


North Carolina
Department of State Treasurer




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State Treasurer of North Carolina

GASB 101 Implementation

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Highlights & Recommendations

- Local officials should review and evaluate leave policies.
 - Document these policies.
 - What benefits meet criteria to qualify as compensated absences under GASB 101?
 - Ensure that policies are being followed in actual practice.
- Ensure that leave records are accurate.
 - Review balances for beginning of implementation year.
 - Regularly reconcile balances.

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Highlights & Recommendations (cont.)

- Sick leave:
 - Largest change from existing standards
 - Potentially complex calculations
- Salary-related payments:
 - Included with compensated absences expenses and liabilities
 - Benefits differ between governments – percentages will vary between governments based on benefits.

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Highlights & Recommendations (cont.)

- The GASB did not select a single measurement approach – there are many acceptable alternatives for implementation.
- There should be a minimal budgetary and financial reporting impact on the Governmental Funds.
- Use of independent experts is acceptable but not required.

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Highlights & Recommendations (cont.)

- The standard need not be applied to immaterial items.
- Independent auditors:
 - Finance officials should consult with their independent auditor on whatever approach is selected.
 - Carefully document that approach.
 - LGC staff does not endorse a specific method and will accept approaches agreed to by local officials and independent auditors.

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Practical Expedient

- 7-step process
- Illustrated by LGC staff as a possible alternative and probably the best fit for most NC local governments
- Historical information from local government records should be evaluated.
 - This is not a one and done process.
 - Actual experience may change.
 - Will need to be re-evaluated in future years
- This approach should require less time for the analysis, but there will be one less control to ensure accuracy.

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Step 1 – Determine Level On Which To Base Calculation

- Base level can be by:
 - Employee
 - Employee with similar job functions
 - By department
 - By function
 - By activity
 - All employees
- Analyzing historical experience for smaller groups involves more effort but is more accurate.

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Step 2 - Establish A Look-Back Period

- Typically 4-5 years
- Use the government's historical records.
- Results would need to be representative of a government's experience.
- Method used should be based on a government's actual experience.
- Professional judgement is required.

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Step 3 – Determine The Percentage For The Sick Leave Expected To Be Used Category


- Comprehensive method is to determine percentages for all 3 categories: forfeited, service credit for retirement purposes, and used during employment.
- As a practical expedient – the percentages above are used for transfers and other additions.
- Practical expedient is to focus on sick leave used during employment.
- Determine the percentage of the total hours deducted that is used for sick leave – this will be an average percentage for the look-back period.
- A flow assumption is not necessary when using this calculation method.

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Step 4 – Determine The Number Of Hours Of Sick Leave Outstanding In The Category Of Sick Leave Expected To Be Used


- Can use the percentage from the practical expedient in Step 3
- Multiply the percentage by the total number of hours of sick leave at the end of the fiscal year.
- The result is the total number of sick leave hours that is expected to be used.
- The same percentage can be used for the entire government as a practical expedient, or different percentages can be calculated for departments and functions.

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Step 5 – Apply Salary Rates and Salary-related Leave Rates


- Practical expedient – can use average salaries for departments or functions or for the entire government
- Individual employee salaries can also be used.
- Add salary-related benefit percentages.
- Be careful – percentages may vary between governments based on the type of benefits offered. (e.g., some governments give 401(k) only to law enforcement)

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Step 6 – Consider Whether A Flow Assumption Is Needed


- Since the implementation of GASB 34, governments have been required to identify the current portion (or the amount due within one year) of the compensated absences liability.
- LIFO and FIFO flow assumptions are the most commonly used flow assumptions.
- Practical expedient in LGC Memo does not require the use of a flow assumption.
 - Average number of hours used from look-back period X average salary + salary-related payments
 - Approved salary adjustments for the next fiscal year would not be included.

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Step 6 – Consider Whether A Flow Assumption Is Needed (cont.)


- If a flow assumption is used, LGC staff recommends that the same flow assumption be used from year to year.
- A change in the flow assumption would be a change in accounting principle.
- FIFO calculations are usually less complex than LIFO calculations.
- LIFO usually results in a lower liability than FIFO.
- Applying either flow assumption at an individual employee level results in the most accurate results (and requires the most work).
- Employees may be grouped, but results may be misleading if there is too much aggregation.
- Remember that expenses must be allocated at the functional level in the Statement of Activities.

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Step 7 – Develop Note Disclosures


- Summary of Significant Accounting Policies:
 - No disclosures required by GASB 101
 - Consider disclosing benefits offered and major provisions of benefits.
 - Consider disclosing calculation methodology and flow assumption.
- Changes in long-term debt note
 - Beginning balance, additions, deductions, ending balance
 - Additions and deductions may be netted.
 - Amount due within one year
 - No requirement to display vacation and sick leave separately

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Questions?

[Memorandum on GASB 101](#)

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