

Compensated Absences – Preparing for Implementation

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Introduction

- Start preparing now
- Review leave policies and make sure that they are clear and current
- Document the government's types of leave
- Sick leave is now a compensated absences liability (but not in governmental funds) and will require some preparation
- You need accurate opening balances at the beginning of the implementation year



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What Is Included?

- Liability recognized for leave that has not been used if:
 - Leave is attributable to services already rendered
 - Leave accumulates
 - The leave is more likely than not to be used for time off or otherwise paid in cash or settled through non-cash means

Valuing Compensated Absences Liabilities – What Isn't Included?

- 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 – termination payments
- 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 – What Do We 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?

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 that 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/noncurrent 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

Financial Reporting Impacts

- Governmental Funds (current financial resources measurement focus)
 - Expenditure and liability recognized when payments are due and payable under GASB Interpretation #6
 - 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)
 - Include salary-related payments

Other Items

- Analyze your own government's data – may vary between governments and for the same government over time
- May use sampling
- No specific number of years required for past experience
- 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 of GASB 101 – Debt Issues

- 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