GASB Statement No. 101, Compensated Absences

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BUSINESS SUCCESS PARTNERS

PRESENTED BY

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Meet Your Presenters

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Specialty Areas
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Objectives & Agenda

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

GASB Statement No. 16

- Vacation leave and other compensated absences
- Sick leave and other compensated absences
- Under the new standard, one model is considered to streamline reporting

What is GASB 101?

- This is the first change to compensated absences since GASB Statement No. 16 released in 1992
- Objectives
- Governmental Funds – no major change
- Government-Wide Funds – clarifications made for consistency purposes and may change what you have done previously

When Do I Need To Implement?

- The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter
- Earlier application is encouraged
- Upon adoption, consider GASB Statement No. 100, Accounting Changes and Error Corrections

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

How Will This Improve Financial Reporting?

- The unified recognition and measurement model
- Enhanced relevance
- More complete estimate

Compensated Absence

- Definition of compensated absence is leave for which employees may receive one or more of the following:

1. Cash payment when the leave is used for time off
2. Other cash payment, such as payment for unused leave upon termination of employment
3. Noncash settlement
    - Conversion to a defined benefit postemployment benefit (not going to be included in this liability)

What Is In Scope

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

Exclusions From Accrual Under GASB 101

- Termination benefits as defined by GASB 47
- 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 Under New Standard

A liability should be recognized if all of the following are true:

1. The leave is attributable to **services already rendered**;
2. The leave **accumulates**; and
3. The leave is **more likely than not** to be used for time off or otherwise paid or settled

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

- MLTN is defined in GASB 101 as a likelihood of more than 50%
- GASB 16 recognizes the liability when compensated absences are probable
- MLTN is generally viewed as a lower barrier for accrual than probable

Considerations to Determine MLTN

- The government's employment policies related to compensated absences
- Whether leave that has been earned is, or will become, eligible for use or payment in the future
- 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 or patterns

Recording the Liability

- Recognize liability for:
  - Leave that has not been used
  - Leave has not been paid in cash or settled through noncash means

- New standard differs than current practice in that the focus is not on vested vs. nonvested benefits, but accruing a benefit when it is earned and then determining if it is more likely than not that it will be used or paid out

How is the liability calculated?

- The compensated absences liability is generally calculated by multiplying the accumulated leave that’s more likely than not to be paid or settled through noncash means by the employee’s pay rate as of the financial reporting date
  - Accumulated leave is usually by hours or days
  - Present value considerations are not necessary

How is the liability calculated?

- Exceptions:
  - Payouts at different rates
  - Shared employee leave pools

Other Liability Factors

- Certain salary-related payments that are both directly and incrementally associated with payments for compensated absences—for example, employer share of Social Security and Medicare taxes
- 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 specified purposes

Pension Considerations

- Defined contributions (DC) plan considerations
  - 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) Plan considerations
  - Payments related to a DB pension or OPEB plan should **NOT** be included in the measurement of the liabilities for compensated absences

Financial Statement Disclosure Impact

- May disclose increases and decrease as a net number as long as it is identified as net
- 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

Auditor Considerations

- Expect an increase in liabilities
- Restatement of net position or fund net position is possible
- Ensure the inclusion of salary-related payments
- Testing
  - Test the inputs – such as wage rates and accumulated hours
  - Validate maximums to policies and contracts (CBAs)
  - Ensure amounts included meet the 3 recognition criteria
  - Recalculate formulas

Summary

- First required for December 31, 2024 calendar year ends
- Compensated absences must meet all three criteria to be recognized
- Retrospective implementation in accordance with GASB 100
- Reduced disclosure requirements

Examples

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Facts

- Assume December 31, 2024 year end
- CBA 1 – allows for a maximum accumulation of 300 vacation hours, 300 sick hours paid upon termination, DC pension with 10% employer contribution
- CBA 2 – allows for a maximum accumulation of 300 vacation hours, 300 sick hours not paid upon termination, DB pension with 10% employer contribution
- All employees get January 1, 2025 paid for a Holiday

Employee Information

	CBA	Vacation hours	Sick hours	Holiday	Pay rate
Homer	CBA 1	310	25	8	$ 20.00
Marge	CBA 2	200	10	8	$ 20.00
Bart	CBA 1	100	100	8	$ 20.00
Lisa	CBA 1	100	400	8	$ 20.00
Maggie	CBA 2	400	300	8	$ 20.00
Ned	CBA 2	500	500	8	$ 20.00

CBA 1

	CBA	Vacation hours	Sick hours	Holiday	Pay rate	Vacation to accrue	Sick to accrue	Amount	7.65% FICA	Pension	Accrual
Homer	CBA 1	310	25	8	$ 20.00	300	25	$ 6,500.00	$ 497.25	$ 650.00	$ 7,647.25
Bart	CBA 1	100	100	8	$ 20.00	100	100	$ 4,000.00	$ 306.00	$ 400.00	$ 4,706.00
Lisa	CBA 1	100	400	8	$ 20.00	100	300	$ 8,000.00	$ 612.00	$ 800.00	$ 9,412.00

CBA 2

	CBA	Vacation hours	Sick hours	Holiday	Pay rate	Vacation to accrue	Sick to accrue*	Amount	7.65% FICA	Accrual
Marge	CBA 2	200	10	8	$ 20.00	200	5	$ 4,100.00	$ 313.65	$ 4,413.65
Maggie	CBA 2	400	300	8	$ 20.00	300	150	$ 9,000.00	$ 688.50	$ 9,688.50
Ned	CBA 2	500	500	8	$ 20.00	300	150	$ 9,000.00	$ 688.50	$ 9,688.50

*Government estimates 50% of sick hours is more likely than not to be used as paid leave.

Combined Accrual

	CBA	Vacation hours	Sick hours	Holiday	Pay rate	Vacation to accrue	Sick to accrue	Amount	7.65% FICA	Pension	Accrual
Homer	CBA 1	310	25	8	$ 20.00	300	25	$ 6,500.00	$ 497.25	$ 650.00	$ 7,647.25
Marge	CBA 2	200	10	8	$ 20.00	200	5	$ 4,100.00	$ 313.65	$ -	$ 4,413.65
Bart	CBA 1	100	100	8	$ 20.00	100	100	$ 4,000.00	$ 306.00	$ 400.00	$ 4,706.00
Lisa	CBA 1	100	400	8	$ 20.00	100	300	$ 8,000.00	$ 612.00	$ 800.00	$ 9,412.00
Maggie	CBA 2	400	300	8	$ 20.00	300	150	$ 9,000.00	$ 688.50	$ -	$ 9,688.50
Ned	CBA 2	500	500	8	$ 20.00	300	150	$ 9,000.00	$ 688.50	$ -	$ 9,688.50
									Total accrual		$ 45,555.90

Question

Should a government accrue for maternity leave under the following circumstances?

- March 31, 2026 year end
- 6 months maternity leave is paid
- A mother begins maternity leave on February 1, 2026

Answer

Yes – the government should accrue the remaining 4 months of the maternity leave because:

1. The leave is attributable to **services already rendered**;
2. The leave **accumulates**; and
3. The leave is **more likely than not** to be used for time off or otherwise paid or settled.

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

Governmental Activities	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due within One Year
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	10,465,600	1,276,000	(715,350)	11,026,250	933,700
Other Liabilities:					
Compensated Absences	310,430	143,545*	-	453,975	382,673
Other Obligations	40,820	-	-	40,820	-
Total Other Liabilities	351,250	143,545	-	494,795	382,673
Governmental Activities Long-Term Liabilities	$ 10,816,850	$ 1,419,545	$ (715,350)	$ 11,521,045	$ 1,316,373
Business-Type Activities					
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	18,945,600	890,000	(1,910,700)	17,924,900	1,623,700
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	2,015,122	87,220	(89,917)	2,012,425	19,570
Business-Type Activities Long-Term Liabilities	$ 20,960,722	$ 977,220	$ (2,000,617)	$ 19,937,325	$ 1,643,270

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

Questions?

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