

# Compensated Absences Webinar

*Presented by*

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# **GASB Statement No. 101**

## *Compensated Absences*

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# Current GAAP Highlights – GASB 16

- 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

# 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

# **GASB Statement No. 101**

## *Compensated Absences*



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# Compensated Absences Defined

- GASB Statement No. 101 covers:
  - Compensated absences (a big net is used on what qualifies)
  - Associated salary-related payments including defined contribution pension and 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)

# Recognition and Measurement

- For economic resources measurement focus / accrual basis of accounting:
  - Leave that has not been used (requirements are on the next slide)
  - Leave that has been used but not paid or settled (leave has been taken, but paycheck not received)
- Both liabilities are not 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 are NOT 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

# 3 Buckets

- 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 does not meet the definition of being more likely than not to be used for time off or settled through cash payments or settled through noncash means – it is forfeited, does not accumulate, etc.
  - Not a liability under GASB 101
- Leave does meet the requirements in GASB 101
  - Report as an expense and a liability

# Flow Assumptions

- First in, first out (FIFO)
  - Existing balances are more likely to be used
  - For that reason – liability will be higher
  - Calculations may be simplified
- Last in, first out (LIFO)
  - Balances in the next accounting period are not expenses and liabilities because they have not been earned at year end
  - Balances in the next year are used first until they are exhausted – then balances at year end are used
  - Liabilities and expenses are lower for this reason
  - More complex calculations
- Other flow assumptions may be used

# Flow Assumptions (cont.)

- Flow assumption is already required under GASB 34
  - Needed to calculate the amount due within a year and the current liability in accrual financial statements
  - This is only for compensated absences under current GAAP – vacation, comp time, etc.
- Government will need to adopt a flow assumption and disclose it in the notes – should be there now
- Flow assumption would normally be the same for all compensated absences

# Flow Assumptions – Leave Taken

| EMPLOYEE<br>NAME   | BEG.                 |           |           |           |           |           |           |           |           |           |           |           |           | LEAVE            | LEAVE             |
|--|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|-------------------|
|  | LEAVE BAL.<br>(HRS.) | JULY      | AUG.      | SEPT.     | OCT.      | NOV.      | DEC.      | JAN.      | FEB.      | MAR,      | APR.      | MAY       | JUNE      | TAKEN<br>(HOURS) | EARNED<br>(HOURS) |
| Ann  | 160                  | 8         |           | -12       |           | -8        |           | -         | -16       |           | -         | -8        |           | -52              | 96                |
| Robert   | 2,400                |           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -                | 96                |
| John   | 1,000                | 16        | 24        | 12        | 16        | 24        |           | -12       | 8         |           | -         | -16       | 16        | 144              | 96                |
| Jon  | 120                  |           | -8        | 4         |           | -         | -12       |           | -16       | 4         |           | -         | -8        | 52               | 96                |
| Nancy  | 300                  | 12        |           | -16       |           | -         | -4        |           | -         | -8        |           | -4        | 4         | 48               | 96                |
| Stevie   | 500                  | 10        |           | -16       | 4         |           | -         | -8        |           | -12       |           | -         | -4        | 54               | 96                |
| Mick   | 360                  | 16        |           | -16       |           | -         | -8        | 4         |           | -         | -8        | 4         |           | -56              | 96                |
| Jimmy  | -                    | 8         | 8         | 8         | 8         | 8         | 8         | 8         | 8         | 8         | 8         | 8         | 8         | 96               | 96                |
| Lindsey  | 80                   | 16        |           | -8        |           | -         | -16       |           | -         | -8        | 4         |           | -         | -52              | 96                |
| Christine  | 1,050                | 8         |           | -         | -         | -8        |           | -         | -4        |           | -         | -8        | 4         | 32               | 96                |
| John Paul  | 1,200                |           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -                | 96                |
| <b>Total</b>   | <b>7,170</b>         | <b>94</b> | <b>40</b> | <b>92</b> | <b>28</b> | <b>48</b> | <b>48</b> | <b>32</b> | <b>52</b> | <b>40</b> | <b>20</b> | <b>48</b> | <b>44</b> | <b>586</b>       | <b>1,056</b>      |
| Assumptions: 8 hours earned per month, no payment at termination or retirement, leave may be used for service credit for retirement purposes |                      |           |           |           |           |           |           |           |           |           |           |           |           |                  |                   |

# Flow Assumptions – Leave Earned

| EMPLOYEE NAME | BEG. LEAVE BAL. (HOURS) | JULY | AUG. | SEPT. | OCT. | NOV. | DEC. | JAN. | FEB. | MAR. | APR. | MAY | JUNE | LEAVE EARNED (HOURS) |
|---------------|-------------------------|------|------|-------|------|------|------|------|------|------|------|-----|------|----------------------|
| Ann           | 160                     | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Robert        | 2,400                   | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| John          | 1,000                   | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Jon           | 120                     | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Nancy         | 300                     | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Stevie        | 500                     | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Mick          | 360                     | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Jimmy         | -                       | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Lindsey       | 80                      | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Christine     | 1,050                   | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| John Paul     | 1,200                   | 8    | 8    | 8     | 8    | 8    | 8    | 8    | 8    | 8    | 8    | 8   | 8    | 96                   |
| Total         | 7,170                   | 88   | 88   | 88    | 88   | 88   | 88   | 88   | 88   | 88   | 88   | 88  | 88   | 1,056                |

# Flow Assumptions – Running Balance

| EMPLOYEE NAME           | BEG. LEAVE BAL. (HOURS) | JULY  | AUG.  | SEPT. | OCT.  | NOV.  | DEC.  | JAN.  | FEB.  | MAR.  | APR.  | MAY   | JUNE  |
|-------------------------|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Ann                     | 160                     | 160   | 168   | 164   | 172   | 172   | 180   | 188   | 180   | 188   | 196   | 196   | 204   |
| Robert                  | 2,400                   | 2,408 | 2,416 | 2,424 | 2,432 | 2,440 | 2,448 | 2,456 | 2,464 | 2,472 | 2,480 | 2,488 | 2,496 |
| John                    | 1,000                   | 992   | 976   | 972   | 964   | 948   | 956   | 952   | 952   | 960   | 968   | 960   | 952   |
| Jon                     | 120                     | 128   | 128   | 132   | 140   | 148   | 144   | 152   | 144   | 148   | 156   | 164   | 164   |
| Nancy                   | 300                     | 296   | 304   | 296   | 304   | 312   | 316   | 324   | 332   | 332   | 340   | 344   | 348   |
| Stevie                  | 500                     | 498   | 506   | 498   | 502   | 510   | 518   | 518   | 526   | 522   | 530   | 538   | 542   |
| Mick                    | 360                     | 352   | 360   | 352   | 360   | 368   | 368   | 372   | 380   | 388   | 388   | 392   | 400   |
| Jimmy                   | -                       | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     |
| Lindsey                 | 80                      | 72    | 80    | 80    | 88    | 96    | 88    | 96    | 104   | 104   | 108   | 116   | 124   |
| Christine               | 1,050                   | 1,050 | 1,058 | 1,066 | 1,074 | 1,074 | 1,082 | 1,090 | 1,094 | 1,102 | 1,110 | 1,110 | 1,114 |
| John Paul               | 1,200                   | 1,208 | 1,216 | 1,224 | 1,232 | 1,240 | 1,248 | 1,256 | 1,264 | 1,272 | 1,280 | 1,288 | 1,296 |
| Total                   | 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.) |                         | 30    | 46    | 50    | 58    | 74    | 74    | 74    | 74    | 74    | 74    | 74    | 74    |
| Used under FIFO (1 yr.) |                         | 94    | 134   | 226   | 254   | 302   | 350   | 382   | 434   | 474   | 494   | 542   | 586   |



# Flow Assumption – Leave Taken

| EMPLOYEE NAME  | BEG.              |           |           |           |           |           |           |   |                                     |           |           |           |           | LEAVE         | LEAVE          |
|--|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|---|-------------------------------------|-----------|-----------|-----------|-----------|---------------|----------------|
|  | LEAVE BAL. (HRS.) | JULY      | AUG.      | SEPT.     | OCT.      | NOV.      | DEC.      | JAN.                                    | FEB.                                | MAR.      | APR.      | MAY       | JUNE      | TAKEN (HOURS) | EARNED (HOURS) |
| Ann  | 160               | 8         |           | - 12      |           | - 8       |           | -                                       | - 16                                |           | -         | - 8       |           | - 52          | 96             |
| Robert   | 2,400             |           | -         | -         | -         | -         |           | - Robert retires at the end of December |                                     |           |           |           |           | -             | 48             |
| John   | 1,000             | 16        | 24        | 12        | 16        | 24        |           | - 12                                    | John retires at the end of January  |           |           |           | 104       | 56            |                |
| Jon  | 120               |           | - 8       | 4         |           | -         | - 12      |   | - 16                                | 4         |           | -         | - 8       | 52            | 96             |
| Nancy  | 300               | 12        |           | - 16      |           | -         | - 4       |   | -                                   | - 8       |           | - 4       | 4         | 48            | 96             |
| Stevie   | 500               | 10        |           | - 16      | 4         |           | -         | - 8                                     |                                     | - 12      |           | -         | - 4       | 54            | 96             |
| Mick   | 360               | 16        |           | - 16      |           | -         | - 8       | 4                                       | - Mick quits at the end of February |           |           |           | 44        | 64            |                |
| Jimmy  | -                 | 8         | 8         | 8         | 8         | 8         | 8         | 8                                       | 8                                   | 8         | 8         | 8         | 8         | 96            | 96             |
| Lindsey  | 80                | 16        |           | - 8       |           | -         | - 16      |   | -                                   | - 8       | 4         |           | -         | - 52          | 96             |
| Christine  | 1,050             | 8         |           | -         | -         | - 8       |           | -                                       | - 4                                 |           | -         | - 8       | 4         | 32            | 96             |
| John Paul  | 1,200             |           | -         | -         | -         | -         | -         | -                                       | -                                   | -         | -         | -         | -         | -             | 96             |
| <b>Total</b>   | <b>7,170</b>      | <b>94</b> | <b>40</b> | <b>92</b> | <b>28</b> | <b>48</b> | <b>48</b> | <b>32</b>                               | <b>44</b>                           | <b>40</b> | <b>12</b> | <b>28</b> | <b>28</b> | <b>534</b>    | <b>936</b>     |
| Assumptions: 8 hours earned per month, no payment at termination or retirement, leave may be used for service credit for retirement purposes |                   |           |           |           |           |           |           |   |                                     |           |           |           |           |               |                |

# Flow Assumption – Running Balance

| EMPLOYEE NAME           | BEG.               |       |       |       |       |       |       |       |       |       |       |       |       |
|-------------------------|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                         | LEAVE BAL. (HOURS) | JULY  | AUG.  | SEPT. | OCT.  | NOV.  | DEC.  | JAN.  | FEB.  | MAR,  | APR.  | MAY   | JUNE  |
| Ann                     | 160                | 160   | 168   | 164   | 172   | 172   | 180   | 188   | 180   | 188   | 196   | 196   | 204   |
| Robert                  | 2,400              | 2,408 | 2,416 | 2,424 | 2,432 | 2,440 | 2,448 | -     | -     | -     | -     | -     | -     |
| John                    | 1,000              | 992   | 976   | 972   | 964   | 948   | 956   | 952   | -     | -     | -     | -     | -     |
| Jon                     | 120                | 128   | 128   | 132   | 140   | 148   | 144   | 152   | 144   | 148   | 156   | 164   | 164   |
| Nancy                   | 300                | 296   | 304   | 296   | 304   | 312   | 316   | 324   | 332   | 332   | 340   | 344   | 348   |
| Stevie                  | 500                | 498   | 506   | 498   | 502   | 510   | 518   | 518   | 526   | 522   | 530   | 538   | 542   |
| Mick                    | 360                | 352   | 360   | 352   | 360   | 368   | 368   | 372   | 380   | -     | -     | -     | -     |
| Jimmy                   | -                  | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     | -     |
| Lindsey                 | 80                 | 72    | 80    | 80    | 88    | 96    | 88    | 96    | 104   | 104   | 108   | 116   | 124   |
| Christine               | 1,050              | 1,050 | 1,058 | 1,066 | 1,074 | 1,074 | 1,082 | 1,090 | 1,094 | 1,102 | 1,110 | 1,110 | 1,114 |
| John Paul               | 1,200              | 1,208 | 1,216 | 1,224 | 1,232 | 1,240 | 1,248 | 1,256 | 1,264 | 1,272 | 1,280 | 1,288 | 1,296 |
| Total                   | 7,170              | 7,164 | 7,212 | 7,208 | 7,268 | 7,308 | 7,348 | 4,948 | 4,024 | 3,668 | 3,720 | 3,756 | 3,792 |
| Used under LIFO (1 yr.) |                    | 30    | 46    | 50    | 58    | 74    | 74    | 74    | 74    | 74    | 74    | 74    | 74    |
| Used under FIFO (1 yr.) |                    | 94    | 134   | 226   | 254   | 302   | 350   | 382   | 426   | 466   | 478   | 506   | 534   |

# Financial Reporting Impacts

- Governmental Funds (current financial resources measurement focus)
  - Expenditure and liability recognized when payments are due and payable
  - GASB Interpretation #6 still relevant
  - GASB 101 impact relatively rare
- Proprietary Funds and Government-wide Statements (economic resources measurement focus)
  - 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

# 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 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

# Key Highlights

- Limited impact on most Governmental Funds
- Largest financial liability impact is from sick leave
- Must have good opening balances for 7/1/24!
- Flow assumption for compensated absences (i.e., FIFO, LIFO, etc.)
- May use sampling
- No specific number of years required for past experience

# Key Highlights (cont.)

- For sick leave – 3 buckets – forfeitures, service credit for retirement, **time off (this is the liability)**
- Analyze your own government's data – may vary between governments and for the same government over time
- Professional judgement is required
- Work closely with your auditors
- Keep accurate records!
- Don't be concerned with immaterial items
- There is no single correct method

# Implementation – Objects In The Mirror Are Closer Than They Appear

- 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
  - Make sure that you have good opening balances at the beginning of the year
- More about implementation of GASB Statement No. 100 at end of the webinar

# **GASB Statement No. 100**

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



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# Accounting Changes

- Changes in accounting principles
  - e.g., change from one generally accepted accounting principle to another that is justifiably preferable or implementation of new authoritative guidance
- Changes in accounting estimates
  - e.g., change to input data used to calculate the estimate
- Changes to or within the financial reporting entity
  - e.g., change in fund presentation, major vs. nonmajor, addition or removal of component unit, or component unit classification (blended vs. discrete)

# Change in Accounting Principle

- 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)
- 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)

# Change in Accounting Estimate

- Effects of the change in an accounting estimate should be recognized prospectively
- Changes in data, assumptions or measurement methodology
- Note disclosures should include
  - Nature of the change in estimate and what items were affected in the financial statements
  - If the change in estimate comes from a change in methodology, disclose reason why there is a change and why it is preferable

# Change to or within the Financial Reporting Entity

- Beginning net position or fund balance should be adjusted as if the change occurred at the beginning of the current reporting period (don't restate prior periods)
- Does **not** include closing out funds and disposals of operations
- Note disclosures should include
  - The nature and reason for the change (exception for major vs. nonmajor change)
  - The effects of the change on applicable fund balance and net position accounts

# Correction of an Error in Previously Issued Financial Statements

- Corrections should be reported retroactively for all prior periods presented
- Cumulative effect of the correction should be a restatement of beginning net position or fund balance as of the earliest period presented
- RSI and SI corrected, if practicable, for all prior periods
- Note disclosures should include
  - Nature of the error and correction, as well as periods affected
  - Effect of the error correction on applicable fund balance & net position accounts for all years affected

# Implementation

- Reclassifications in the financial statements when net position or fund balance is not affected – note disclosures explaining the changes are required
- 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
- Tabular format note disclosures with changes in different categories are required – can aggregate in financial statements and show detail in notes
- Effective for reporting periods that begin after June 15, 2023 - in NC  
- **FYE 6/30/24**

# 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 – not 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 – restate earliest year if possible