

Implementation of GASB Statement No. 101 - Decision Paper

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The Office of the State Controller (OSC) has made determinations and recommendations on how to calculate compensated absences liability under Governmental Accounting Standards Board Statement No. 101, *Compensated Absences* (GASB 101).

1. Leave Types to Include
2. Flows Assumption
3. Short-term vs Long-term

GASB 101 requires that government entities record a liability for leave that accumulates and (1) is more likely than not to be used or (2) settled in cash.

Leave policies are based on the State of Colorado Employee Handbook.

1. Leave Types to Include

Include annual leave and sick leave, and include compensatory time if material. The OSC has determined – based on KRONOS data projected to the state as a whole, that compensatory time is immaterial and will be scoping out of this leave.

Other leave such as jury, military, bereavement, etc. has also been determined to be immaterial and the OSC will be scoping out of these leaves. The OSC identified which employees recorded these leave types on June 30th for 2023 and 2024 (we will be looking at 2025 when available) and totaled hours taken in July for these employees. Total hours were deemed immaterial.

2. Sick Leave Flows Assumption

Recommendation

GASB 101 requires government entities to use a flows assumption of first-in first-out (FIFO) or last-in first-out (LIFO) when calculating the liability for compensated absences. There historically has not been a formal policy at the State that explicitly outlines in what order sick leave is taken (FIFO or LIFO). The OSC reflected on its historical calculation of the compensated absences liability, sick leave valuation, and employee sick leave usage patterns to determine the State's flow assumption.

Annual leave will all be paid out either as annual leave used, or annual leave settled in cash. The FIFO vs LIFO flows assumption would not make a difference in the calculation for total liability as it relates to annual leave.

After research and analysis, the OSC determined to utilize the LIFO flows assumption for calculating the liability as it relates to sick leave based on the following.

Rationale for Supporting the LIFO Flows Assumption

A. Historical Calculation for Compensated Absences based on LIFO Flows Assumption

Historically, the OSC has calculated the liability compensated absences by taking the PERA projected retirement percentage on the outstanding sick leave balance at year-end and then taking ¼ of that balance times the pay rate to determine the total liability for sick leave more likely than not to be settled in cash. This method supports the LIFO flows assumption inferring that the sick leave balance would not be used but settled in cash. See B below and the determination.

B. Reflecting Actual Leave Usage Patterns

The OSC requested OIT pull KRONOS data for all agencies using KRONOS for their timekeeping system and analyzed employees sick time usage for Fiscal Years 2023, 2024, and 2025 (through mid-March 2025). On average, current year sick leave taken is less than the current year sick leave accrued. There would be no liability for the more likely than not to be used criteria, as an average employee would be using current year accruals and not the existing leave balance at year-end. Only sick leave settled in cash would need to be calculated. Under LIFO this would mean that older leave balances remain unused and financial statements will continue to reflect the actual accrual patterns of compensated absences (increasing each year).

C. Compensated Absences Valuation

Compensated absences are valued at the current pay rate as of the statement date and not valued at the pay rate when the compensated absences are earned. This does not support a FIFO or LIFO method as we correlated this with inventory (which would hold historical cost).

D. Guidance from the National Association of College and University Business Officers (NACUBO)

To determine “more likely than not,” institutions should review their sick leave policies and any statutory requirements to answer the following questions:

- When an employee takes sick leave, is there a policy or statutory requirement to pay the sick leave from hours already earned and accrued? Said another way, is there a requirement for employees to use their “oldest” hours earned first (**Assumption A**)?

- Alternatively, do employees take sick leave hours with an understanding that deductions (use) and additions (accruals) simply increase and decrease their total hours balance **(Assumption B)**?

During a public liaison meeting with the Board, GASB staff, and NACUBO, GASB staff indicated that either assumption is allowed. When institutional policies and/or statutory provisions do not explicitly require Assumption A, Assumption B is the foundational assumption.

Current guidance for compensated absence liabilities uses vesting as a recognition criterion. However, GASB Statement 101 rejected the notion of vesting and introduced the “more likely than not” concept to the compensated absence liability calculation. In addition to leave being earned for services rendered and accumulating (carried forward from the reporting period in which it is earned), leave must be more likely than not to be used or settled for a liability to be recognized. The four factors to consider in Paragraph 12, when evaluating “more likely than not,” do not direct a specific methodology that incorporates those factors; rather, professional judgement is required.

Several institutions that shared their analysis with NACUBO calculated a use rate for sick time, then applied the use rate to accrued leave balances (multiplied the use rate by total hours accrued for each employee) in order to estimate a liability.

Because the use rate is multiplied by total accrued hours, the approach essentially assumes a requirement to use previously earned hours of sick time first. The methodology misses the important step of evaluating whether sick leave hours that are carried forward each year will ever be used. When sick leave balances grow year over year, the probability of using sick hours already earned decreases. Conversely, if sick leave balances decrease year over year, the probability of use increases. “More likely than not” is a probability analysis.

Initial analyses using Assumption A (assuming a requirement to use previously earned hours of sick time first) were resulting in significant sick leave liabilities that could have meant billions of dollars offset by a corresponding reduction of beginning net position for public higher education.

NACUBO recommends that institutions approach their analysis using **Assumption B**. Such an analysis will assist with evaluating probability.

E. Sick Leave Usage Does Not Reduce Net Assets

The actual usage of sick leave does not result in a consumption of net assets as it is part of salary paid component for the pay period sick leave is used. In the analysis, sick leave used is less than the current year sick leave accrued. Sick leave taken by employees simply reduces the net increase to their available balance and results in loss work. Under LIFO, sick leave used would not impose a financial liability on the entity as it is utilizing current sick leave

accrued. Sick leave that is settled in cash – cash paid out at retirement – would result in reduction of net assets as this payment would be above the amount in salary paid for work done.

3. Breakout of the Short-term vs Long-term Liability

Sick Leave

The OSC suggests calculating short-term sick leave by utilizing an average of employees that retired in 2023, 2024, and 2025 to total employees and applying that rate to the total liability calculated for sick leave to be settled in cash, with the remainder classified as long-term. Alternatively, agencies could estimate the number of employees eligible for retirement and applying their pay rates against their leave balances to calculate the short-term portion of the liability, with the remaining liability classified as long-term.

Annual Leave

Annual leave will be calculated by taking a 3-year average usage to average outstanding annual leave at year end for 2023, 2024, and 2025. This will be applied to the total annual leave liability calculation, which is 100% of the balance at year end.

4. Other Considerations

Leave policies, facts and circumstances at individual agencies or institutions of higher education (IHE) that differ from the State's leave policies, facts and circumstances may dictate a different method for calculating compensated absence from the OSC's recommendations. Documentation of the differences that supports how the agency/IHE is calculating their compensated absence is recommended.

For example, if usage patterns indicate more sick time is accrued than used, and sick leave is not paid out, then no accrual is required. However, if sick time used is greater than what is accrued, the agency/IHE will likely need to record a liability for the more likely than not to be used.