

# GASB Statement 101 – Compensated Absences

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# Meet the Speakers



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# Agenda

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- ▶ Identify what is included in the Standard
- ▶ How to implement the Standard
- ▶ Auditor considerations
- ▶ Impact on financial statements and disclosures
- ▶ Examples
- ▶ Jeopardy!



# GASB Statement No. 16

- ▶ Vacation leave
  - Should be accrued as a liability as the benefits are earned if both conditions are met:
    - ▷ Employees' rights to receive compensation are attributable to services already rendered.
    - ▷ It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.
- ▶ Benefits that have been earned but that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability.



# GASB Statement No. 16 (cont.)

- ▶ Sick leave
  - A liability for sick leave and other compensated absences with similar characteristics should be accrued using one of the following termination approaches:
    - ▷ A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees termination or retirement. Accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than taken as absences due to illness or other contingencies and would generally be an estimate.
    - ▷ Alternatively, a governmental entity should estimate its accrued leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible or are expected to be eligible to receive termination payments.



# GASB Statement No. 16 (cont.)

- ▶ Because governmental fund balance sheets do not reflect long-term liabilities, only the current portion of the entire liability should be reported in the specific fund. The current portion is the amount left unpaid at the end of the reporting period that would normally be liquidated with available expendable resources. The remainder of the liability should be reported in the General Long-Term Debt Account Group.
- ▶ No changes to compensated absences since release in 1992.



# What is GASB 101?

- ▶ Objective: To better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.
- ▶ Under the new standard, one model is considered to streamline reporting.
- ▶ Governmental Funds – No major change
- ▶ Government-Wide Funds – clarifications made for consistency purposes which may change what was previously being done.



# Implementation

- ▶ The Statement is effective for fiscal years beginning after December 15, 2023
- ▶ Earlier adoption is encouraged
- ▶ Upon adoption, consider GASB Statement No.100, Accounting Changes and Error Corrections
  - Restate prior periods to retroactively report changes in accounting principal
  - Aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.
  - Disclosure in notes



# Implementation Dates

Year End	Implementation Date	Fiscal Year End
December 31	January 1, 2024	December 31, 2024
March 31	April 1, 2024	March 31, 2025
June 30	July 1, 2024	June 30, 2025
September 30	October 1, 2024	September 30, 2025



# Compensated Absence

- ▶ As defined in GASB Statement 101, leave for which employees may receive one or more of the following:
  - Cash payment when the leave is used for time off
  - Other cash payments, such as payment for unused leave upon termination of employment
  - Noncash settlements, such as conversion to defined benefit postemployment benefits.
- ▶ GASB Statement 16 provided different guidance for vacation and sick leave.
  - Since issuance, PTO (may use accrued hours for vacation or sick time) and compensatory time off (additional time off in lieu of overtime pay) have become more common.
  - Uniform model under GASB 101 provides consistency, increased relevance and a more complete estimate.



# What is Included in Scope

- ▶ Paid time off (PTO)
- ▶ Vacation leave
- ▶ Sick leave
- ▶ Holidays
- ▶ Certain types of sabbatical leave
- ▶ Salary-related payments



# What is excluded?

- ▶ Termination benefits as defined by GASB 47
  - Termination benefits that allow for the vesting of previously unvested sick leave.
- ▶ Sporadic events
- ▶ Holidays based on a specific date not at the discretion of employees
- ▶ Certain salary-related payments
- ▶ Leave more likely than not to convert to a defined benefit plan
- ▶ Unlimited leave



# General Criteria

- ▶ The leave is attributable to services already rendered
- ▶ The leave accumulates
- ▶ The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means



# Services Already Rendered

- ▶ Leave that is attributable to services already rendered is leave for which an employee has performed the services required to earn the leave



# Accumulates

- ▶ Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid in cash or settled through noncash means



# More Likely Than Not

- ▶ Defined in GASB 101 as a likelihood of more than 50%
- ▶ GASB 96 recognizes the liability when probable
  - Considered a higher threshold.



# Considerations for More Likely Than Not

- ▶ The government's compensated absences employment policies, which may differ by class of employee.
- ▶ Whether benefits for which services have been rendered will become eligible for future payments.
- ▶ Historical information about the use, payment, or forfeiture of compensated absences.
- ▶ Information known to the government that would indicate that historical information may not be representative of future trends.



# Recording the Liability

- ▶ A liability should be recognized for:
  - Leave that has not been used
  - Leave that has not been paid in cash or settled through noncash means
- ▶ Focus is on accruing benefit when it is earned and then determining if it is more likely than not that it will be used or paid out instead of vested vs. nonvested benefits.



# Amount Due Within One Year

- ▶ GASB 34, as amended, requires governments to report the amount of long-term liabilities that is due within one year.
- ▶ The Board considered an exception for compensated absences since it is an estimated amount.



# Recognize When Leave is Used

- ▶ For sporadic events that affects a relatively small proportion of employees in any particular reporting period, a government should not recognize a liability until the leave commences
  - Parental leave, military leave, jury duty leave
- ▶ For the following types of compensated absences, a government should not recognize a liability until the leave is used
  - Leave that employees are able to take as needed without specific limits.
  - Holiday leave take on a specific date not at the discretion of employees.



# Calculating the liability

- ▶ Generally measured using the employee's pay rate as of the date of the financial statements
  - Present value considerations are not necessary
- ▶ Exceptions for the following:
  - If all or some of the leave is more likely than not to be paid at a different rate from the employee's pay rate.
  - If the leave is not attributable to a specific employee as of the date of the financial statements (shared pool).
  - If some or all of the leave is more likely than not to be settled through noncash means other than conversion to defined benefit postemployment benefits.



# Calculating the Liability Prior to GASB 101

**Calculation of Compensated Sick Leave Liability  
Using the Termination Payment Method - 5 Year Data  
For Fiscal Year Ending June 30, 2020**

FY	Total Amount Paid (Exhibit A)	No. Years Worked (Exhibit A)	Avg Salary Increase %	Amt Paid Adjusted by % Inc in Salaries for Preceeding Years	Average Daily Rate (Exhibit A)	Terminated
	(A)	(B)	(C)	(D)	(E)	
FY 16	1,555,839.32	2,956	0.00%	1,729,510.77	148.38	
FY 17	1,662,789.21	3,392	4.25%	1,773,044.61	185.85	
FY 18	636,192.68	1,628	2.50%	661,831.25	135.37	
FY 19	1,491,749.00	3,110	3.00%	1,506,666.49	170.42	
FY 20	1,176,261.00	2,248	1.00%	1,176,261.00	170.85	
	<u>6,522,831.21</u>	<u>13,334</u>		<u>6,847,314.11</u>	<u>162.17</u>	
Current Employees Daily Rate (Exhibit B):						188.75 (F)
Current Employees Percent of Terminated Rate:						116% (G)
Adj. Sick Leave Payments multiplied by Percentage Factor:				7,969,406.55	(H) (D*G)	
Divided by Number of Years Worked (B):				<u>13,334</u>		
Average Sick Leave Payment:				597.68 (I)		
Multipled by Total Service for Current Employees (Exhibit B):				86,024 (J)		
Multipled by the FICA and Medicare Percentages:				<u>1.0765 (K)</u>		
<b>Compensated Sick Leave Liability FY20:</b>				<b>55,347,651.63 (I*J*K)</b>		
Compensated Sick Leave Liability from FY19 AFR:				<u>54,889,176.14</u>		
FY20 Adjustment:				<u>458,475.49</u>		



# Other Liability Factors

- ▶ Certain salary-related payments that are both directly and incrementally associated with payments for compensated absences – e.g. employer share of social security and Medicare taxes.
  - A payment is directly associated if the payment is a function of salary to be paid.
  - A payment is indirectly associated if the government will make a payment in addition to the payment for the salary.
- ▶ Accumulated leave that's more likely than not to be paid to an employee through a distribution to an individual account to be used for specific purposes.



# Pension Considerations

- ▶ Defined Contributions (DC) plans
  - For salary-related payments for DC plans, the liability is recognized whenever a compensated absence liability would be recognized and reported as pension or OPEB expense
- ▶ Defined Benefit (DB) plans
  - Payment related to DB pension or OPEB plan should not be included in the measurement of the liabilities for compensated absences



# Financial Statement Disclosure Impact

- ▶ Can be presented as separate increases and decreases or a net increase or net decrease
  - If presented as a net amount, a government should indicate that
- ▶ No longer required to disclose which governmental funds typically have been used to liquidate the liability
- ▶ Must estimate the amount that is due within one year



# Note Disclosure Illustration

## Illustration 3—Note Disclosure—Net Change in the Liability

COUNTY OF KLAUS  
 NOTE X—DETAIL NOTES ON ALL FUNDS  
 LONG-TERM DEBT  
 Long-Term Liability Activity

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balances</b>	<b>Amounts Due within One Year</b>
<b>Governmental Activities</b>					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 9,520,000	\$ 1,201,000	\$ (600,350)	\$ 10,120,650	\$ 817,200
Notes Payable	945,600	75,000	(115,000)	905,600	116,500
Total Bonds and Notes Payable	<u>10,465,600</u>	<u>1,276,000</u>	<u>(715,350)</u>	<u>11,026,250</u>	<u>933,700</u>
Other Liabilities:					
Compensated Absences	310,430	143,545*	-	453,975	382,673
Other Obligations	40,820	-	-	40,820	-
Total Other Liabilities	<u>351,250</u>	<u>143,545</u>	<u>-</u>	<u>494,795</u>	<u>382,673</u>
Governmental Activities Long-Term Liabilities	<u>\$ 10,816,850</u>	<u>\$ 1,419,545</u>	<u>\$ (715,350)</u>	<u>\$ 11,521,045</u>	<u>\$ 1,316,373</u>
<b>Business-Type Activities</b>					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 12,275,600	\$ 890,000	\$ (1,100,700)	\$ 12,064,900	\$ 988,700
Sales Tax-Backed Bonds	6,670,000	-	(810,000)	5,860,000	635,000
Total Bonds and Notes Payable	<u>18,945,600</u>	<u>890,000</u>	<u>(1,910,700)</u>	<u>17,924,900</u>	<u>1,623,700</u>
Other Liabilities:					
Compensated Absences	56,710	-	(24,985)*	31,725	19,570
Developer Agreements	1,920,909	87,220	(64,932)	1,943,197	-
Other Obligations	37,503	-	-	37,503	-
Total Other Liabilities	<u>2,015,122</u>	<u>87,220</u>	<u>(89,917)</u>	<u>2,012,425</u>	<u>19,570</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 20,960,722</u>	<u>\$ 977,220</u>	<u>\$ (2,000,617)</u>	<u>\$ 19,937,325</u>	<u>\$ 1,643,270</u>

\*The change in the compensated absences liability is presented as a net change.



# Auditor Considerations

- ▶ An increase in liabilities is expected
  - Threshold changing from “probable” to “more likely than not”.
- ▶ Restatement of net position or fund net position is possible
  - GASB 100 considerations when applying GASB 101
- ▶ Ensure the inclusion of salary-related payments
  - Calculated correctly
- ▶ Testing
  - Ensure the 3 recognition criteria are met for included amounts
  - Recalculate formulas
  - Verify maximums to policy statements and contracts
  - Test the inputs, such as payrates and accumulated hours.



# Basis for Conclusions

- ▶ The Board believe “leave” generally is understood to encompass various circumstances in which an employee may be absent from work.
- ▶ The Board believes that describing different possible methods of payment or settlement clarifies that the definition is not limited to a specific method of payment or settlement.
- ▶ Termination of employment refers to the end of an employee’s active service for any reason



# Basis for Conclusions (cont.)

- ▶ The Board considered whether sick leave and similar leave should have different recognition criteria as in GASB 16
- ▶ GASB 16 did not address PTO. Many governments accounted for PTO under vacation leave provisions.
- ▶ The Board believes the uniform recognition model improves comparability among governments



# Basis for Conclusions (cont.)

- ▶ The Board decided to include a probability threshold into the recognition criteria to record a liability due to the way leave could be used or settled based on a government's employment policies.
- ▶ It was decided that the “probable” criteria used in GASB 16 could be interpreted as a high threshold which may result in understated liabilities for compensated absences



# Summary

- ▶ Goes into effect starting with December 31, 2024 calendar year ends
- ▶ Compensated absences must meet all three criteria to be recognized
- ▶ Should be implemented retrospectively in accordance with GASB 100
- ▶ Disclosure requirement are reduced.



# Examples

## ► Information:

- December 31, 2024 year end. First time implementation
- New Year's Day is the only paid holiday during the year.
- Policy 1:
  - ▷ Max accumulation of 200 vacation hours
  - ▷ 200 sick hours paid upon termination.
  - ▷ Defined Benefit Plan with 10% employer contribution
- Policy 2:
  - ▷ Max accumulation of 500 vacation hours
  - ▷ 500 sick hours not paid upon termination
  - ▷ Defined Contribution Plan with 10% employer contribution



# Data

Employee	Policy	Vacation Hours	Sick Hours	Holiday Hours	Payrate
John	1	400	100	8	\$100.00
George	1	80	50	8	\$100.00
Paul	1	150	350	8	\$100.00
Ringo	2	170	600	8	\$100.00
Pete	2	600	40	8	\$100.00
Yoko	2	300	300	8	\$100.00



# Policy 1

Employee	Policy	Vacation Hours	Sick Hours	Holiday Hours	Payrate	Vacation to Accrue	Sick Leave to Accrue	Total	7.65% FICA	Pension	Accrual
John	1	400	100	8	\$100.00	200	100	\$ 30,000.00	\$2,295.00	-	\$32,295.00
George	1	80	50	8	\$100.00	80	50	\$ 13,000.00	\$ 994.50	-	\$13,994.50
Paul	1	150	350	8	\$100.00	150	200	\$ 35,000.00	\$2,677.50	-	\$37,677.50



# Policy 2

Employee	Policy	Vacation Hours	Sick Hours	Holiday Hours	Payrate	Vacation to Accrue	*Sick Leave to Accrue	Total	7.65% FICA	Pension	Accrual
Ringo	2	170	600	8	\$100.00	170	450	\$ 62,000.00	\$4,743.00	\$6,200.00	\$72,943.00
Pete	2	600	40	8	\$100.00	500	36	\$ 53,600.00	\$4,100.40	\$5,360.00	\$63,060.40
Yoko	2	300	300	8	\$100.00	300	270	\$ 57,000.00	\$4,360.50	\$5,700.00	\$67,060.50

\*Government estimates 90% of sick hours is more likely than not to be used as paid leave.



# You try!

- ▶ Information:
  - December 31, 2024 year end. First time implementation
  - New Year's Day and July 4<sup>th</sup> are the only paid holidays.
- Policy 1:
  - ▷ Max accumulation of 350 vacation hours
  - ▷ 150 sick hours paid upon termination.
  - ▷ Defined Contribution Plan with 6% employer contribution
- Policy 2:
  - ▷ Max accumulation of 100 vacation hours
  - ▷ 400 sick hours not paid upon termination
  - ▷ Defined Benefit Plan with 3% employer contribution
  - ▷ Government estimates 75% of sick hours is more likely than not to be used as paid leave.

Employee	Policy	Vacation Hours	Sick Hours	Holiday Hours	Payrate
John	1	275	375	16	\$ 45.00
George	1	125	145	16	\$ 45.00
Paul	1	460	160	16	\$ 45.00
Ringo	2	140	400	16	\$ 45.00
Pete	2	20	700	16	\$ 45.00
Yoko	2	100	40	16	\$ 45.00



# Policy 1

Employee	Policy	Vacation Hours	Sick Hours	Holiday Hours	Payrate	Vacation to Accrue	Sick Leave to Accrue	Total	7.65% FICA	Pension	Accrual
John	1	275	375	8	\$ 45.00	275	150	\$ 19,125.00	\$1,463.06	1,147.50	\$21,735.56
George	1	125	145	8	\$ 45.00	125	145	\$ 12,150.00	\$ 929.48	729.00	\$13,808.48
Paul	1	460	160	8	\$ 45.00	350	150	\$ 22,500.00	\$1,721.25	1,350.00	\$25,571.25



# Policy 2

Employee	Policy	Vacation Hours	Sick Hours	Holiday Hours	Payrate	Vacation to Accrue	*Sick Leave to Accrue	Total	7.65% FICA	Pension	Accrual
Ringo	2	140	400	8	\$ 45.00	100	300	\$ 18,000.00	\$1,377.00	\$ -	\$19,377.00
Pete	2	20	700	8	\$ 45.00	20	300	\$ 14,400.00	\$1,101.60	\$ -	\$15,501.60
Yoko	2	100	40	8	\$ 45.00	100	30	\$ 5,850.00	\$ 447.53	\$ -	\$ 6,297.53

\*Government estimates 75% of sick hours is more likely than not to be used as paid leave.



# JEOPARDY!

# Questions?

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