



Compensated Absences

Trends in Paid Time Off and Implementation of GASB Statement No. 101





Jennifer Farr, CPA, MBA
Partner
Davis Farr LLP



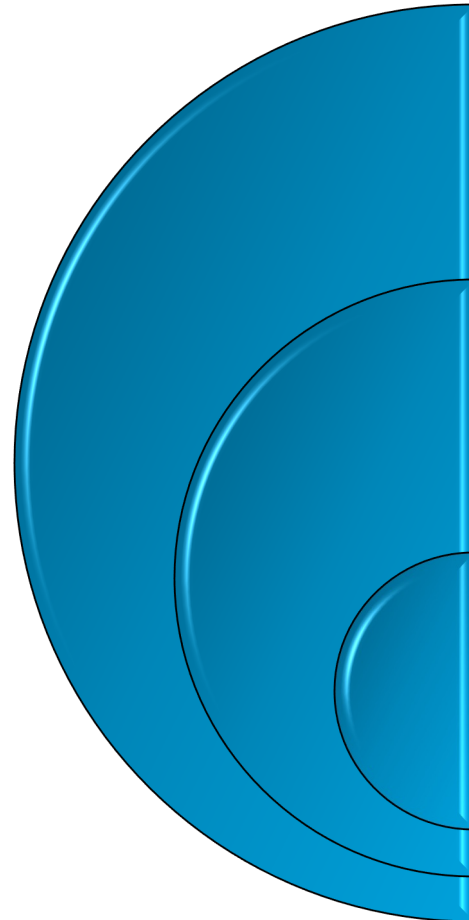
Peter J. Brown
Partner
Liebert Cassidy Whitmore



Jason Al-Imam
Finance Director
City of Newport Beach

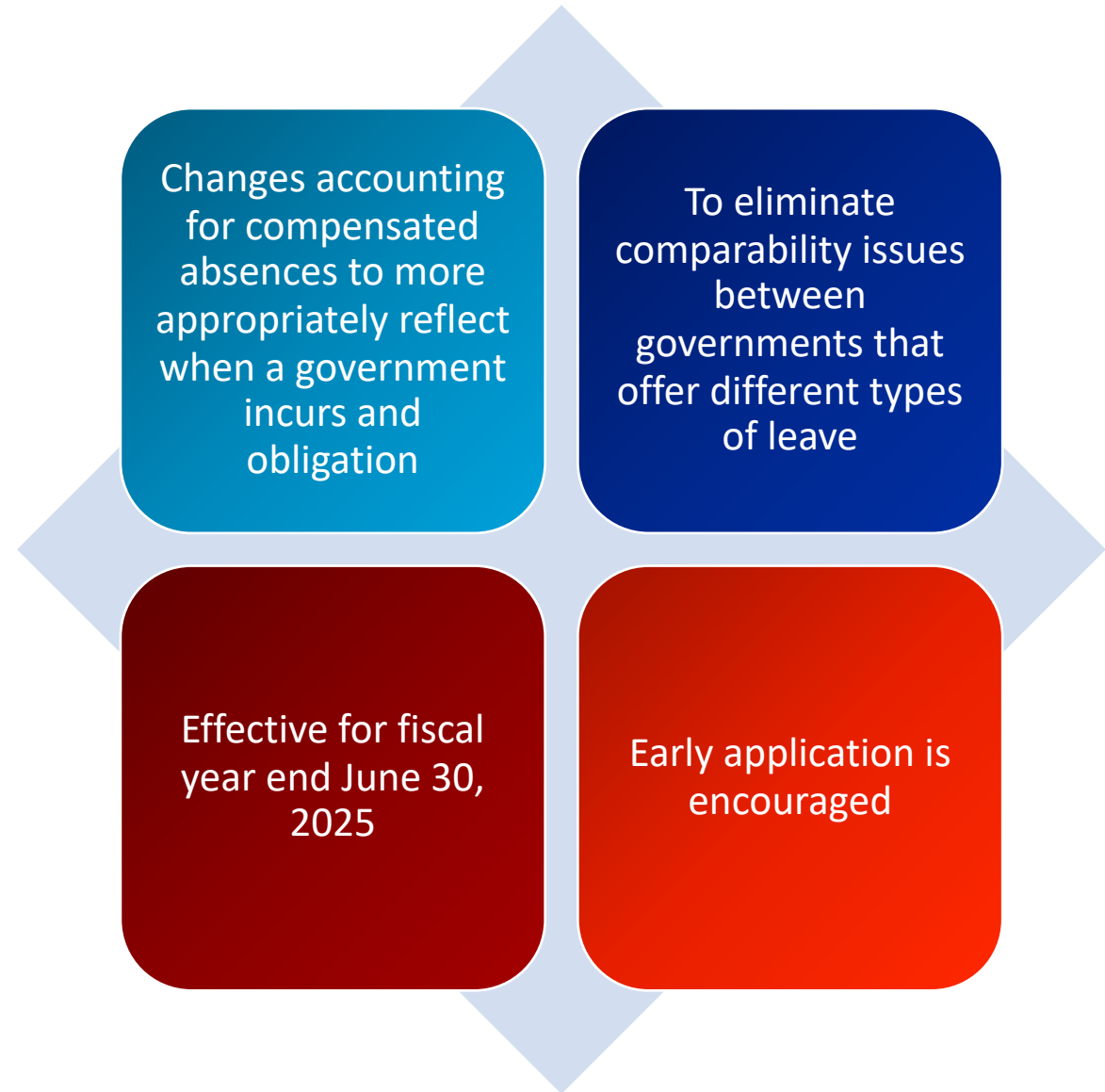
Today's Presenters

Presentation Topics



GASB 101 New Accounting Rules
Trends in Compensated Absences
Illustrative Examples

GASB 101 Overview



Compensated Absences Defined

Leave for
which
employees
may receive
one or more

- 1) Cash payments when the leave is used for time off
- 2) Other cash payments, such as payment for unused leave upon termination of employment
- 3) Noncash settlements, such as conversion to defined benefit postemployment benefits

What Changed?

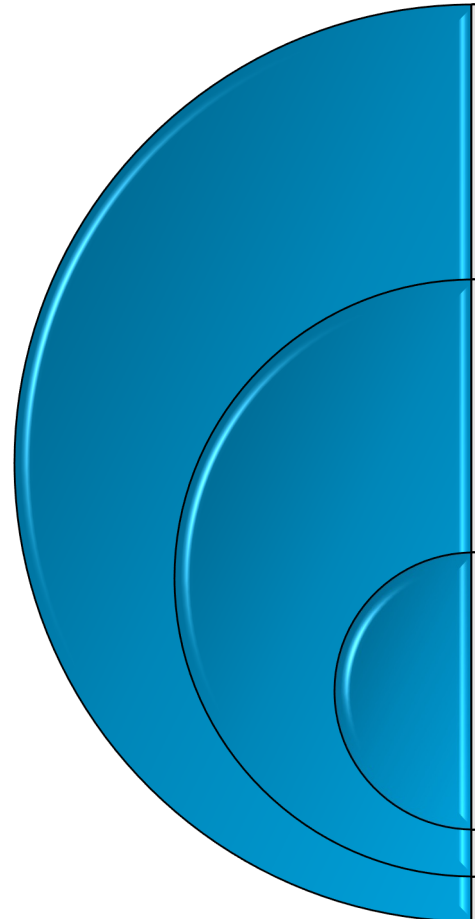
Type of Leave	Old Standard	New Standard
Vacation	If payable upon termination	If payable or settled upon termination
Sick	If payable on termination	Record if <i>more likely than not</i> to be paid or settled*
Taxes	Not addressed	Include
Pension/OPEB contribution	Not addressed	Include defined contribution plans Exclude defined benefit plans

**more likely than not* means a likelihood of more than 50 percent

How to Determine *More Likely Than Not*

- More than a 50% likelihood of being used, paid, or settled
- Historically...
 - Do more than 50% of employees take their sick time, or
 - Do more than 50% of employees lose their sick time by not taking time off?
- Heavily impacted by policies –
 - Do sick benefits expire at the end of the year
 - Do sick benefits accumulate, even if not paid upon termination
 - Can sick benefits be converted to pay for postemployment benefits

What NOT to record



Leave pay that is dependent on the occurrence of a sporadic events: parental leave, military leave, jury duty leave
Unlimited leave
Holiday leave taken on an employer designated date

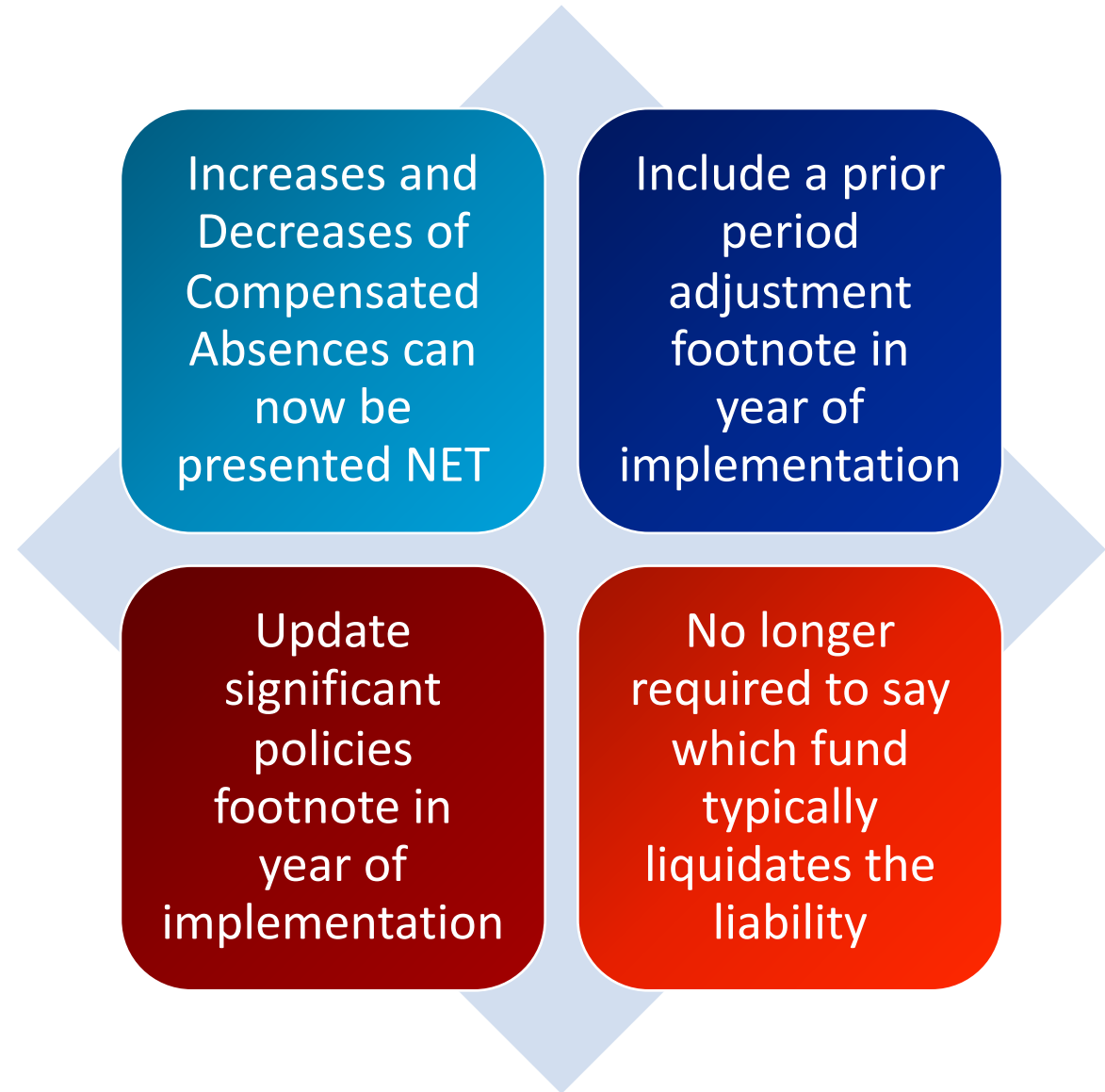
Valuation

Employee's pay rate at financial statement date x hours
+ taxes at current %
+ defined contribution plan contributions at current %
= Compensated absences liability

Remeasure each financial statement date

Defined pension and OPEB contribution %'s are not included because the liabilities and expenses associated with retiree pension and OPEB benefits is already recorded as part of the Net Pension Liability and Net OPEB Liability

Footnote Disclosure Changes



Example Footnote

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

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due within One Year
Governmental Activities					
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>
Business-Type Activities					
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.

Trends in Paid-Time Off

New Statutory Leaves – AB 1041

- Amends (effective 1/1/23) the California Family Rights Act (CFRA) and the Healthy Workplaces, Healthy Families Act of 2014, also known as the Paid Sick Leave Law, to permit employees take leave to care for individuals who are not family members called “Designated Persons”.
- **“Designated Persons”**
 - Under the California Family Rights Act (CFRA) is defined as an individual related by blood or whose association with the employee is the equivalent of a family relationship.
 - Under the Healthy Workplaces, Healthy Families Act of 2014 is defined as is a person identified by the employee at the time they request sick leave.
- The person can identified by the employee at the time they request leave. Under both laws, an employer can limit an employee to one designated person per 12-month period.

New Statutory Leaves – AB 1949

- Amends the California Fair Employment and Housing Act (FEHA) to create a statutory right for eligible employees to take up to five days of bereavement leave (does not have to be paid but employee has the right to use sick leave) upon the death of a covered family member.
- Bereavement leave may be taken for the death of a family member - spouse, child, parent, sibling, grandparent, grandchild, domestic partner, or parent-in-law.
- Leave must be completed within 3 months of the date of death, but need not be taken consecutively.

COVID Related Leave

- Current Employee Leave Rights Related to COVID.

Current Leave Issues

- The impacts of Juneteenth and your agency's obligations.
- Employee associations asking for holiday leave equal to the number of hours worked on different types of alternative work schedules.

Current Leave Issues

- Holiday closures.
- Paying off leave – Does it have to be paid at the regular rate of pay? It depends.
 - Constructive receipt.
- Leave with no cash value – use it or lose it. Lawful?

Illustrative Examples

Illustrative Examples

Note: For illustrative examples 1-7, it is assumed that the employer does not participate in Social Security. However, all employees participate in Medicare. Therefore, the employer is required to pay 1.45% of amounts subject to Medicare tax.

Illustrative Example No. 1 – Vacation Leave

Benefit provisions: Employee must work 6 months before they can use leave. Accumulated vacation balances are paid at the base rate of pay to all terminating employees, even those with less than six months of service.

Leave records for the two employees as of year-end are:

<u>Employee</u>	<u>Length of Service</u>	<u>Vacation Balance (in days)</u>	<u>Daily Pay</u>
1	7 years, 11 months	22	\$200
2	0 years, 2 months	2	\$240

Question: Which of the following statements are accurate?

- A. The liability should be based on the pay rates in effect when the leave was earned, including amounts associated with Medicare.
- B. The liability should be based on the pay rates in effect when the leave was earned, including amounts associated with Medicare and the employer's portion of normal cost.
- C. The liability should be based on the pay rates as of the date of the financial statements, including amounts associated with Medicare.
- D. The liability should be based on the pay rates as of the date of the financial statements, including amounts associated with Medicare and the employer's portion of normal cost.

Illustrative Examples

Illustrative Example No. 2 – Vacation Leave with Leave Caps

Benefit provisions: The benefit provisions are the same as in Example 1, except that employees cannot accrue more than twelve days of vacation. Once an employee's vacation leave balance reaches the maximum leave limit, vacation leave accruals cease until vacation leave is used to reduce the employee's vacation leave balance below the maximum leave limit.

Leave records for the two employees as of year-end are:

<u>Employee</u>	<u>Length of Service</u>	<u>Vacation Balance (in days)</u>	<u>Daily Pay</u>
1	7 years, 11 months	22	\$200
2	0 years, 2 months	2	\$240

Question: Which of the following statements are accurate?

- A. Leave balances for Employee 2 should not be included until the employee has been employed for at least six months.
- B. The leave accrual should be based on the amount of vacation that is more likely than not to be used.
- C. The leave accrual should include twenty-two vacation days for Employee 1 and two vacation days for Employee 2.
- D. The leave accrual should include twelve vacation days for Employee 1 and two vacation days for Employee 2.

Illustrative Examples

Illustrative Example No. 3 – Juneteenth Holiday Accrual

Benefit Provisions: Employees are provided with eight hours of holiday pay in connection with Juneteenth, which is recognized on June 19th.

Question: Which of the following statements are accurate?

- A. The liability associated with the Juneteenth holiday immediately preceding June 30, 20XX should be recorded in the governmental fund financial statements as part of accrued payroll.
- B. The liability associated with the Juneteenth holiday immediately preceding June 30, 20XX should be recorded in the governmental fund financial statements as part of accrued compensated absences.
- C. The liability associated with the Juneteenth holiday immediately preceding June 30, 20XX should be recorded in the government-wide financial statements as part of accrued compensated absences due within one year.
- D. The liability associated with the Juneteenth holiday immediately preceding June 30, 20XX should be recorded in the government-wide financial statements as part of accrued compensated absences due in more than one year.

Illustrative Examples

Illustrative Example No. 4 – Fourth of July Holiday Accrual

Benefit Provisions: Employees are provided with eight hours of holiday pay in connection with Independence Day, which is recognized on the 4th of July.

Question: Which of the following statements are accurate?

- A. An expense and related liability should NOT be recorded for the holiday on July 4, 20XX during the fiscal year ending June 30, 20XX.
- B. An expense and related liability should be recorded for the holiday on July 4, 20XX during the fiscal year ending June 30, 20XX if the holiday is required to be taken on a specific date that is not at the discretion of the employee.
- C. An expense and related liability should be recorded for the holiday on July 4, 20XX during the fiscal year ending June 30, 20XX if it is more likely than not to be used.
- D. An expense and related liability should be recorded for the holiday on July 4, 20XX during the fiscal year ending June 30, 20XX if the holiday falls on the employee's normally scheduled workday.

Illustrative Examples

Illustrative Example No. 5 – Floating Holiday Accrual

Benefit Provisions: An employee is entitled to 16 floating holiday hours per calendar year, which may be taken at any time during the year. The floating holiday hours may not be carried over from one year to the next. It is more likely than not that employees will use their floating holiday hours.

Leave records indicate that the employee had not used any floating holiday hours as of June 30, 20XX. It should also be noted that 50% of the employee's time is allocated to a Water Enterprise Fund, with the balance allocated to a governmental fund.

Question: Which of the following statements are accurate?

- A. An expense and related liability should be recorded for 4 floating holiday hours in the Water Enterprise Fund. An expense and related liability should also be recorded for 4 floating holiday hours under governmental activities in the government-wide section of the financial statements.
- B. An expense and related liability should be recorded for 8 floating holiday hours in the Water Enterprise Fund. An expense and related liability should also be recorded for 8 floating holiday hours under governmental activities in the government-wide section of the financial statements.
- C. An expense and related liability should be recorded for 16 floating holiday hours under governmental activities in the government-wide section of the financial statements.
- D. An expense and related liability should be recorded for 8 floating holiday hours under governmental activities in the government-wide section of the financial statements.

Illustrative Examples

Illustrative Example No. 6 – Military Leave

Benefit Provisions: Any employee who is on temporary military duty and has been employed for at least one year or at least one year of combined military/employment service will receive his/her salary for the first thirty (30) days of duty. Pay shall not exceed thirty (30) days in any fiscal year.

Leave records indicate that an employee, who serves in the National Guard, was deployed on June 30, 20XX to serve a 30-day deployment in connection with disaster response activities. The employee has been employed with the agency for three years. The employee's monthly base rate of pay is \$10,843, and was not paid for military leave during the fiscal year ending June 30, 20XX.

Question: Which of the following statements are accurate?

- A. An expense and related liability should not be recorded for military leave since the leave is dependent upon the occurrence of a sporadic event.
- B. Upon the commencement of military leave, an expense and related liability should be recorded on a pro rata basis for accrued military pay, which amounts to one day of military leave pay as of June 30, 20XX.
- C. Upon the commencement of military leave, an expense and related liability should be recorded for the amount of military leave that is more likely than not to be used.
- D. Upon the commencement of military leave, an expense and related liability should be recorded for the maximum amount of authorized leave.

Illustrative Examples

Illustrative Example No. 7 – Sick Leave

Benefit Provisions: Sick leave with pay shall accrue at the rate of eight (8) hours for each calendar month of service. Accumulation of sick leave hours is unlimited. A lump sum payment of 50% of accrued, unused sick leave is paid upon retirement from the agency.

Leave records reflect a value of \$2,000,000 of accrued, unused sick leave as of year-end. Based on historical trends, approximately 25% of sick leave is more likely than not to be used for time-off, whereas approximately 25% of sick leave is more likely than not to be paid out upon retirement. The remaining balance of accrued, unused sick leave is expected to be forfeited.

Liability Calculation:

• 25% of sick leave expected to be used for time-off. ($\$2,000,000 \times 25\%$)	\$ 500,000
• 25% of sick leave expected to be paid out in cash upon retirement from the agency. ($\$2,000,000 \times 25\% \times 50\%$)	250,000
Total	<hr/> \$ 750,000



Questions and Discussion