



“Back to Basics” **WEBINAR**

GASB 101: Compensated Absences

1 CPE CREDIT

Thur, June 5
10:00AM PST

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Your Presenter



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GASB 101 – Compensated Absences

POLLING QUESTION #1

What stage of GASB 101 implementation is your Agency in?

- Haven't started
- Evaluation/information gathering
 - Completed

GASB 101 – Compensated Absences

- Implementation
 - Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.
- The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

GASB 101 – Compensated Absences

- GASB 16 (1992) Rules-Based vs GASB 101 (2025) Principles-Based
 - GASB 16 – Accrued only if probable to compensate upon termination/retirement
 - Vacation, Sick, Sabbatical
 - GASB 101 – Accrue for all leave types regardless of payment likelihood
 - Cash payments when leave is used for time off
 - Other cash payments, such as payment for unused leave upon termination of employment
 - Noncash settlements, such as conversion to defined benefit postemployment benefits
- Deemed “Moderate” Implementation Impact by GASB
 - May have no impact on Entity at all
 - Sick leave where no payment is made upon termination will have most significant impact

GASB 101 – Compensated Absences

- Recognition criteria (All 3)
 - Services already rendered
 - Accumulates across fiscal years
 - More likely than not to be used for time off or paid out (defined as 50% or greater)
- Vesting is not a recognition criteria
 - If not paid at termination, estimation of liability for the most likely amount to be used
- Calculation criteria
 - Rate of pay as of the balance sheet date
 - Include salary related payments

POLLING QUESTION #2

Does your Agency currently pay out benefits to employees upon employment termination?

- Yes
- No
- Combination depending on type of benefit

GASB 101 – Compensated Absences

- How to evaluate leave:
 - Determine whether leave is more likely than not to be used for time off or otherwise paid in cash, or settled through non-cash means, by assessing factors such as:
 - The Government's employment policies related to compensated absences
 - No blanket template – each Entity's policy will dictate implementation impact
 - Whether leave that has been earned is, or will become, eligible for use or payment in the future
 - 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

POLLING QUESTION #3

Has your Agency evaluated and updated your employment policies with the GASB 101 requirements?

- Yes
- No
- In progress

GASB 101 – Compensated Absences

- LIFO vs FIFO
 - FIFO assumes the oldest accumulated leave is used first, paid out first, or otherwise settled first
 - Likely lead to higher year-end liability estimates as the assumption is that a greater portion of the current bank balance will be paid in the next fiscal year
 - LIFO assumes the newest accumulated leave is used first, paid out first, or otherwise settled first
 - Likely lead to lower year-end liability estimates as the assumption is that a smaller portion of the current bank balance will be paid in the next fiscal year

GASB 101 – Compensated Absences

- Compensated Absences that are dependent on the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period should not be recognized as a liability until the leave commences:
 - Parental leave
 - Military leave
 - Jury duty
 - Unlimited leave
 - Holiday leave

GASB 101 – Compensated Absences

- Determining the calculation for Compensated Absences
 - A liability for leave should be measured using an employee's rate as of the date of the financial statements unless:
 - Leave is more likely than not to be paid at a different rate from the employees pay rate at the time the payment is made (does not include anticipated pay raises)
 - Leave is not attributable to a specific employees as of the date of the financial statements

GASB 101 – Compensated Absences

- Salary Related Payments – Obligations incurred by the government related to providing leave in exchange for services rendered
 - Must include salary related payments that are
 - Employer share Soc Sec and Medicare taxes – materiality can come into play
 - Directly associated with leave
 - Incrementally associated with leave
 - Salary related payments/contributions related to Defined Benefit Pension or Defined Benefit OPEB plans are NOT included in the measurement of compensated absences

GASB 101 – Compensated Absences

- Settlement through defined benefit postemployment benefit plans
 - Excluded from compensated absences liability
 - Pension/OPEB liability will already be included in actuarial calculations

POLLING QUESTION #4

Do you anticipate any prior period adjustments or significant impacts on your financial statements as a result of GASB 101?

- Yes
- No
- Whatever my auditor tells me

GASB 101 – Compensated Absences

- Audit Preparation
 - Copy of employee benefit policy
 - Any updates made with flow assumption for leave usage that should be documented
 - Estimation/calculation support
 - Commonly historical forfeiture rates
 - For extremely large employers – sampling of employees may be appropriate
 - Change in pay rate adjustments
 - ACFR impact
 - Compensated absences footnote will now present net annual change
 - No longer present gross additions and deletions columns



How to Implement

GASB 101 – Compensated Absences

- **Situation # 1 – Policy provides Unlimited PTO**
 - Leave is not recognized as a liability until used

GASB 101 – Compensated Absences

- **Situation # 2 – Payout of 100% of balances**
 - Total Accrued Leave balance and calculate using the payrate at Year-End
 - Include any Salary Related payments

GASB 101 – Compensated Absences

- **Situation # 3 – Payout of NO balances at termination**
 - Estimate the leave usage
 - Based on historical averages
 - Calculate leave based on estimate and using the pay rate at Year-End

GASB 101 – Compensated Absences

- **Situation # 4 – Payout of balances at termination – but not at 100% of balance**
 - Step 1: Estimate the leave usage
 - Based on historical averages
 - Step 2: Remove the estimated hours from ending leave balance
 - Step 3: Using the remaining balance, determine hours available based on reductions per policy
 - Step 4: Calculate leave based on number of hours in steps 1 and 3 and using the pay rate at Year-End

GASB 101 – Compensated Absences

- **Situation # 5 – Payout of balances at 100% at termination – but a different rate**
 - Step 1: Estimate the leave usage
 - Based on historical averages
 - Step 2: Remove the estimated hours from ending leave balance
 - Step 3: Using the remaining balance, determine hours available
 - Step 4: Calculate leave based on number of hours in steps 1 and 3
 - Usage Pay: estimate hours from step 1 at current pay rate
 - Termination Pay: Calculate based on hours calculated at step 3 using reduced rate specified by policy

GASB 101 – Compensated Absences

- **Situation # 6 – Payout of balances at termination – with a cap on hours to be paid out**
 - Step 1: Estimate the leave usage
 - Based on historical averages
 - Step 2: Remove the estimated hours from ending leave balance
 - Step 3: Using the remaining balance, adjust for any cap on the balance
 - Step 4: Calculate leave based on number of hours in steps 1 and 3
 - Usage Pay: estimate hours from step 1 at current pay rate
 - Termination Pay: Calculate based on hours calculated at step 3, adjusted for cap at current pay rate

Questions?

Next Back to Basics Webinar

Tuesday, June 17 at 10:00 am PST

Back to Basics | Capital Assets

Nielsine Sherk, CPA – Senior Manager, Assurance & Advisory

You can sign up to register in the follow up email you will receive after this webinar. Please give up to 24 hours.

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