



# MISSING IN ACTION



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ACCOUNTING FOR COMPENSATED ABSENCES

2025 GFOAT SPRING CONFERENCE

BOB SCOTT, TOWN OF PROSPER

# Old School Raise thy Hand Polling Question #1

How familiar are you with GASB 101, *Compensated Absences*?

- a) Read the standard
- b) Currently evaluating the impact to my government
- c) Mocked up entries already
- d) What, we're already over 100 GASBs?

# No. 101, Compensated Absences



**Effective Date**

Reporting  
periods  
beginning after  
December 15,  
2023

# New Definition

## Definition – Compensated Absence

### Statement 16

- Absences for which employees will be paid, such as vacation, sick leave, & sabbatical leave

### Statement 101

- Leave for which employees may receive one or more
- Cash payments when the leave is used for time off
  - Other cash payments, such as payment for unused leave upon termination of employment which includes voluntary resignation or retirement
  - Noncash settlements, such as conversion to defined benefit postemployment benefits

# Compensated absences – Statement 16

Why was a change needed?

- Benefit practices have evolved
- Inconsistent application of standards
- Lack of guidance for new leave types
- Changes to the conceptual framework since the issuance of the existing guidance

# Compensated absences – Statement 16

- Distinguished between types of paid leave
- Providing different guidance for vacation leave and sick leave
- Use of Paid time off and compensatory time are more common
- Distinction between vacation and sick leave does not apply when government provide PTO

# Examples of Compensated Absences

- ❖ Vacation & sick leave
- ❖ Paid time off (PTO)
- ❖ Parental leave
- ❖ Bereavement leave
- ❖ Holidays
- ❖ Compensatory time
- ❖ Certain types of sabbatical leave

# Sabbatical Leave

Sabbatical leave in which an employee is not required to perform any significant duties for the government -unrestricted sabbatical leave - is a compensated absence



Sabbatical leave in which an employee is required to perform duties of a different nature for the government - is not a compensated absence

# Recognition

GASB Statement 101 provides recognition criteria for both of the following situations:

- Leave used but not paid or settled
- Unused leave

# Recognition – Leave Used but Not Paid

A liability should be reported when leave is used for time off but has not yet been paid in cash or settled through noncash means – including unlimited leave & date-specific holiday leave.

The liability should be measured at the amount of the cash payment or noncash settlement to be made for the use of the leave.

## Pay Rate

- Generally, the employee's pay rate at financial reporting date
- Exception: More likely than not to be paid at a different rate

## Salary-Related Payments

- Directly & incrementally related
- DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability
- DB pension or OPEB excluded

# Salary-Related Payments

Directly associated – if the payment amount is a function of salary to be paid

Incrementally associated – if the government will make payment in addition to the salary payment

# Recognition – Unused Leave

A liability should be recognized for leave that has not been used if all of the following criteria are met:

## Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

## Leave accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

## Leave is *more likely than not* to be used for time off or otherwise paid or settled

- Likelihood of more than 50 percent

# More Likely Than Not

Management judgment still required by assessing the following relevant factors:

- The government's compensated absences employment policies
- Whether benefits for which services have been rendered will become eligible for future payment
- Historical information about the use, payment, or forfeiture of compensated absences
- Information known to the government that would indicate that historical information may not be representative of future trends or patterns

# More Likely Than Not

Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be recognized as a liability for compensated absences

This prevents the actuary from double counting the benefit when performing the actuarial calculation for the plan

# Compensated Leave Calculation Methods

Same methods as currently used for GASB 16

- Days Used Approach
- Days Used Average Approach
- Days Paid Approach
- Dollars Paid Approach

If the calculation method for GASB 16 works, then keep doing it!

# Disclosure Requirements

## Long term liability disclosure options:

- Present separate increases and decreases (gross presentation)
- Present a net increase or net decrease
- Disclose that it is net amount
- Short term/long term estimation

# Transition

Transition changes at adoption should be reported as a change in accounting principle in accordance with Statement No. 100, *Accounting Changes and Error Corrections*

Effective for fiscal years beginning after December 15, 2023 and all reporting periods thereafter. Earlier application is encouraged.

# No. 100, Accounting Changes & Error Corrections

**Effective Date**

The diagram consists of two orange chevron-shaped boxes pointing to the right, connected by a white arrow. The first box contains the text 'Effective Date' and the second box contains the text 'Reporting periods beginning after June 15, 2023'. A solid orange bar is located at the bottom of the slide.

Reporting  
periods  
beginning after  
June 15, 2023

# Two separate classifications in GASB 100:

## **Accounting changes**

1. Change in accounting principle
2. Change in accounting estimate
3. Change to or within the financial reporting entity

## **Error Correction**

Correction of an error in previously issued financial statements

# 1. Change in Accounting Principle

A change in accounting principle results from either:

A **change** from one generally accepted accounting principle to another that is justified on the basis that *the newly adopted accounting principle is preferable*, based on the qualitative characteristics of financial reporting

Implementation of new pronouncements

# Accounting

## Change in accounting principle

- Reported retroactively by restating prior periods presented, if practicable
- If not practicable, restate beginning balances of current period

## Change in accounting estimate

- Reported prospectively
- Recognized in current-period flows

## Change to/within the reporting entity

- Reported by adjusting current period beginning balances

## Error correction

- Reported retroactively by restating prior periods presented

# Financial Statements & Disclosures

Aggregate amount of adjustments to & restatements of beginning reporting unit.

Disclosures vary depending on the type of item, but common disclosures include:

The nature of the change or error and its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

## Required Supplemental Information (RSI) & Supplemental Information (SI)

The Statement addresses how to present in RSI & SI information that is affected by an accounting change or error correction.

Periods earlier than those presented in basic financial statements should ***not*** be restated for changes in accounting principles.

Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable.

# Practical Considerations



# Impact Will Vary Greatly By Government

- Implementation

- Even within states or region, leave policies can vary significantly
- The more complicated the leave policy, the more complicated the implementation
- Complexity can be added through:
  - Pension plan conversions (ask pension plan actuary about assumptions used)
  - Discounted payouts (sick paid at 50% payrate)
  - Different policies for certain employee groups
  - Vacation Buy Back
  - Donated Leave Programs
  - Strict and sudden accrual stops (i.e. once you reach 240 hours, accrual stops)
  - Holiday Banking



# Impact Will Vary Greatly By Government

- Increase in the reported liability
  - The liability will increase due to:
    - Broader Scope-Paid or Used
    - Lower probability threshold More Likely than Not vs. the Old standard of Probable
  - The amount of the increase can vary significantly
    - Governments with generous leave policies but stingy caps for paying upon termination will have the biggest increase in liability
    - Governments with relatively stingy leave policies but higher caps for payout will have a smaller increase in liability because GASB 16 will already have captured much of it.
    - Flow assumptions and other estimation techniques can significantly impact the number so be prepared to use usage patterns, forfeiture rates, demographics and differences between groups to justify the estimation approach
    - Start with the simplest approach first and see if it makes sense which often will be what won't be paid (aka forfeitures upon termination), rather than what will be paid.



# Plan for Prosper Implementation

## Prosper Policies

|          |   |
|----------|---|
| Vacation | 2weeks<2yr, 3 weeks<5, 4 weeks<10, 5 weeks> 10+ to a maximum accrual of twice your annual accrual |
| Sick     | One day per month up to a maximum accrual of 720  |

- Vacation Buy Back for up to 80 hours per year
- Maximum pay out upon termination is your maximum accrual for vacation and 120 for sick
- Vesting is tied to probationary period with no payouts upon termination for first six months
- Fire is proportionately higher due to higher work year
- Donated leave policy exists but is on an individual basis with caps not a sick leave pool
- Public Safety demographics are different in that employees are generally younger when hired and have longer tenure

# Plan for Prosper Implementation

**Vacation**-under GASB 101 expanded definition and given the vacation buy back policy, all vacation accrued by all employee groups is a liability. It is deemed more likely than not that new employees will vest.

**Sick**-Employees divided into three groups, Police, Fire and General Employees with total accrued hours for each being the starting point. Forfeiture rates upon termination are determined for each group using multi-year historic experience.

- The forfeiture rate is multiplied by the accrued sick leave hours by group =forfeited hours.
- Forfeited hours are multiplied by each groups average hourly rate = forfeited leave.
- Forfeited leave is subtracted from the total accrued leave to determine the GASB 101 Sick liability.

# Plan for Prosper Implementation



**Sabbaticals-** N/A

**Holiday Banking-** Probably immaterial but will analyze for public safety.

**PTO-**N/A

**Jury/Bereavement-**as used, no liability

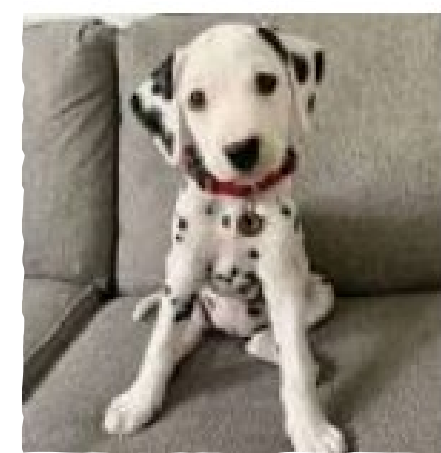
**Parental Leave-** included in the sick and vacation accruals.

**Due within one year-**Total vacation and sick hours used for last three years compared to beginning hours for each year, that average percentage is then multiplied by the year calculated liability. (FIFO) LIFO could also be used (if usage patterns justify it) and would produce a lower to much lower amount.

**Average rates** per employee group used if actual rates for each employee is not practicable.

**TMRS and FICA** is applied to the liability.

# GASB Illustrated Walk forward



## Illustration 3—Note Disclosure—Net Change in the Liability

COUNTY OF KLAUS  
NOTE X—DETAIL NOTES ON ALL FUNDS  
LONG-TERM DEBT  
Long-Term Liability Activity

|  | <u>Beginning<br/>Balances</u> | <u>Additions</u>    | <u>Reductions</u>     | <u>Ending<br/>Balances</u> | <u>Amounts Due<br/>within One Year</u> |
|--|-------------------------------|---------------------|-----------------------|----------------------------|--|
| <b>Governmental Activities</b>                 |                               |                     |                       |                            |  |
| Bonds and Notes Payable:                       |                               |                     |                       |                            |  |
| General Obligation Bonds                       | \$ 9,520,000                  | \$ 1,201,000        | \$ (600,350)          | \$ 10,120,650              | \$ 817,200                             |
| Notes Payable                                  | 945,600                       | 75,000              | (115,000)             | 905,600                    | 116,500                                |
| Total Bonds and Notes Payable                  | <u>10,465,600</u>             | <u>1,276,000</u>    | <u>(715,350)</u>      | <u>11,026,250</u>          | <u>933,700</u>                         |
| Other Liabilities:                             |                               |                     |                       |                            |  |
| Compensated Absences                           | 310,430                       | 143,545*            | -                     | 453,975                    | 382,673                                |
| Other Obligations                              | 40,820                        | -                   | -                     | 40,820                     | -                                      |
| Total Other Liabilities                        | <u>351,250</u>                | <u>143,545</u>      | <u>-</u>              | <u>494,795</u>             | <u>382,673</u>                         |
| Governmental Activities Long-Term Liabilities  | <u>\$ 10,816,850</u>          | <u>\$ 1,419,545</u> | <u>\$ (715,350)</u>   | <u>\$ 11,521,045</u>       | <u>\$ 1,316,373</u>                    |
| <b>Business-Type Activities</b>                |                               |                     |                       |                            |  |
| Bonds and Notes Payable:                       |                               |                     |                       |                            |  |
| General Obligation Bonds                       | \$ 12,275,600                 | \$ 890,000          | \$ (1,100,700)        | \$ 12,064,900              | \$ 988,700                             |
| Sales Tax-Backed Bonds                         | 6,670,000                     | -                   | (810,000)             | 5,860,000                  | 635,000                                |
| Total Bonds and Notes Payable                  | <u>18,945,600</u>             | <u>890,000</u>      | <u>(1,910,700)</u>    | <u>17,924,900</u>          | <u>1,623,700</u>                       |
| Other Liabilities:                             |                               |                     |                       |                            |  |
| Compensated Absences                           | 56,710                        | -                   | (24,985)*             | 31,725                     | 19,570                                 |
| Developer Agreements                           | 1,920,909                     | 87,220              | (64,932)              | 1,943,197                  | -                                      |
| Other Obligations                              | 37,503                        | -                   | -                     | 37,503                     | -                                      |
| Total Other Liabilities                        | <u>2,015,122</u>              | <u>87,220</u>       | <u>(89,917)</u>       | <u>2,012,425</u>           | <u>19,570</u>                          |
| Business-Type Activities Long-Term Liabilities | <u>\$ 20,960,722</u>          | <u>\$ 977,220</u>   | <u>\$ (2,000,617)</u> | <u>\$ 19,937,325</u>       | <u>\$ 1,643,270</u>                    |

\*The change in the compensated absences liability is presented as a net change.

# City of College Station, Texas

College Station early implemented in 2023 with no sick leave liability recorded under GASB 16 as there are no sick payouts upon termination. Under GASB 101, the beginning liability for all leave types increased 88.5%

Excerpt from Note 1 of 2023 ACFR.

Changes in compensated absences for the year ending September 30, 2023, were as follows:

| Activity Type | Beginning Balance, as restated | Earned      | Used           | Total Ending Balance |
|---------------|--------------------------------|-------------|----------------|----------------------|
| Governmental  | \$ 7,885,864                   | \$5,184,089 | \$ (4,605.872) | \$ 8,464,081         |
| Business-Type | 2,006,558                      | 1,286,220   | (1,164.650)    | 2,128,128            |
| Total         | \$ 9,892,422                   | \$6,470,309 | \$ (5,770,522) | \$ 10,592,209        |

| Activity Type | Amount Due Within One Year | Amount Due Greater Than One Year |
|---------------|----------------------------|----------------------------------|
| Governmental  | \$ 944,881                 | \$ 7,519,200                     |
| Business-Type | 236,830                    | 1,891,298                        |
| Total         | \$ 1,181,711               | \$ 9,410,498                     |

# City of College Station, Texas

College Station early implemented in 2023 with no sick leave liability recorded under GASB 16 as there are no sick payouts upon termination. Under GASB 101, the beginning liability for all leave types increased 88.5% Note 2 of 2023 ACFR.

## 2. ADJUSTMENTS TO FUND BALANCES AND NET POSITION

During fiscal year 2023, certain accounting changes and adjustments were made that required the restatement of fund balances or net position. The restatements are presented below.

### Restated Government-Wide Net Position:

|   | Governmental Activities | Business-Type Activities | Total          |
|---|-------------------------|--------------------------|----------------|
| Net Position September 30, 2022, as previously reported | \$ 408,691,911          | \$ 414,560,945           | \$ 823,252,856 |
| Compensated Absences                                    | (3,474,084)             | (863,276)                | (4,337,360)    |
| Total Prior Period Adjustment                           | (3,474,084)             | (863,276)                | (4,337,360)    |
| Net Position September 30, 2022, as restated            | \$ 405,217,827          | \$ 413,697,669           | \$ 818,915,496 |

### Restated Internal Service Fund Net Position:

|   | Utility Customer Service | Fleet Maintenance | Total         |
|---|--------------------------|-------------------|---------------|
| Net Position September 30, 2022, as previously reported | \$ 1,387,320             | \$ 226,643        | \$ 54,274,849 |
| Compensated Absences                                    | (27,207)                 | (50,728)          | (77,935)      |
| Total Prior Period Adjustment                           | (27,207)                 | (50,728)          | (77,935)      |
| Net Position September 30, 2022, as restated            | \$ 1,360,113             | \$ 175,915        | \$ 54,196,914 |

### Restated Enterprise Fund Net Position:

|   | Electric       | Water          | Wastewater     | Northgate Parking Garage | Solid Waste   | Total Non-Major |
|---|----------------|----------------|----------------|--------------------------|---------------|-----------------|
| Net Position September 30, 2022, as previously reported | \$ 136,738,709 | \$ 119,073,115 | \$ 114,300,309 | \$ 5,106,081             | \$ 29,640,958 | \$ 34,747,039   |
| Compensated Absences                                    | (448,642)      | (220,712)      | (130,743)      | (8,750)                  | (54,429)      | (63,179)        |
| Total Prior Period Adjustment                           | (448,642)      | (220,712)      | (130,743)      | (8,750)                  | (54,429)      | (63,179)        |
| Net Position September 30, 2022, as restated            | \$ 136,290,067 | \$ 118,852,403 | \$ 114,169,566 | \$ 5,097,331             | \$ 29,586,529 | \$ 34,683,860   |

### City of College Station Notes to the Financial Statements For the Fiscal Year Ended September 30, 2023

The restatement of (\$4,337,360) to Governmental Activities and Business-Type Activities beginning net position is due to the implementation of GASB 101 – Compensated Absences. Before GASB 101 implementation, sick leave was not recorded as a liability, with implementation of this GASB sick leave is calculated as a liability based on amounts more likely than not to be used. These prior year adjustment amounts are due to a change in accounting principle. Spring Creek LGC, Blended Component Unit, was entirely funded by the General Fund, had a restatement of \$25,000 to the General Fund beginning balance. This fund was also moved from the General Fund Subfund to Special Revenue Funds and will not have transactions for the foreseeable future.





Questions?

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