(as discussed in paragraphs .120–.136)* and *(as discussed in paragraphs .138–.140)* with *(as discussed in paragraphs .120–.137)* and *(as discussed in paragraphs .139–.142)*.] [GASBS 14, ¶20, as amended by GASBS 61, ¶4; GASBS 90, ¶7]

.120 [Insert subparagraph (c) as follows:] The primary government is financially accountable for a legally separate organization if the primary government's holding of a majority equity interest in that organization does not meet the definition of an investment (paragraph .137). [GASBS 14, ¶21, as amended by GASBS 61, ¶6 and GASBS 90, ¶7; GASBS 90, ¶7]

[Insert new paragraph .137, including heading and footnote, as follows; renumber subsequent paragraphs and footnotes.]

Majority Equity Interests

.137 If a government's holding of a majority equity interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and, therefore, the government should report the legally separate organization as a component unit. For purposes of applying this section, 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. 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 for measuring the government's share of the entity's net resources is determinable.[8] [GASBS 90, ¶3 and ¶7]

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[8]The definition of equity interest is not intended to include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property. [GASBS 90, fn1]

.507 [Replace the definition with the following:] 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 for measuring the government's share of the entity's net resources is determinable.[11] [2100.137; 2600.116] [GASBS 90, ¶3]

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[11]The definition of equity interest is not intended to include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property. [GASBS 90, fn1]

[Insert new paragraph .508 as follows; renumber subsequent paragraphs:]

.508 **Equity interest in a joint venture.** A financial interest in a joint venture evidenced by the ownership of shares of the joint venture's stock or by otherwise having an explicit, measurable right to the net resources of the joint venture that is usually based on an investment of financial or capital resources by a participating government. [J50.105–.108] [GASBS 14, ¶131, as amended by GASBS 90, ¶3]

.712-2 [Delete the last paragraph of the answer, and insert new subparagraph (c) as follows:] The primary government is financially accountable for a legally separate organization if the primary government's holding of a majority equity interest in that organization does not meet the definition of an investment. [GASBIG 2015-1, Q4.17.1, as amended by GASBS 90, ¶7]

.713-6 [Revise the second sentence of the question as follows:] The limited partners are nongovernmental organizations and have limited rights regarding the operation of the partnership, and the housing authority possesses essentially all authority over day-to-day operations. [GASBIG 2015-1, Q4.18.11, as amended by GASBS 90, ¶7]

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REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE — SECTION 2600

Sources: [Add GASBS 90.]

.116 [Replace paragraph with the following:] A government can own or acquire a majority of the equity interest in a legally separate organization (for example, through acquisition of voting stock of a corporation or acquisition of interest in a partnership). For purposes of applying this section, 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. 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 for measuring the government's share of the entity's net resources is determinable.[7] If a government's holding of that equity interest meets the definition of an investment in paragraph .103 of Section I50, the equity interest should be reported as an investment and measured using the equity method in accordance with paragraphs .112–.116 of

Section I50, except as discussed below. If a government's holding of that equity interest meets the definition of an investment, the legally separate organization should not be reported as a component unit of the government. If a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund holds a majority equity interest in a legally separate organization that meets the definition of an investment, that majority equity interest should be measured in accordance with the requirements in paragraph .108 of Section I50. If a government's holding of a majority equity interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and, therefore, the government should report the legally separate organization as a component unit. The majority equity interest should be reported as an asset of the government or fund that holds the equity interest, measured using the equity method in accordance with paragraphs .112–.116 of Section I50. However, if the component unit is blended, the asset and net position associated with the equity interest held by the government or fund should be eliminated in the blending process. In financial statements prepared using the current financial resources measurement focus, the asset representing the government's equity interest should be limited to amounts appropriately reported under the current financial resources measurement focus. [GASBS 14, ¶55, as amended by GASBS 61, ¶10, GASBS 72, ¶64, and GASBS 90, ¶5–¶8; GASBS 14, ¶73, as amended by GASBS 61, ¶10; GASBS 31, ¶5, as amended by GASBS 62, ¶202–¶210; GASBS 72, ¶64; GASBS 90, ¶3 and ¶5–¶8]

[Insert new footnote 7 as follows:]

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[7]The definition of equity interest is not intended to include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant. This type of interest is, in substance, the same as escheatage, that is, the reversion of property to a state resulting from the absence of any known, rightful inheritors to the property. [GASBS 90, fn1]

[Insert new paragraph .128 as follows; renumber subsequent paragraphs.]

.128 [GASBS 90, ¶9]

[Delete Questions .706-19 and .707-1.]

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Sources: [Add GASBS 90.]

.101 [In the sources, replace *GASBS 62, ¶202–¶210;* with *GASBS 62, ¶202, as amended by GASBS 90, ¶5; GASBS 62, ¶203–¶210;*. Add *GASBS 72, ¶77, as amended by GASBS 90, ¶5 and ¶6* and *GASBS 90, ¶5 and ¶6* to the sources. Add GASBS 90, ¶5 to the amending sources of GASBS 72, ¶69.]

.102 [Add GASBS 90, ¶5 and ¶6 to the sources.]

.108 [Insert new subparagraph (h) as follows:] A majority equity interest in a legally separate organization held by (1) a special-purpose government engaged only in fiduciary activities, (2) a fiduciary fund, or (3) an endowment (including permanent and term endowments) or permanent fund. [GASBS 31, ¶2; GASBS 31, ¶4, as amended by GASBS 32, ¶3, GASBS 53, ¶20 and ¶67, GASBS 67, ¶18, and GASBS 73, ¶115; GASBS 31, ¶7, as amended by GASBS 34, ¶6, GASBS 72, ¶5–¶58 and ¶64–¶75, and GASBS 90, ¶5; GASBS 32, ¶5; GASBS 52, ¶4; GASBS 53, ¶20 and ¶67; GASBS 62, ¶204; GASBS 67, ¶18, as amended by GASBS 72, ¶5–¶58 and ¶64–¶75; GASBS 72, ¶64 and ¶70; GASBS 72, ¶69, as amended by GASBS 85, ¶7 and GASBS 90, ¶5; GASBS 90, ¶5 and ¶6]

[Replace the heading before paragraph .109 with the following:]

Equity Interests

.109 [In the first sentence, delete *in common stock*; in subparagraph (c), delete *or component units as provided in Section 2100*.] [GASBS 62, ¶202, as amended by GASBS 90, ¶5; GASBS 62, ¶204; GASBS 72, ¶77, as amended by GASBS 90, ¶5]

.110 [Revise as follows:] Equity interests should be accounted for using the equity method of accounting if they either (a) meet the criteria in paragraphs .112–.115 and are not specifically excluded in paragraph .109 or (b) are a majority equity interest in a legally separate organization that meets the definition of an investment, except for equity interests that are held by special-purpose governments engaged only in fiduciary activities, fiduciary funds, and endowments (including permanent and term endowments) and permanent funds. [GASBS 72, ¶77, as amended by GASBS 90, ¶5 and ¶6; GASBS 90, ¶5 and ¶6]

.112 [Replace the first sentence as follows:] The equity method of accounting for an investment should be followed by (a) a government whose investment in voting stock gives it the ability to exercise significant influence over operating and financial policies of an investee even though the government holds 50 percent or less of the voting stock, (b) a government reporting a majority equity interest in a legally separate organization that meets the definition of an investment, except for equity interests that are held by special-purpose governments engaged only in fiduciary activities, fiduciary funds, or endowments (including permanent and term endowments) or permanent funds, or (c) a government or fund reporting an asset for a majority equity interest in a legally separate organization reported as a component unit. [GASBS 62, ¶205, as amended by GASBS 90, ¶5 and ¶6; GASBS 90, ¶5 and ¶6]

* * *

ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS SECTION J50

.103 [In first sentence, replace *in a joint venture includes an equity interest* with *includes an* ***equity interest in a joint venture****.*] [GASBS 14, ¶70, as amended by GASBS 90, ¶3]

[Replace the heading before paragraph .105 with the following:]

Equity Interest in a Joint Venture

* * *

INVESTMENT POOLS (EXTERNAL) SECTION In5

.102 [Add GASBS 90, ¶5 to the amending sources of GASBS 72, ¶69.]

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Comprehensive Implementation Guide—December 2018 Update

C2. The instructions that follow update the June 30, 2018 *Comprehensive Implementation Guide* for the provisions of this Statement.

* * *

4.17.1. [Delete the last paragraph of the answer, and insert new subparagraph (c) as follows:] The primary government is financially accountable for a legally separate organization if the primary government's holding of a majority equity interest in that organization does not meet the definition of an investment. [GASBIG 2015-1, Q4.17.1, as amended by GASBS 90, ¶7]

4.18.11. [Revise the second sentence of the question as follows:] The limited partners are nongovernmental organizations and have limited rights regarding the operation of the partnership, and the housing authority possesses essentially all authority over day-to-day operations. [GASBIG 2015-1, Q4.18.11, as amended by GASBS 90, ¶7]

[Delete Question 4.35.1.]