



MISSING IN ACTION



ACCOUNTING FOR COMPENSATED ABSENCES

2023 GFOAT FALL 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 at GASB 101?

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'. Below the diagram is a solid orange horizontal bar.

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.

THE SOFT SIDE OF THE STANDARD



Helping City Council to
Understand GASB 101 and
Using it to Improve
Financial Management

The Forgotten Aspect of GASB Standards

They are often there for a reason:

- The topic area represents a major financial commitment both in terms of existing liabilities and future expenditures
- The topic area is often an area that in the “tyranny of the urgent” environment of local governments doesn’t receive a lot of management attention
- The topic area and the financial commitments made are often not well understood or disclosed.
- Recent trends or changing demographics have added to the significance of area

Examples

- **Pensions**

- Prior to GASB 67 & 68 et al-Pensions, governments tended to rely much to provide them accurate unbiased numbers for financial reporting
 - With recording the NPL, actuarial assumptions including rate of return h employers and their auditors have been forced to scrutinize the number
- GASB 87-Lease Reporting. General governments are very diverse and man most contract responsibilities to the individual department. Lease reporti begin centralized tracking of their contracts to report their lease liability.



GASB 101 - More than Accounting Compliance

Compensated Absences are often viewed as a less expensive benefit than other forms of compensation

- It is blended into overall payroll costs
- Other than minimum staffing situations, it often results in productivity loss not increased payroll
- It is often taken for granted

However, even common compensated absences levels can be 15% or more of base compensation

- Employers should use implementation of GASB 101 to evaluate:
 - The cost of their program
 - Whether the program is accomplishing its intended purposes

Old School Raise thy Hand Polling Question #2

What is the primary purpose of
Compensated Absences?

- a) Recruitment/Retention
- b) Remain competitive-its expected
- c) Employee morale/wellness
- d) Increase compensation



Old School Raise thy Hand Polling Question #3

Should Compensated Absence policies be roughly the same for all employee groups?

a) Yes

b) No



Old School Raise thy Hand Polling Question #4

Should employees be required to take a certain minimum amount of vacation each year?

- a) Yes
- b) No



Compensated Absence Design



- The answers to the polling questions directly impact benefit design as an emphasis on:
 - Another form of compensation - may lead to eligibility for large payouts at termination/retirement, annual buybacks of unused leave or no requirement or incentive to actually take time off
 - Recruitment or wellness could mean high initial accrual rates
 - Retention could mean gradually increasing rates over time
 - Competitiveness - similarity of benefit levels and policies to neighboring communities
 - Equality - no difference in benefits between police & fire, senior executives or other groups

Compensated Absence Design

- Best ways to encourage employees to take leave:
 - Mandate leave
 - Use it or lose it
 - Incentivize
- Beware of unintended consequences
 - The ability to accumulate large balances that are only eligible to resignations to access balances
 - Buybacks without combining with a mandate to take leave can result in not taking enough vacation



Old School Raise thy Hand Polling Question #1

Does your organization differentiate
between vacation and sick leave?

a) Yes

b) No



Old School Raise thy Hand Polling Question #1

What is the maximum number of hours that your organization pays out upon retirement?

- a) Less than 200
- b) 201-350
- c) 351-600
- d) 601-1,000
- e) More than 1,000



Benchmark Cities

	Vacation Accrual	Vacation Payout	Sick Accrual	Sick Payout
Prosper	2w<2yr, 3<5, 4<10, 5> 10+	240h max	12d per year 720 max	120 max
Celina	2w<5yr, 3<10, 4 >10+	240h max	12d per year	240 max
Frisco	3w<5yr, 144hr<10,4w >15+	240h to 320	12d per year	720 max
Little Elm	2w<5yr,3<10,4>10+	320 max	2w per year	Max 360 w vesting
McKinney	2w<2yr,3<10,4>10+	Unlimited	17d per year	160 max
Coppell	2w<1yr, 3>1yr up to 24 days		12d per year	
Keller	2w<5yr, 3<10, 4>10+	160 - 400 at 20+	12d per year	None
Southlake	2w<1yr, 3<5, 4<10, 23d 20+	240 max	2w per year	400 max
Anna	3w<10, 4>10+			
Flower Mound	2w<5yr, 3<10, 4>20+	Unlimited	12d per year 720max	50% up to 360

Conclusions - Benchmark Cities

- Human Resources is a foreign language
 - There are literally hundreds of ways to describe compensated absence
- While two weeks is most common for new employees, some offer three short
- Four weeks accrual is a common maximum with some cities going up to
 - Philosophically - is over 4 weeks per year more compensation than time
- Payouts are often in the 240-400 hour range although some were unlim



Conclusions - Benchmark Cities

- Taking leave appears to be encouraged but never mandatory and policies may enc
- Burn-out, fatigue and other problems can result from no vacations
- Vacation can be an important internal control for finance related positions
 - If employees routinely take less than a week a year, consider mitigating policies s
- Cash buy-backs also not as common
 - Can be a way to avoid resignations just to access cash
 - balances
 - Should have limits and perhaps even incentives to take leave



Conclusions - Benchmark Cities

- Sick leave appears to be the most uniform and does not increase with time
- Most of the cities also have sick leave donation policies
- Sick and vacation was separate for all the cities rather than a PTO approach common in the private sector





Questions?
