



# North Carolina Office of the State Controller

## Financial Reporting Update

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### **GASB 97 Effective for Fiscal Year 2022, Except for Portions of Paragraph 4 and all of Paragraph 5, which were Effective June 2020**

**February 15, 2022**

In June 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (Statement 97). This statement provides clarification for determining whether the primary government is financially accountable for purposes of evaluating potential component units; modifies applicability of certain component unit criteria as related to defined contribution pension and OPEB plans and other employee benefit plans; establishes accounting and financial reporting requirements for IRC Section 457 deferred compensation plans that meet the definition of a pension plan; and modifies the investment valuation requirements for all Section 457 plans.

The objective of this statement is to increase consistency and comparability related to reporting fiduciary component units in the absence of a governing board and to mitigate costs associated with reporting certain defined contribution pension and OPEB plans and other employee benefit plans as fiduciary component units. Another objective of Statement 97 is to enhance the relevance, consistency, and comparability of accounting and financial reporting for Section 457 deferred compensation plans that meet the definition of a pension plan.

### **Certain Component Unit Criteria**

#### Absence of a Governing Board in Determining Financial Accountability

In certain instances, a legally separate organization may not have a governing board, for purposes of determining whether a primary government is financially accountable for a potential component unit. In those instances, if the primary government performs the duties that a governing board would perform, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board. This criterion does not apply for a potential component unit that is a defined contribution pension plan, defined contribution OPEB plan, or an other employee benefit plan.

#### Applicability of the Financial Burden Criterion in Paragraph 7 of Statement 84

The financial burden criterion in paragraph 7 of GASB Statement No. 84, *Fiduciary Activities* (Statement 84), is applicable only to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Statement 74), respectively.



## Section 457 Plans

A Section 457 plan should be classified as either a pension plan or an other employee benefit plan. If the Section 457 plan meets the definition of a pension plan in paragraph 51 of Statement 67 or paragraph 128 in Statement 73, then it is a pension plan for accounting and financial reporting purposes. If the Section 457 plan is included in the financial statements of another government or issues standalone financial statements, all accounting and financial reporting requirements that are relevant to pension plans should be applied. Furthermore, all accounting and financial reporting requirements that are relevant to pensions should be applied to benefits provided through the Section 457 plan (i.e., an employer or nonemployer contributing entity should apply all requirements of Statement 68 or Statement 73, as amended).

If the Section 457 plan does not meet the definition of a pension plan, then it is an other employee benefit plan for accounting and financial reporting purposes.

Additionally, Statement 84, as amended, should be applied to determine whether an arrangement organized under the IRC Section 457 should be reported as a fiduciary activity in a government's fiduciary fund financial statements.

Statement 97 modifies the investment valuation requirements for all Section 457 plans. Investments of all Section 457 plans should be measured as of the end of the plan's reporting period. This modification supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended.

## Effective Date

Statement 97 was effective upon issuance in June 2020 for the portion in paragraph 4 that provides an exception to defined contribution pension and OPEB plans and other employee benefit plans and all of paragraph 5 related to the financial burden criterion in GASB Statement 84. Paragraphs 6-9 and all other requirements of this statement are effective for fiscal year ending June 30, 2022. This statement is to be applied retrospectively, except when a Section 457 plan meets the definition of a defined benefit pension plan, in which case, the transition provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (Statement 67), and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement 68), as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (Statement 71), or GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (Statement 73) should be applied.

To gain additional understanding of GASB Statement 97, please refer to the GASB webpage from which you can access a PDF file of Statement 97 as well as other GASB pronouncements. - [GASB Pronouncements](#)



Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Questions regarding this specific update should be directed to Virginia Sisson at 919-707-0530 or by email at [virginia.sisson@osc.nc.gov](mailto:virginia.sisson@osc.nc.gov).