



## Compensated Absences Webinar

*Presented by*

- Gregory S. Allison
- K. Lee Carter
- Kendra Boyle
- April Adams
- LeAnn Bagasala
- John Barfield
- Jessie Parris
- Seth Larson
- Sharon Edmundson

1

---

---

---

---

---

---



---

---

## GASB Statement No. 16

### Accounting for Compensated Absences

*Presented by*  
**K. Lee Carter**  
**Gregory S. Allison**



[www.sog.unc.edu](http://www.sog.unc.edu)

2

---

---

---

---

---



---

---

---

## GASB 16 – Previous Compensated Absences Guidance

- Compensated absences (e.g., accrued vacation)
  - Based on past service
  - Probable that employer will compensate employees through paid time off or cash payments at termination
- Sick leave (unless paid through cash payments at termination) is not a liability because it is based on a contingent future event – no liability for most governments in NC under current GAAP
- Compensated absences liabilities based on current pay rates
- Salary-related payments included as part of liability – pension and OPEB payments could be included as part of compensated absences liability

3

---

---

---

---

---

---

---

---

### Compensated Absences and GASB Interpretation No. 6 – Governmental Funds

- Expected to be liquidated with expendable available financial resources
- Expenditure and liability recognized only when payments become due upon termination (most common) or retirement
- Amount must be due and payable
- Material governmental fund liability rare



4

---

---

---

---

---

---

---

---

### GASB Statement No. 101

#### Compensated Absences

Presented by

K. Lee Carter

Gregory S. Allison



UNC  
SCHOOL OF GOVERNMENT

[www.sog.unc.edu](http://www.sog.unc.edu)

5

---

---

---

---

---

---

---

---

### Compensated Absences Defined

- GASB Statement No. 101 covers:
  - Compensated absences
  - Associated salary-related payments including defined contribution pension and defined contribution OPEB payments
- Leave for which employees receive:
  - Cash payments when leave is used for time off
  - Other cash payments, such as payments for leave upon termination of employment
  - Settlement through other noncash means (e.g., conversion to other post employment benefits)
- Most common examples with the new standard – vacation leave, sick leave, comp time, and paid time off (PTO)



6

---

---

---

---

---

---

---

---

## Recognition and Measurement

- For economic resources measurement focus / accrual basis of accounting:
  - Leave that has not been used (requirements are in later slides)
  - Leave that has been used but not paid or settled (leave has been taken, but paycheck not received)
- Both liabilities do not need to be combined in the financial statements

## Valuing Compensated Absences Liabilities

- Criteria for a liability
  - Leave is based on services already rendered – not a future service or event
  - Leave accumulates (can be carried forward to a future period)
  - Leave is *more likely than not* (more than 50%) to either be used for time off, paid in cash or settled by other non-cash means
- Based on an employee's pay rate at the reporting date (there are certain exceptions)
  - Future pay changes recognized prospectively
  - Includes both directly and incrementally-associated salary-related payments (e.g., employer's share of SS and Medicare taxes, defined contribution plan payments) – similar to GASB 16 requirements, but without defined benefit pension and OPEB

## Valuing Compensated Absences Liabilities (cont.)

- What items are NOT reported as liabilities?
  - Leave settled through conversion to defined benefit postemployment benefits – *service credit for pensions or OPEB*
  - Amounts for which leave is forfeited
  - Any payments covered by GASB 47
  - Holiday leave in most cases (not floating holidays)
  - Parental leave, military leave, jury leave have special rules – liability when leave commences or is used
  - Immaterial items

### Valuing Compensated Absences Liabilities (cont.)

- What is “More Likely Than Not”? Analyze:
  - Government’s employment policies related to comp absences
  - Whether leave that has been earned is or will become eligible for use or payment
  - Government’s history for comp absences about use, payment, forfeiture, amounts used as service credits, etc. – this varies between governments
  - Are historical patterns representative of the future?
  - Flow assumption (if one is being used)



10

---

---

---

---

---

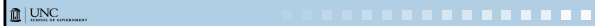
---

---

---

### Valuing Compensated Absences Liabilities (cont.)

- Salary-related payments
  - Directly and incrementally associated with leave – means local government will make a payment in addition to salary
  - Included in measure of compensated absences liability
  - Includes SS taxes, Medicare taxes, defined contribution pension and OPEB payments
  - Does not include defined benefit pension and OPEB payments



11

---

---

---

---

---

---

---

---

### 3 Buckets – Recap

- Leave that is more likely than not to be settled through conversion to defined postemployment benefits (pensions, OPEB, etc.)
  - Handled through pension and OPEB calculations which are covered by other GASB standards
  - Not a liability under GASB 101
- Leave that is more likely than not to be forfeited
  - Not a liability under GASB 101
- Leave that does meet the requirements in GASB 101
  - Report as an expense and a liability



12

---

---

---

---

---

---

---

---

# Flow Assumptions

- First in, first out (FIFO)
  - Existing balances are more likely to be used
  - For that reason – liability and expense will usually be higher
  - Calculations may be simplified
- Last in, first out (LIFO)
  - Amounts earned in future accounting periods are not expenses and liabilities because they have not been earned at year end
  - Leave earned in the next year is used first until it is exhausted – then balances at year end are used
  - Liability and expense is usually lower for this reason
  - Calculations are usually more complex
- Other flow assumptions may be used, or no flow assumption may be necessary

13

# Flow Assumptions (cont.)

- Flow assumption is already discussed in GASB 34
- Government **MAY** need to adopt a flow assumption and disclose it in the notes
- Flow assumption would usually stay the same from one year to the next

14

# Flow Assumptions – Running Balance

EMPLOYEE NAME	REG. LEAVE BAL.											
	(HOURS)	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.	APR.	MAY
Ann	180	180	180	184	172	172	180	188	180	188	196	196
Robert	2,400	2,408	2,410	2,424	2,432	2,440	2,448	2,456	2,464	2,472	2,480	2,488
John	1,000											
John	120	128	128	132	140	148	144	152	144	148	156	164
Nancy	300		304		304	312	316	324	332	332	340	348
Kevin	800		808		812	816	818	828	822	830	838	842
Mick	360		360		360	368	368	372	380	388	388	392
Jimmy	-	-	-	-	-	-	-	-	-	-	-	-
Lindsey	80		80	80	88	88	96	104	104	108	116	124
Christina	1,050	1,058	1,068	1,074	1,074	1,082	1,090	1,094	1,102	1,110	1,118	1,114
John Paul	1,200	1,208	1,216	1,224	1,232	1,240	1,248	1,256	1,272	1,280	1,288	1,296
Total	7,170	7,184	7,212	7,208	7,208	7,348	7,404	7,460	7,488	7,556	7,596	7,640
Used under LIFO (1 yr.)	30	48	52	58	74	74	74	74	74	74	74	74
Used under FIFO (1 yr.)	94	134	236	254	302	350	382	434	474	494	542	588

15

## Running Balance By Department

				RUNNING BALANCE											
DEPT. NAME	BEG. LEAVE (HOURS)	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.	APR.	MAY	JUNE		
Administration		3,560	3,560	3,560	3,568	3,560	3,584	3,596	3,596	3,620	3,644	3,644	3,652		
Police		1,280	1,274	1,298	1,278	1,306	1,338	1,346	1,366	1,382	1,390	1,414	1,438	1,454	
Fire		2,330	2,330	2,354	2,370	2,394	2,410	2,418	2,442	2,462	2,478	2,498	2,514	2,534	
Total Govt.		7,170	7,164	7,212	7,208	7,268	7,308	7,348	7,404	7,440	7,488	7,556	7,596	7,640	
Used under LIFO (1 yr.)		6	6	6	6	6	6	6	6	6	6	6	6	6	
Used under FIFO (1 yr.)		94	134	226	254	302	350	382	434	474	494	542	586		

16

## Financial Reporting Impacts – Governmental Funds

- Current financial resources measurement focus, modified accrual basis of accounting
  - Expenditure and liability recognized for amounts that will be liquidated with expendable, available financial resources
  - Normally, this is for amounts that are due and payable
  - GASB Interpretation #6 still relevant
  - GASB 101 impact on Governmental Funds is relatively rare in NC

17



## Financial Reporting Impacts – Proprietary Funds and Government-wide Statements

- Economic resources measurement focus, accrual basis of accounting
- Current and long-term portions of compensated absences liabilities recognized (Q 7.22.4 – Implementation Guide)
- Do not have to aggregate compensated absences liabilities (this means reclassifying them from other liabilities like accrued payroll)
- Include salary-related payments
- Will need to select a base level for calculations: employee, department, function, etc.
- Expenses reported by function in government-wide statements

18

## Note Disclosures

- Net change in compensated absences liability may now be reported in the note disclosures
- Amount due within one year must still be reported – flow assumption **MAY** be needed
- Elimination of the requirement to report the Governmental Fund typically used to liquidate the compensated absences liability
- Beginning and ending balances of compensated absences reported
- Suggested disclosures:
  - Calculation methodology, including flow assumption
  - Summary of benefits offered and applicable provisions

19

---

---

---

---

---



---

---

---

## Implementation

- Implementation date for fiscal years that begin after 12/15/23
  - In NC for most governments – 2024-25 fiscal year
  - Provisions of GASB Statement No. 100 apply as well (i.e., accounting changes)
    - Restate earliest year presented, if practical
- More about implementation of GASB Statement No. 100 at end of the webinar

20

---

---

---

---

---

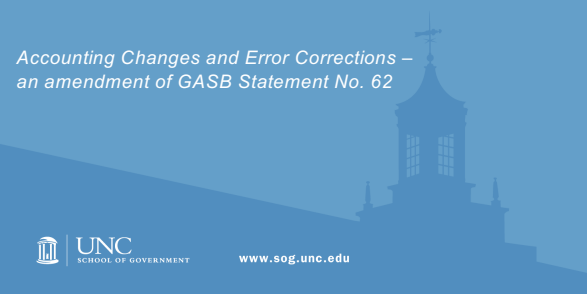
---


---

---

## GASB Statement No. 100

*Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*





UNC

SCHOOL OF GOVERNMENT

[www.sog.unc.edu](http://www.sog.unc.edu)

21

---

---

---

---

---

---

---

---

## Change in Accounting Principle

- Change from one generally accepted accounting principle to another that is justifiably preferable or implementation of new authoritative guidance
- Report retroactively by restating all prior periods presented (if practicable - doesn't mean inconvenient or expensive)
- Cumulative effect of the changes should be reported as a restatement of beginning net position or fund balance (of earliest year presented, if practical)
- Does not include a change from a non-GAAP principle to a GAAP principle – this is an error correction (applies to material items)



22

---

---

---

---

---

---

---

---

## Change in Accounting Principle (cont.)

- Aggregate adjustments should be displayed for fund balance or fund net position for each reporting unit (not total columns)
- Option for detailed reporting
- Note disclosures should include
  - Nature of the change
  - Reason for the change (except for new pronouncements)
  - Reason why prior periods reported were not restated (if applicable)
  - Tabular format of all accounting changes and error corrections if not displayed on face of statements



23

---

---

---

---

---

---

---

---

## Implementation

- Any RSI (e.g., MD&A) and supplementary information should be consistent with the changes reported in the basic financial statements
- Any RSI, including the MD&A, would not be restated for periods earlier than the basic financial statements (except for error corrections which should be restated)
- RSI and MD&A should be identified as restated or not restated
- Vacation leave most likely will need restatement because of changes in requirements for salary-related payments



24

---

---

---

---

---

---

---

---

## Implementation of GASB 101 – Debt Issues

- Recap – accounting changes
  - Restate beginning net position of earliest year presented
  - No changes in Governmental Fund accounting
- Comparative totals – no restatements required
- Comparative statements in bond issue
  - Not separately audited
  - Compiled from audited financial statements
  - Governmental Fund comparatives – no effect from GASB 101
  - Enterprise Fund comparatives




---

---

---

---

---

---

---