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GASB Clarifies Guidance on Majority Equity Interests.

Norwalk, CT, September 4, 2018 — The Governmental Accounting Standards Board (GASB) has issued guidance clarifying the accounting and financial reporting requirements for a state or local government's majority equity interest in an organization that remains legally separate after acquisition.

A public hospital's acquisition of a rehabilitation center that remains legally separate after acquisition is an example of the type of transaction the new guidance addresses.

Under Statement No. 90, *Majority Equity Interests*, a government's majority equity interest in a legally separate organization should be reported as an investment if that equity interest meets the GASB's definition of an investment. In many instances, a majority equity interest that meets the definition of an investment should be measured using the equity method.

Statement No. 72, *Fair Value Measurement and Application*, defines an investment 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."

For a majority equity interest in a legally separate entity that does not meet the definition of an investment, Statement 90 requires a government to report the legally separate entity as a component unit.

Statement 90 also establishes guidance for remeasuring assets and liabilities of wholly acquired governmental organizations that remain legally separate. That guidance brings the reporting of those acquisitions in line now with existing standards that apply to acquisitions that do not remain legally separate.

Statement 90 is available on the GASB website, www.gasb.org.