

GASB 101, Compensated Absences

A Proven, Four-Phase Methodology

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Today's Speaker



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Today's Agenda



..... **What is GASB 101 and What is Changing?**



..... **Four-Phase Approach to Implementation**

1. Gaining an Understanding
2. Performing Completeness Assessment
3. Evaluating Policies and Procedures and Documenting Methodology
4. Preparing Journal Entries and Disclosures and Go-Forward Plan



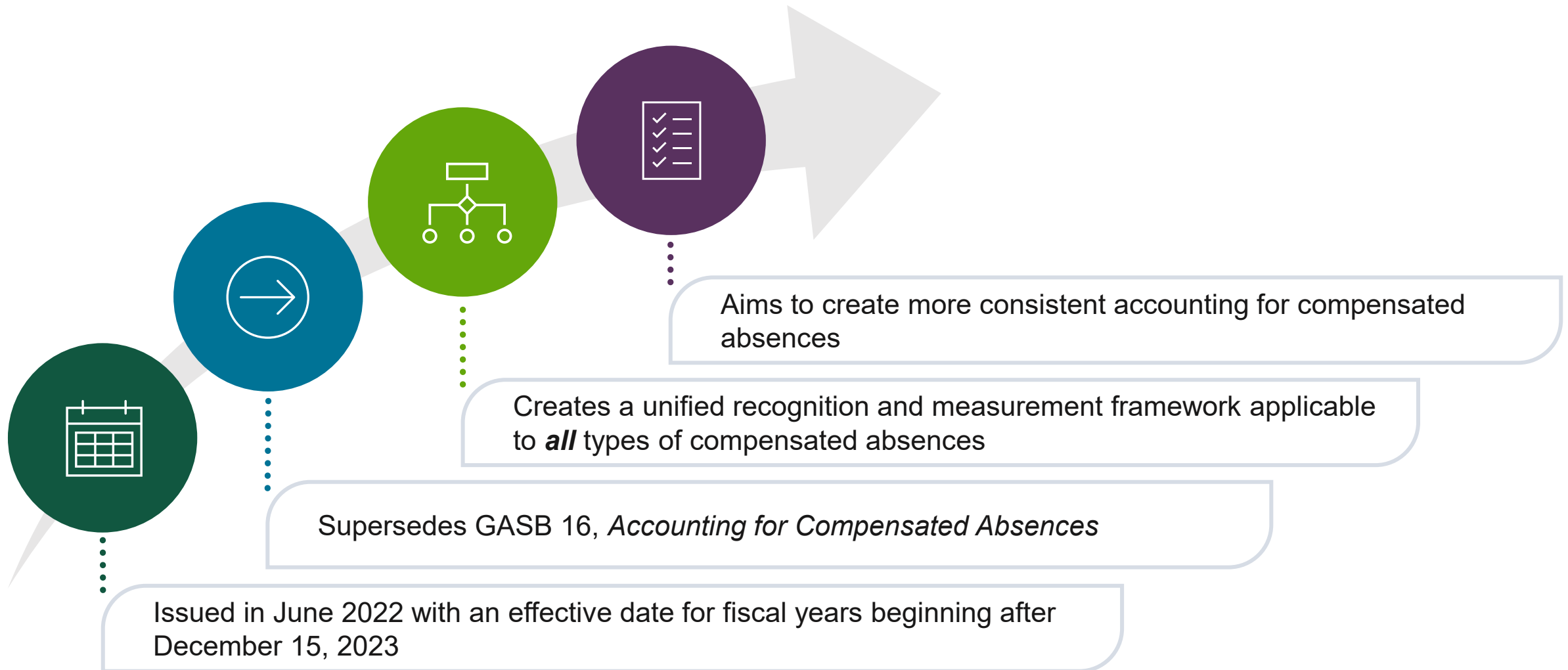
..... **Questions?**

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What is GASB 101 and What is Changing?



Fast Facts About GASB 101



Compensated Absence Defined

Compensated absence is a term used to describe leave that entitles employees to receive one or more:

- Cash payments when leave is used for time off
- Other cash payments (e.g., payment for unused leave upon termination of employment)
- Noncash settlements (e.g., conversion to defined benefit postemployment benefits)



Compensated Absences Examples

Examples of compensated absences include:

- Vacation
- Sick Leave
- Paid Time Off (PTO)
- Comp Time
- Holidays
- Parental Leave
- Bereavement Leave
- Certain types of Sabbatical Leave



Compensated Absences Examples

Compensated absences do not include:

- Sabbatical Leave during which an employee is required to perform duties of a different nature for the government
- Termination Benefits (apply Statement No. 47)



Recognition Criteria

1

Attributable

- ▶ Employee must have performed the services necessary to earn the leave

2

Accumulates

- ▶ Leave must be carried forward to future reporting periods

3

More Likely Than Not

- ▶ Leave must be more likely than not to be used or paid
- ▶ More likely than not refers to a likelihood of greater than 50%

Exceptions

- ▶ Leave settled through conversion to defined postemployment benefits
- ▶ Leave dependent upon sporadic events affecting a small proportion of employees:
 - ▶ Parental leave
 - ▶ Military leave
 - ▶ Jury duty
- ▶ Unlimited leave
- ▶ Holiday leave



Exceptions

Leave that is settled through conversion to defined benefit postemployment benefits (already included in pension or OPEB liabilities)

Leave that is dependent upon sporadic events that affects a relatively small proportion of employees. Liability should not be recognized until leave commences

- Parental leave
- Military leave
- Jury duty



Exceptions

- ▶ Unlimited leave – not recognized until used
- ▶ Holiday leave – not recognized until used



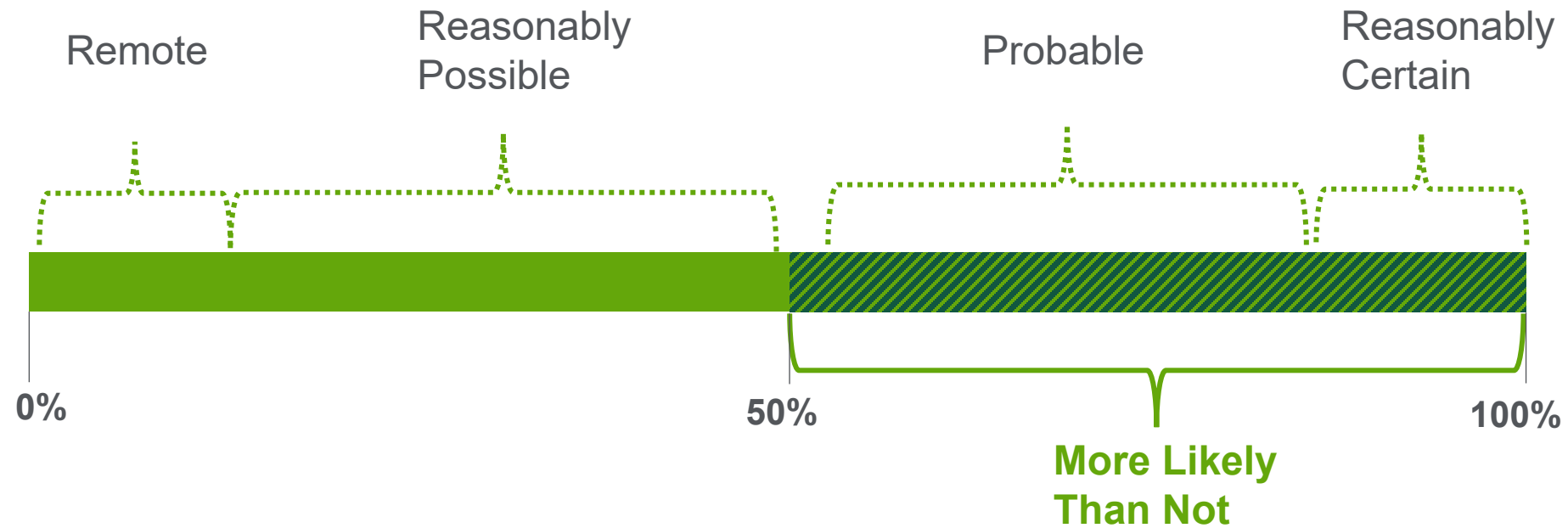
More Likely Than Not?

Criteria to consider

1. **Employment Policies**
2. **Eligible for use or future payment?**
3. **Historical use/payment of leave**
4. **Are historical trends representative of current reality?**



Where Does “More Likely Than Not” Fall?





Measurement Criteria

- ▶ Liability should be measured using the pay rate as of the date of the financial statements
 - ▶ Exception: some or all of the compensated absence is more likely than not to be paid at a different rate – use that rate instead!
- ▶ When leave is not attributable to a specific employee (i.e., pooled leave), use an estimated pay rate representative of the eligible employee population
- ▶ Any changes in future periods due to a change in pay rate are recognized in that future period (i.e., don't estimate/anticipate future rate changes)



Measurement Criteria (cont.)

- ▶ Governments must consider ***salary-related payments***, which are obligations incurred related to providing leave. Examples include:
 - ▶ Medicare taxes
 - ▶ Social Security taxes
- ▶ Salary-related payments must be included in the liability measurement if they are *directly associated* or *incrementally associated* with the leave
 - ▶ *Directly Associated*: the amount of payment is a function of salary to be paid out
 - ▶ *Incrementally Associated*: the payment amount is in addition to the payment for the salary
- ▶ Do **not** include salary-related payments related to defined benefit pension or OPEB plans

Disclosures

No new disclosures

On Long Term Liability rollforward, may net increases or decrease (should indicate that it is a net amount)

Not required to disclose the government fund typically used to liquidate compensated absences.



Updated Note Disclosure Presentation

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

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due within One Year
Governmental Activities					
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>
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	<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.



Key Changes in GASB 101

Principles-Based Approach

- ▶ Under GASB 101, there are no longer specified methods of accounting for specific types of leave (e.g., sick leave).
- ▶ All types of leave are accounted for under a unified framework (i.e., they are accounted for in the same way).

Used vs Paid

- ▶ Governments must accrue a liability for leave meeting the recognition criteria (i.e., attributable, accumulates, and more likely than not to be used/paid out), even if it will not be paid out at termination.
- ▶ This brings a substantial change, particularly for the accounting for sick leave.

More Likely Than Not

- ▶ The threshold for recognizing a liability has decreased to “more likely than not.” This means a likelihood of greater than 50%.
- ▶ This is a change from the “probable” criteria in GASB 16.

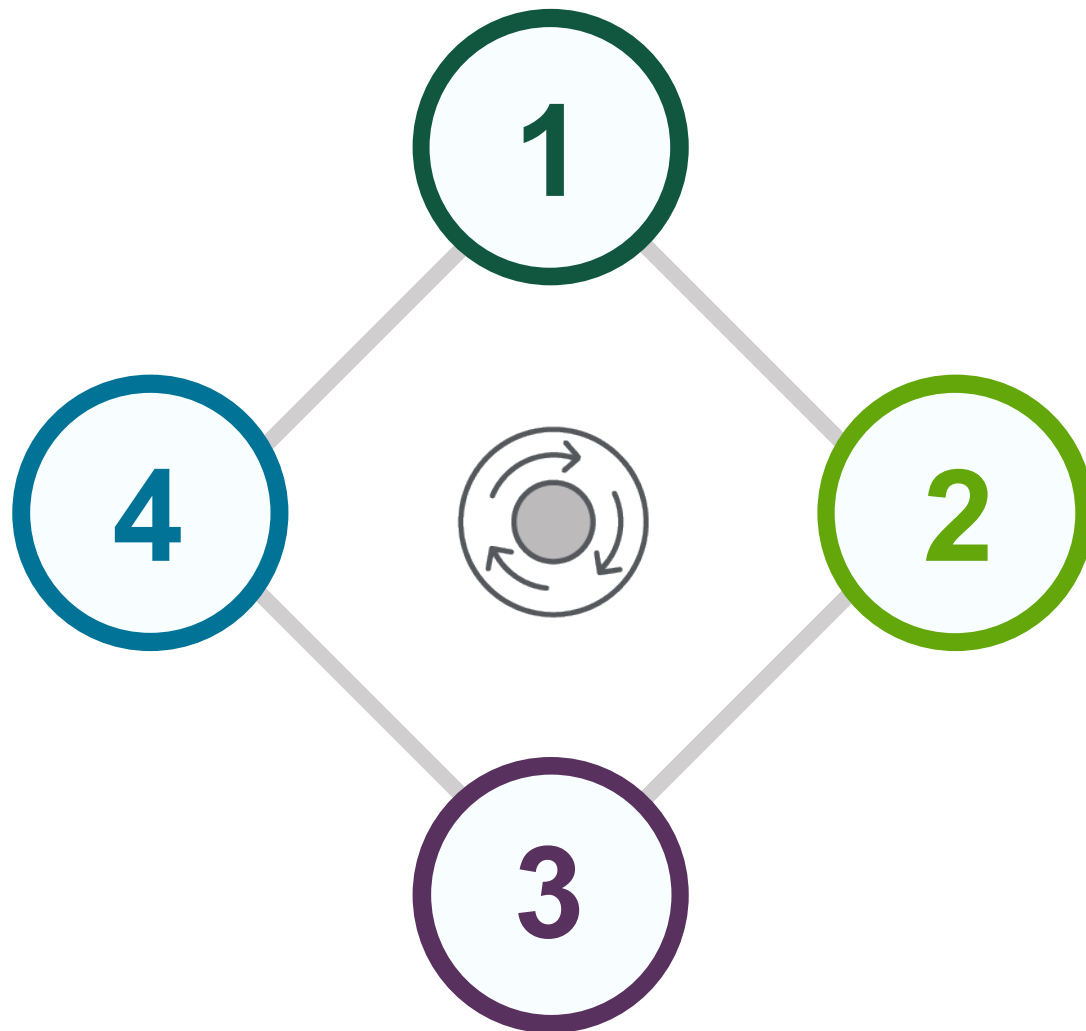




Four-Phase Implementation Methodology



Four-Phase Implementation Methodology



1

Gaining an Understanding

2

Performing a Completeness Assessment

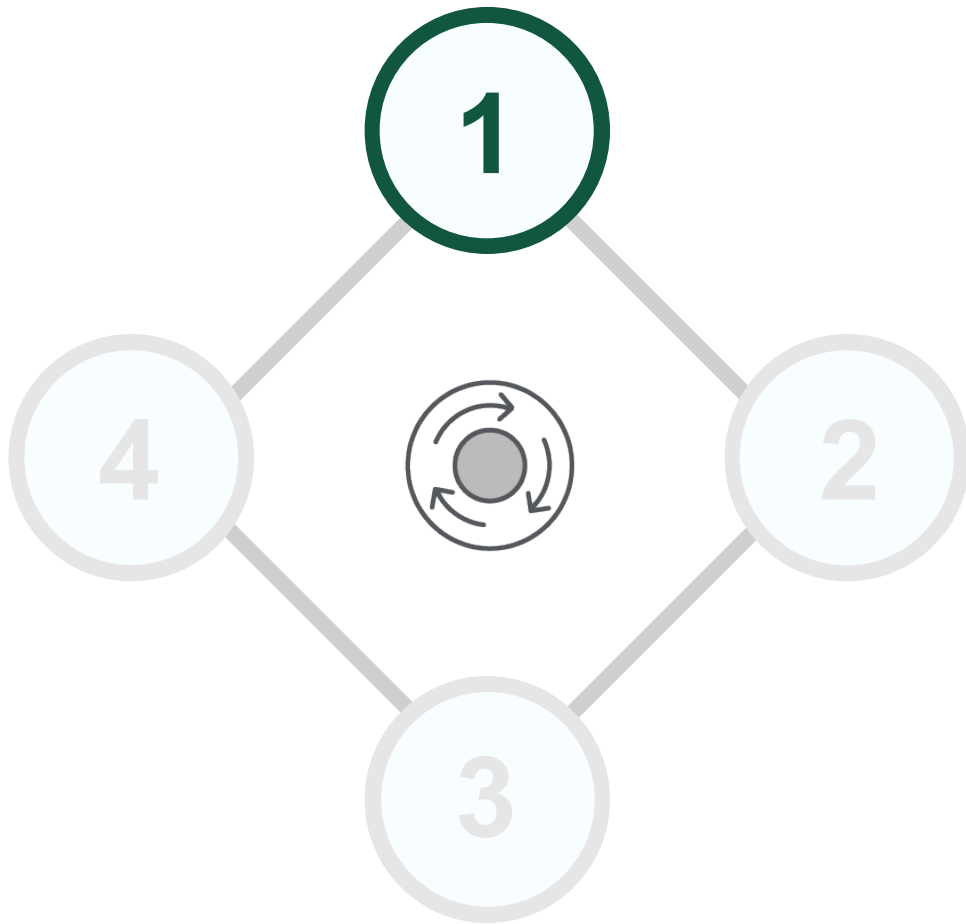
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Evaluating Policies and Procedures
and Documenting Methodology

4

Preparing Journal Entries and Disclosures
and Go-Forward Plan

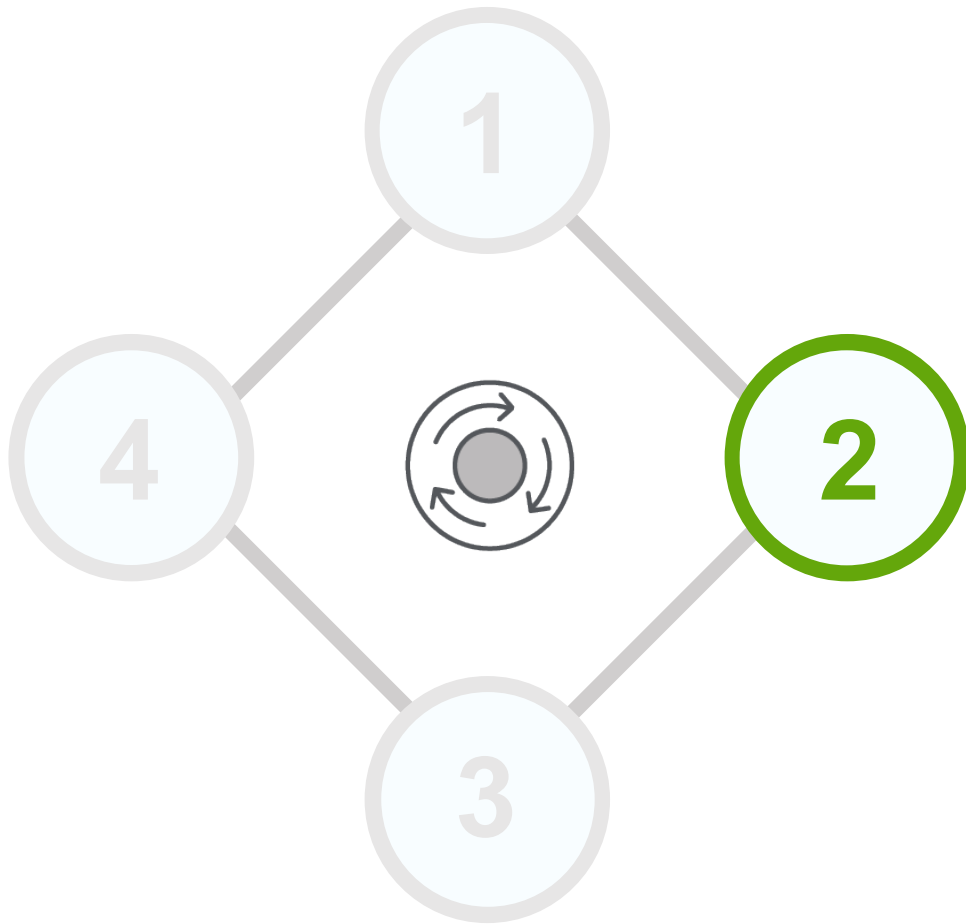
Four-Phase Implementation Methodology



1 | Gaining an Understanding

- ▶ The **first step** is for the implementation team and those impacted by the new accounting standard to gain a **deep understanding** of the guidance.
- ▶ **Activities in this phase include:**
 - ▶ Attending CPE on the topic (tailored training if possible)
 - ▶ Reading the guidance
 - ▶ Holding internal planning meetings
 - ▶ Communicating across decentralized organizations

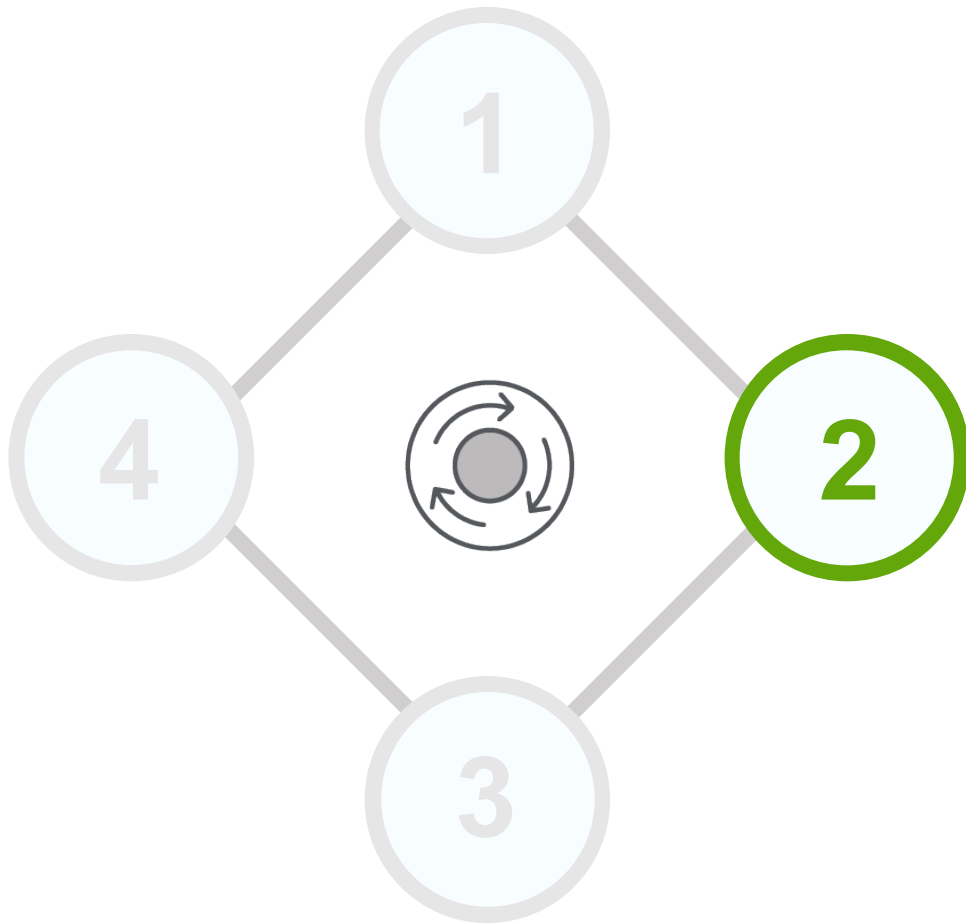
Four-Phase Implementation Methodology



2 | Performing a Completeness Assessment

- ▶ The biggest audit risk for most implementations is **completeness**.
 - ▶ How do you know you're recognizing the entire asset/liability along with the related revenue and expense as required by the new guidance?
 - ▶ Do you have all required disclosures?
- ▶ **Activities in this phase include:**
 - ▶ Casting a wide net to identify the types of compensated absences the government offers and rules for use, carryforward, and payout
 - ▶ Reviewing HR, payroll, and finance policies and procedures


Four-Phase Implementation Methodology



2 | Performing a Completeness Assessment (cont.)

- ▶ **Activities in this phase also include:**
 - ▶ Reviewing the trial balance, general ledger, and payroll register for leave types used
 - ▶ Discussing the new guidance with human resources, payroll, and any other departments that may have information the government needs for implementation
 - ▶ Documenting research and initial assessments made along with authoritative citations

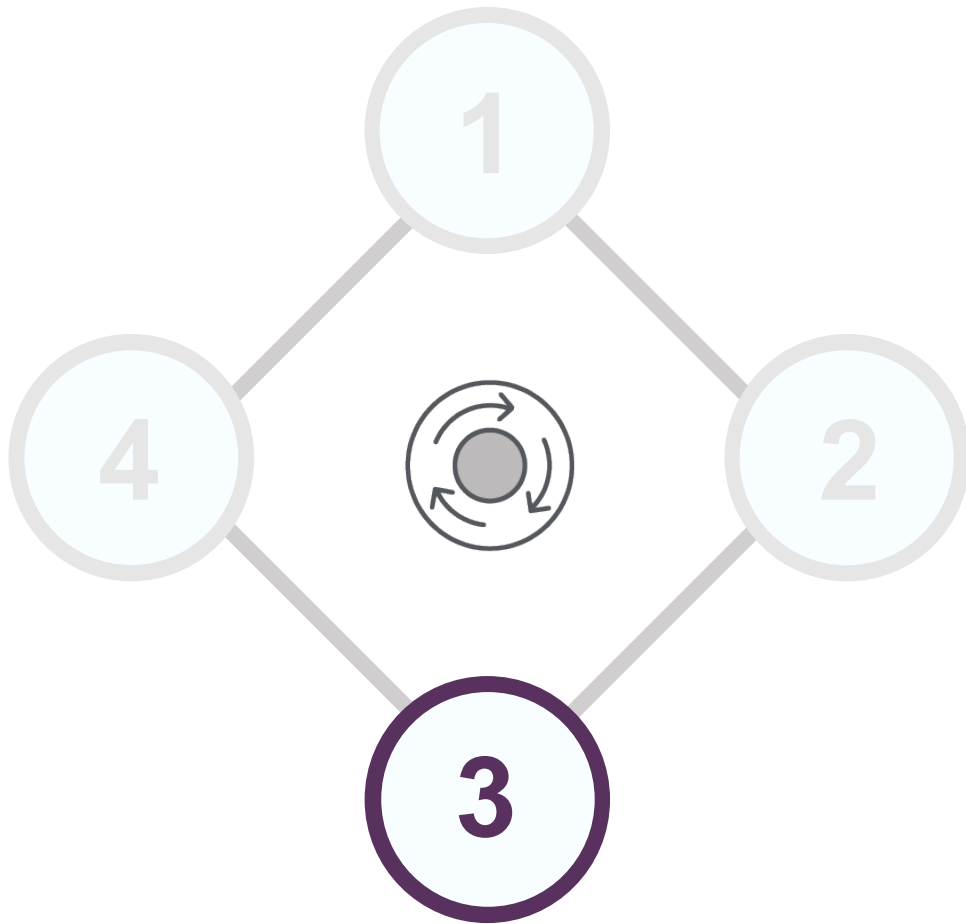
Example of Compensated Absences Summary Tool

 Cherry Bekaert <i>Your Guide Forward</i>			
GASB 101 Compensated Absences Summary Tool			
STEP 1: Identify Types of Leave and Potential Recognition Timeline		STEP 2: Determine How the Compensated Absence is Settled	
Type of Leave	Compensated Absence Liability Recognition	Per company policy, how is the compensated absence settled?	Is there a potential compensated absence liability to be recognized?

STEP 3: Identify Whether a Potential Liability Exists for Unused Leave				
<i>A liability should be recognized for leave that has not been used if the answer to each of the following questions is "Yes":</i>				
(1) Does the leave accumulate?	(2) Is the leave attributable to services already rendered?	(3) Is the leave more likely than not to be used or otherwise paid in cash or settled through noncash means (other than conversion to defined benefit postemployment benefits) ?	Is there a potential compensated absence liability to be recognized prior to the use of the leave? *Note: this determination applies ONLY to the unused portion of the leave. Refer to column C to determine liability recognition when the leave is used.	Notes



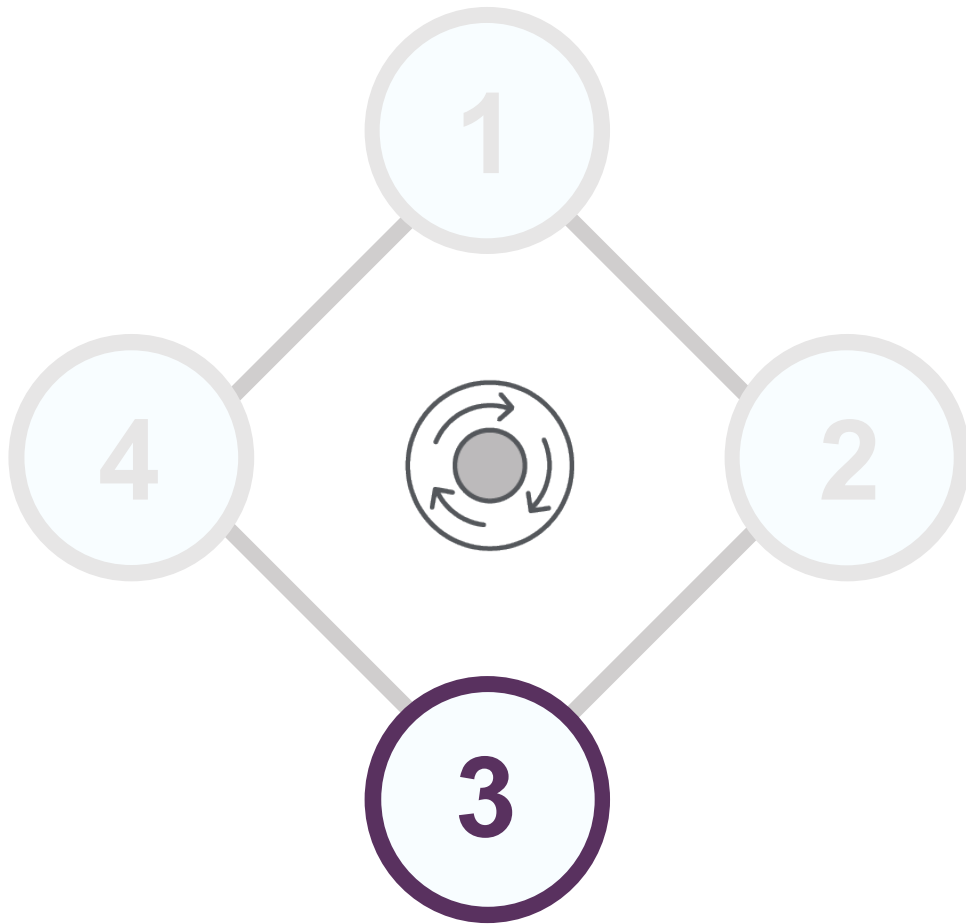
Four-Phase Implementation Methodology



3 | Evaluating Policies and Procedures and Documenting Methodology

- ▶ Implementation of new accounting guidance often creates the need for either modifications to current policies, procedures, and processes or implementation of new policies, procedures, and processes, or both.
- ▶ **Activities in this phase include:**
 - ▶ Reviewing current policies and procedures for areas that intersect with compensated absences guidance
 - ▶ Making subjective determinations necessary and documenting thought process for future consistency
 - ▶ “More likely than not” evaluation

Four-Phase Implementation Methodology



3 | Evaluating Policies and Procedures and Documenting Methodology (cont.)

- ▶ **Activities in this phase also include:**
 - ▶ Developing new policies and procedures to fill gaps in current policies and procedures
 - ▶ Flows assumption
 - ▶ Termination and accumulation policies
 - ▶ Documenting the implementation approach taken along with any key decisions and subjective determinations to provide to your auditor
 - ▶ Determine if your auditor has guidance to ensure you're documenting all required areas. The goal is to ensure you're on the same page before year-end.

Example of Potential Additions to Notes

3. *Compensated absences*

The NAME OF GOVERNMENT recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example, paid in cash to the employee or payment to an employee flex spending account) during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences – *vacation* and *sick leave*. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation

The NAME OF GOVERNMENT's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation from employment.

Sick Leave

The NAME OF GOVERNMENT's policy permits employees to accumulate earned but unused sick leave. All sick leave lapses when employees leave the employ of the NAME OF GOVERNMENT and, upon separation from service, no monetary obligation exists. However, a liability for estimated value of sick leave that will be used by employees as time off is included in the liability for compensated absences.

Example of policy included in
Notes to Financial Statements.

Source: GFOA



Example of Implementation Memo

B. UNDERSTANDING THE IMPACT OF STATEMENT NO. 101 ON THE FINANCIAL STATEMENTS

Under Statement No. 101, when leave has not been used and/or when leave has been used but has not yet been settled, governments are required to recognize a compensated absence liability. The guidance provides a more comprehensive estimate of a government's compensated absence obligation when it is incurred.

Leave That Has Not Been Used

As outlined in paragraph 9 of Statement No. 101, for leave that has not been used, a liability should be recognized when all the following criteria is met:

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

Statement No. 101 requires salary-related payments that are both directly associated and incrementally associated with the leave to be included in the measurement of the compensated absence liability. This is applicable to both leave that has not been used and leave that has been used. Paragraph 23 of Statement No. 101 defines directly associated and incrementally associated as follows:

Directly Associated: A payment in which the amount is a function of salary to be paid (that is, the amount of the payment depends on the amount of salary to be paid).

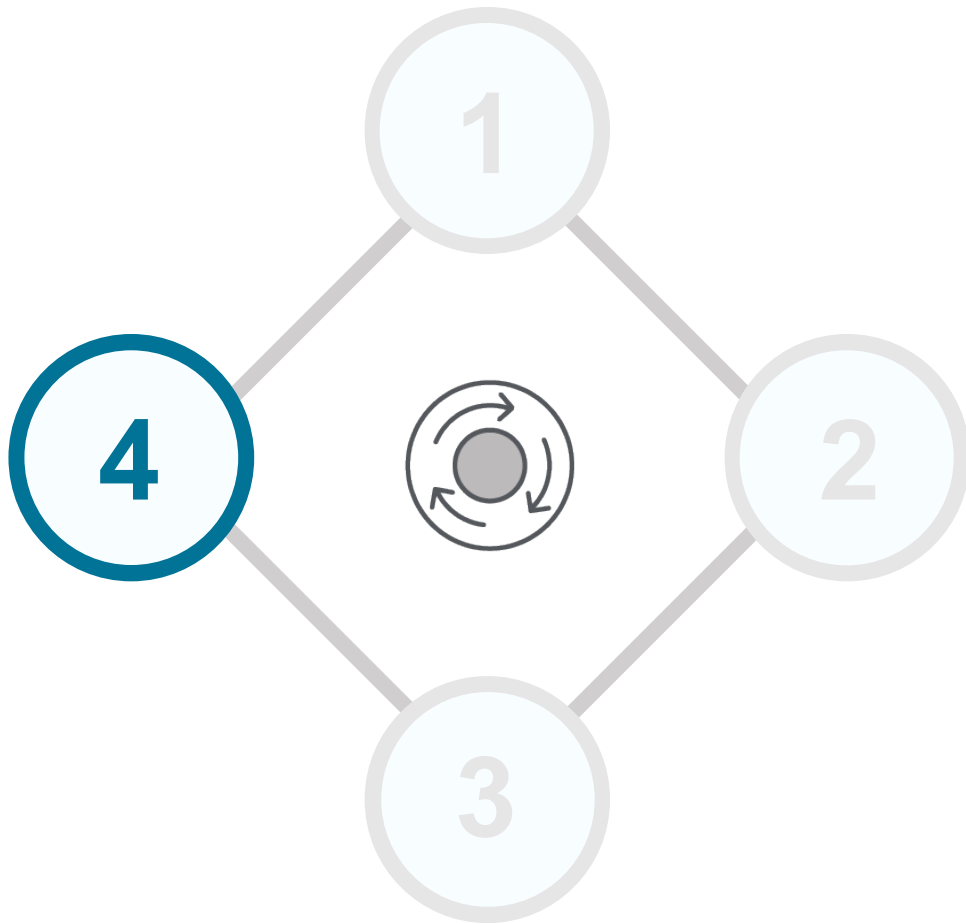
Incrementally Associated: A payment in which the government will make a payment in addition to the payment for the salary.

Management reviewed all salary-related payments, including those related to defined contribution pensions, defined contribution OPEB, defined benefit pensions, and defined benefit OPEB. The following determinations were made in relation to salary-related payments:

Salary-Related Payment	Description	Recognition Location
FICA payments	Leave that has not been used	Compensated Absence Liability
Defined contribution pension	Leave that has not been used	Pension Expense
Defined contribution OPEB	Leave that has been used	OPEB Liability



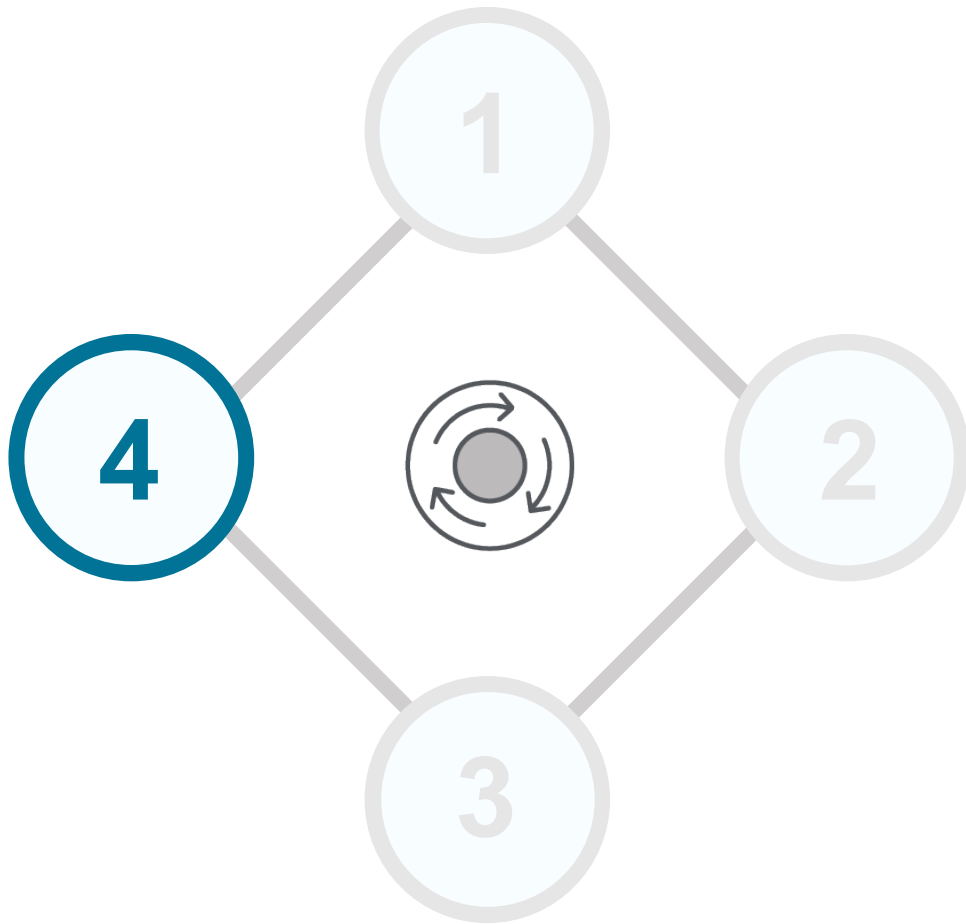
Four-Phase Implementation Methodology



4 | Preparing Journal Entries and Disclosures and Go-Forward Plan

- ▶ In our experience, governments often want to jump to what balances they need to change in their financial statement when implementing new guidance. **We believe this should be one of the last steps of a comprehensive implementation.**
- ▶ **Activities in this phase include:**
 - ▶ Developing or updating any templates necessary for compensated absence calculation
 - ▶ Complex calculations could include tiered payout structures, different agreements for subsets of employees, different usage determination for subsets of employees

Four-Phase Implementation Methodology



4 | Preparing Journal Entries and Disclosures and Go-Forward Plan (cont.)

► Activities in this phase also include:

- Drafting any changes to summary of significant accounting policies, GASB 100 change in accounting principle note, and updating long-term liabilities note
- Preparing a “Day 2” training and desk procedures so the implementation team can remember the steps to take when performing entries and disclosure in Year 2

Example of Liability Calculations

Example of new columns that may be added to your calculation.

Payroll Policy				New Calculations			
Years of Service	% Paid Out at Termination	Attributable	Accumulates	More Likely Than Not to be Used			(A + (B*C)) Hours More Likely Than Not to be Used
		Total Hours Remaining to be Used or Paid Out	Total Hours Accumulated	(A) Hours Paid at Termination	(B) Estimated Hours Used Per Year	(C) Average Tenure of Employee (in years)	

Component of Days Used Approach Calculation.

Source: GFOA

SAMPLE active employees	Sick days used as time off					Total days used	Average annual use (days)	Annual salary	Calculated average hourly rate
	20X1	20X2	20X3	20X4	20X5				
Active employee 1	10	4	5	3	3	25	5.00	\$ 58,000	\$ 27.88
Active employee 2	4	8	4	4	4	24	4.80	62,000	29.81
Active employee 3	2	5	2	3	2	14	2.80	120,000	57.69
Active employee 4	8	9	7	7	8	39	7.80	90,000	43.27
Active employee 5	6	12	8	9	7	42	8.40	100,000	48.08
Active employee 6	4	4	3	4	3	18	3.60	62,000	29.81
Active employee 7	7	2	3	3	2	17	3.40	70,000	33.65
Active employee 8	8	2	5	4	10	29	5.80	44,000	21.15
Active employee 9	6	4	4	4	2	20	4.00	88,000	42.31
Active employee 10	4	5	4	6	4	23	4.60	83,000	39.90
Average						5.02		Average hourly rate \$	37.36

Aggregate Employee Group		Calculations
1. Calculation related to sick leave to be used as time off		
Total sick leave accrued at FYE (days), for aggregate employee group		1,644
Percentage use as leave		41.83%
More likely than not sick leave to be used (days)		688
Sick leave for use (hours)		5,504
Average hourly rate at FYE	\$	37.36
Liability for sick leave for use as time off	\$	205,629
Salary-related liability related to sick leave for use as time off	\$	26,012
Total liability for sick leave to be used as time off	\$	231,641

Example of historical analysis of employee leave usage.

Source: GFOA



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