

BRADFORD B. BRINER STATY TERRATION OF DISCOUL CARDINGS

# GASB 101 Implementation

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1

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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.

2

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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.

### 4

# State and Local Government Finance Division 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.

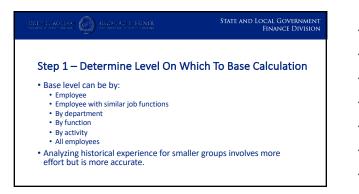
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### **Practical Expedient**

- 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.



7

# 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.

8

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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.

### STATE AND LOCAL GOVERNMENT FINANCE DIVISION 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.

10

# State AND LOCAL GOVERNMENT FINANCE DIVISION 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)

11

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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
  - Average number of hours used from look-back period X average salary + salaryrelated 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.

13

# State and Local Government Finance Division 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

14

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Questions?		
Memorandum on GASB 101		
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15