

**To:** Board Members, David Bean  
**From:** Deborah Beams, Dean Mead, Kyle Drenner, and Sam Spare  
**c:** GASB Technical Staff and Meeting Observers  
**Date:** November 4, 2019  
**Re:** Research Memorandum: Compensated Absences Reexamination

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## **INTRODUCTION AND BACKGROUND**

In August 2018, a pre-agenda research activity intended to reexamine Statement No. 16, *Accounting for Compensated Absences*, as amended, was added to the GASB's technical plan. The purpose of this paper is to present the results of the project staff's research on Statement 16. Statement 16 was issued in November 1992 and was effective for financial statements for periods beginning after June 15, 1993. Other than clarification of recognition in governmental funds (through Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*) and minor terminology adjustments, Statement 16 is largely unamended.

The research employed three methods to gather information on compensated absences: a literature review, archival analysis, and surveys with financial statement preparers and auditors who are familiar with compensated absences. In addition, feedback was received from members of the Governmental Accounting Standards Advisory Council (GASAC) at their October 2019 meeting.

## **RESEARCH QUESTIONS**

The goal of this pre-agenda research was to evaluate the effectiveness of Statement 16. The research also was intended to help the Board determine if additional guidance is needed for compensated absences. The research sought to answer the following questions:

- To what extent do governments continue to separate vacation and sick time in their employment policies?

- What method(s) do governments use to calculate the liability for sick leave and other compensated absences with similar characteristics: the termination payment method or the vesting method (as described in paragraph 8 of Statement 16)?
- Should there continue to be a choice regarding how to calculate the sick leave portion of the liability? Should one method be eliminated?
- How do governments determine the current portion of their compensated absence liability?
- Are there other issues in applying the compensated absences guidance that should be addressed?

## **METHODOLOGY**

### **Archival Analysis**

The staff reviewed the fiscal year 2015 annual financial reports (AFRs) of 120 randomly selected states, counties, local governments, school districts, special-purpose governments, and colleges and universities that follow generally accepted accounting principles (GAAP). The sample was derived from a previously drawn sample of 493 government entities randomly selected for the Note Disclosures Reexamination pre-agenda research. In the Notes Disclosure sample, all governments except colleges and universities were randomly sampled from the more than 90,000 governments included in the 2012 Census of Governments. The colleges and universities were randomly sampled from the list of four-year or above public institutions in the Integrated Postsecondary Education Data System database from the National Center for Education Statistics website.

The AFRs were collected for the Note Disclosures research between June and November 2016, primarily through internet searches. However, not all governments provide access to their financial statements on the internet. Therefore, the staff followed protocols set forth in the Research and Technical Activities (RTA) Manual for email and phone contact to obtain the remaining AFRs.

The staff obtained the sample for Compensated Absences research by randomly selecting approximately 25 percent of each type of government. Table 1 presents the final sample used for the archival analysis.

**Table 1**  
**Archival Analysis Sample**

| Type of Government       | Note<br>Disclosure<br>Sample | Compensated<br>Absences<br>Sample |
|--------------------------|------------------------------|-----------------------------------|
| State                    | 48                           | 15                                |
| County                   | 125                          | 30                                |
| City/town/village        | 125                          | 30                                |
| College/university       | 20                           | 5                                 |
| School district          | 101                          | 25                                |
| Special purpose district | 36                           | 15                                |
| <b>Total</b>             | <b>495</b>                   | <b>120</b>                        |

For each of the governments selected, the staff collected (1) total primary government compensated absences liability, (2) total primary government expenses, (3) the method used to estimate accrued sick leave, (4) whether increases and decreases were shown separately in the disclosure of changes in long-term liabilities, (5) the percentage of the total compensated absences liability that was considered due within one year, and (6) other information about compensated absences that was noteworthy.

## Surveys

The staff conducted separate surveys of financial statement preparers and auditors during June and July 2019. The objectives of the surveys were to evaluate current practice and the effectiveness of existing guidance.

The survey instruments were developed in accordance with the GASB's RTA Manual. Invitations to take the preparer survey successfully were sent by email to 2,458 individuals identified as preparers in the GASB's stakeholder database. Invitations to take the auditor survey successfully were sent by email to 1,347 individuals identified as auditors in the GASB's stakeholder database. In addition, 10 GASAC member organizations representing preparers, 2 GASAC member organizations representing auditors, and 2 GASAC member organizations representing both preparers and auditors were asked to distribute the survey invitation to their members. (Appendices A–C contain the email invitations. Appendices D and E contain the survey instruments.) It is not known whether all of the organizations complied with the request or how many individuals received the invitation from those organizations. The

surveys were open for approximately five weeks, with reminder invitations sent approximately two weeks and four weeks, respectively, after the initial invitation.

The preparer survey was completed by 438 individuals (not including 13 surveys submitted by the same entities; two respondents that did not provide contact information and, therefore, could not be verified as preparers; 2 respondents who do not prepare financial statements of state and local governments; and 3 respondents whose governments do not provide either vacation or sick leave benefits or paid time off. (See Tables 2 and 3.) For those entities that submitted more than one survey, one response was kept for closed-ended questions in order to not overstate total responses. The choice of which response to keep was made through review of the reported job title of the respondents, keeping the responses of higher-level personnel (such as controllers or finance directors) over other personnel (such as staff accountants). However, the answers to open-ended questions were retained for the respondents whose close-ended questions were not included.

Because the number of individuals who received the invitations from the GASAC organizations is not known, the precise response rate is not determinable. At most, the rate would be 17.8 percent (438 divided by the 2,458 preparers in the GASB database to whom the notice was successfully emailed), but likely is much lower.

| <b>Table 2</b>                                                     |            |
|--------------------------------------------------------------------|------------|
| <b>Reconciliation of Preparer Survey Responses</b>                 |            |
| Initial Responses                                                  | 458        |
| Less:                                                              |            |
| Duplicates from the same entity                                    | (13)       |
| Not preparers                                                      | (2)        |
| Did not provide contact information                                | (2)        |
| Do not provide vacation or sick leave<br>benefits or paid time off | (3)        |
| <b>Responses for analysis</b>                                      | <b>438</b> |

**Table 3**  
**Respondents to Preparer Survey, by Type and Size of Government**

| Type of Government     | Annual Revenues        |                    |                       | Total      | Percentage  |
|------------------------|------------------------|--------------------|-----------------------|------------|-------------|
|                        | Less than \$10 million | \$10-\$100 million | \$100 million or more |            |             |
| State                  | 2                      | 10                 | 50                    | 62         | 14.2%       |
| County                 | 2                      | 20                 | 54                    | 76         | 17.4%       |
| City/town/village      | 24                     | 76                 | 48                    | 148        | 33.8%       |
| Business-type activity | 5                      | 13                 | 50                    | 68         | 15.5%       |
| School district        | 1                      | 7                  | 15                    | 23         | 5.3%        |
| Other taxing district  | 8                      | 15                 | 3                     | 26         | 5.9%        |
| Other                  | 5                      | 15                 | 15                    | 35         | 8.0%        |
| <b>Total</b>           | <b>47</b>              | <b>156</b>         | <b>235</b>            | <b>438</b> | <b>100%</b> |
| Percentage             | 10.7%                  | 35.6%              | 53.7%                 | 100%       |             |

The auditor survey was completed by 131 individuals (not including 13 respondents who do not conduct audits of state and local government financial statements). (See Tables 4 and 5.) At most, the response rate would have been 9.7 percent (131 divided by 1,347) but, for reasons already stated, likely is much lower.

**Table 4**  
**Reconciliation of Auditor Survey Responses**

|                                       |            |
|---------------------------------------|------------|
| Initial Responses                     | 144        |
| Less:                                 |            |
| Not financial auditors of governments | (13)       |
| <b>Responses for analysis</b>         | <b>131</b> |

**Table 5**  
**Respondents to Auditor Survey, by Client Type**

| <b>Audit Client Type</b> | <b>Number of Responses</b> | <b>Percentage</b> |
|--------------------------|----------------------------|-------------------|
| State                    | 50                         | 11.4%             |
| County                   | 62                         | 14.1%             |
| City/town/village        | 90                         | 20.5%             |
| School district          | 67                         | 15.3%             |
| Other taxing district    | 60                         | 13.7%             |
| Business-type activity   | 92                         | 21.0%             |
| Other                    | 18                         | 4.1%              |

Note: The number of responses does not total 131 and the percentages do not total 100 percent because respondents could select more than one government type.

**Table 6**  
**Respondents to Auditor Survey, by Years of Audit Experience**

| <b>Years of State and Local Government Audit Experience</b> | <b>Number of Responses</b> | <b>Percentage</b> |
|-------------------------------------------------------------|----------------------------|-------------------|
| Less than 5 years                                           | 25                         | 19.1%             |
| 5-10 years                                                  | 21                         | 16.0%             |
| 11-15 years                                                 | 18                         | 13.7%             |
| 16-20 years                                                 | 3                          | 2.3%              |
| More than 20 years                                          | 64                         | 48.9%             |

**Total**

**131**

**100%**

Approximately one-fifth of the auditor respondents audit local governments and business-type activities (BTAs). (See Table 5.) Roughly 15 percent of respondents audit counties, school districts, and other taxing districts. Nearly half the respondents have more than 20 years' experience auditing state and local government financial statements. (See Table 6.) At the opposite end of the spectrum, almost one-fifth of respondents have fewer than five years' experience.

### **Limitations of the Methodology**

A limitation associated with the archival analysis relates to the degree to which the sample results can be generalized to the population of all state and local governments that issue GAAP financial statements. The sample was selected from the previous random sample used in the Note Disclosures research and included a relatively small number of governments. Additionally, the final sample is limited by the extent of the information disclosed by the governments.

Regarding the surveys, although a variety of stakeholders were invited to take the survey, there likely are other preparers and auditors who are interested in and knowledgeable about compensated absences but were not contacted or chose not to respond. Those preparers and auditors may have different views from the survey respondents.

None of the results of any of the research were statistically tested. Consequently, although the findings of the research may be representative of state and local governments that follow GAAP, they cannot be asserted as generalizable with any degree of certainty.

### **LITERATURE REVIEW**

The GASB staff reviewed the existing literature of the GASB and other standards-setting bodies, including:

- Financial Accounting Standards Board (FASB)
- International Accounting Standards Board (IASB)
- International Public Sector Accounting Standards Board (IPSASB)
- Federal Accounting Standards Advisory Board (FASAB).

In 2008, the GASB funded a study on compensated absences through its Gilbert W. Crain Memorial Research Grant program. (The results of that study are presented with the findings of the staff research activities.) In addition to that study, the staff reviewed other academic studies, industry publications, and technical inquiries received by the GASB.

## **GASB Guidance**

Statement 16, as amended, provides the foundation of state and local governmental accounting and financial reporting guidance for compensated absences. Paragraph 1 of Statement 16, as amended, defines compensated absences as “absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.”

Paragraph 6 of Statement 16 provides recognition criteria for compensated absences in general.

...a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those services are rendered or those events take place.

Paragraphs 10 and 11 of Statement 16 describe measurement principles for compensated absences liabilities in general. A liability calculation should use the pay rate in effect, or other established rate, as of the balance sheet date and should include any salary-related payments associated with the payment of compensated absences. Salary-related payments include the employer portion of social security and medicare taxes and, if certain criteria are met, employer contributions to a defined contribution pension or other postemployment benefit (OPEB) plan. Two questions and answers (5.255.1 and Z.16.1) in *Implementation Guide No. 2015-1* provide further clarification on how pension and OPEB-related payments interact with compensated absences.

Due to their unique characteristics, additional recognition and measurement guidance specific to vacation leave, sick leave, and sabbatical leave is provided in Statement 16.

## **Vacation Leave**

Paragraph 4 and footnote 3 of Statement 16 explain that vacation leave and other compensated absences with similar characteristics (hereinafter referred to as *vacation*

*leave*) are paid time off that is *not* contingent on a specific event outside the control of the employer and employee. Furthermore, vacation leave often gives employees the right to receive compensation for unused days upon termination based solely on rendering past service.

Paragraph 7 of Statement 16 provides the following recognition criteria specific to vacation leave:

7. Vacation leave and other compensated absences with similar characteristics<sup>3</sup> should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:
  - a. The employees' rights to receive compensation are attributable to services already rendered.
  - b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

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<sup>3</sup> Other compensated absences have characteristics similar to vacation leave if paid time off is not contingent on a specific event outside the control of the employer and employee. These types of leave include leave whose use is conditioned only on length of service—an event that essentially is controllable by the employer or employee, rather than arising from an unforeseen and uncontrollable event such as illness.

Also, vacation leave that has been earned but is not yet available to be used because an employee has not met certain conditions should be recognized only to the extent it is probable that the employee will use the benefit in the future.

Appendix B to Statement 16 includes illustrations of vacation leave calculations.

## **Sick Leave**

Paragraph 4 and footnote 5 of Statement 16 explain that sick leave and other compensated absences with similar characteristics (hereinafter referred to as *sick leave*) are paid time off that is contingent on a specific event that is outside the control of the employer or employee. Sick leave sometimes gives employees the right to receive compensation for unused days upon retirement, also known as termination payments. In such cases, the termination payment is based solely on rendering past service and, thus, a liability should be recognized.

Paragraph 8 of Statement 16 provides two methods for measuring a sick leave liability—the termination payment method and the vesting method. If a government

uses the termination payment method, a liability should be accrued as benefits are earned by the employees to the extent it is probable that the employees will receive compensation for unused sick leave upon retirement. Although no specific measurement approach is required, the resulting liability should be measured based on the government's past experience making termination payments, adjusted for current circumstances. If a government uses the vesting method, a liability should be accrued for sick leave accumulated at the balance sheet date for employees who currently are, or are expected to become, eligible to receive termination payments. The estimate should consider the maximum number of days allowed to be converted to a termination payment. Appendix C to Statement 16 includes illustrations of each method.

The Basis for Conclusions of Statement 16 mentions that both the termination payment method and vesting method were included because some governments may not have had access to the historical data needed to apply the termination payment method. The termination payment method's use of historical trends also may not be as reliable or practical as the vesting method. However, the Board believed that both methods result in reasonable estimates of anticipated termination payments.

There is no specific requirement to disclose which method is used. However, Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, requires disclosure of a summary of significant accounting policies (SSAP).

## **Sabbatical Leave**

Paragraph 9 of Statement 16 defines and provides guidance for restricted and unrestricted sabbatical leave. Restricted sabbatical leave is when an employer grants sabbatical leave from normal duties so an employee can pursue an activity "to enhance the reputation of or otherwise benefit the employer." Restricted sabbatical leave should be accounted for in the period that sabbatical service is rendered because compensation during sabbatical is for services rendered during the same period. Unrestricted sabbatical leave is when an employer grants sabbatical leave in the form of unrestricted paid time off. In such cases, a liability should be accrued for the periods an employee earns the benefit and it is probable that employee will be compensated for the benefit.

## **Governmental Funds**

Paragraph 13 of Statement 16, as amended, provided that the amount of compensated absences recognized in governmental funds should be the amount that normally would be liquidated with expendable available financial resources. Interpretation 6 expanded that guidance by saying in paragraph 14 that a governmental fund liability is recognized

“as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements.” Question Z.16.2 in Implementation Guide 2015-1 further clarifies that a governmental fund liability is not recognized when an employee vests, but only when the liability has matured.

### **Long-term Liabilities**

Statement 34 mentions compensated absences as being included in the disclosures for long-term liabilities. Paragraph 119 of Statement 34 requires disclosure of beginning- and end-of-year balances of long-term liabilities, increases and decreases during the year (separately presented), the portion that is due within one year, and which governmental funds typically have been used to liquidate them in prior years.

Question 7.22.4 in Implementation Guide 2015-1 explains that the amount of compensated absences due within one year is an estimate.

Q—Paragraphs 31 and 119c of Statement 34 require governments to report and disclose the portion of compensated absences that is “due within one year of the statement date.” How should governments determine when compensated absences are “due”?

A—Compensated absences liabilities become “due” upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Because these occurrences and related dollar amounts generally cannot be known reliably in advance, the portion of compensated absences due within one year should be estimated. The estimate could be based on such factors as historical trends or budgeted amounts and may be affected by other factors including the government’s policy regarding whether unused amounts from prior years are required to be used before amounts earned in the current period.

### **Guidance of Other Accounting Standards Setters**

The FASB, IASB, and IPSASB provide accounting and financial reporting guidance specific to compensated absences, but the FASAB does not. Instead, compensated absences are reported based on liability accounting and financial reporting guidance provided in Statement of Federal Financial Accounting Standards 5, *Accounting for Liabilities of The Federal Government*, as amended.

## **FASB Guidance**

*Accounting Standards Codification*® Subtopic 710-10-25, *Compensation—General*, provides accounting and financial reporting guidance for compensated absences. Compensated absences are defined as “employee absences, such as vacation, illness, and holidays, for which it is expected that employees will be paid.”

A liability for compensated absences should be accrued in the period earned by employees if all of the following criteria are met:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- b. The obligation relates to rights that vest or accumulate. Vested rights are those for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee's future service. Accumulate means that earned but unused rights to compensated absences may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward.
- c. Payment of the compensation is probable.
- d. The amount can be reasonably estimated.

The standards clarify that no liability should be accrued for non-vesting, non-accumulating compensated absences because the benefits paid in future years do not relate to past service rendered. An entity should disclose if it did not accrue a liability for compensated absences because it met all the general recognition criteria described above except for the amount being reasonably estimable.

No specific measurement methods are provided. However, anticipated forfeitures should be considered when estimating the liability.

Additional recognition guidance is provided for sick pay benefits and sabbatical leave, as discussed below.

### ***Sick Pay Benefits***

The FASB standards do not require an entity to accrue a liability for non-vesting accumulating sick pay benefits, even if they meet the general compensated absences recognition criteria described above. However, an entity may choose to accrue a liability for such benefits if the general compensated absences recognition criteria are

met. The treatment for sick pay benefits should follow an entity's actual practice rather than the form of their policy.

### ***Sabbatical Leave Benefits***

The FASB guidance regarding sabbatical leave benefits is similar to Statement 16. No liability should be accrued for restricted sabbatical leave. A liability should be accrued over the period it is earned for unrestricted sabbatical leave if the general compensated absences recognition criteria described above are met.

### **IASB and IPSASB Guidance**

The IASB and IPSASB have largely identical standards that provide accounting and financial reporting guidance for compensated absences—International Accounting Standard (IAS) 19, *Employee Benefits*, as amended, and International Public Sector Accounting Standard 39, *Employee Benefits*, respectively. According to those standards, compensated absences are a type of employee benefit. Depending on their characteristics, compensated absences are classified as either a short-term employee benefit or an other long-term employee benefit. The Basis for Conclusions for IAS 19 clarifies that classification should reflect the characteristics of the benefit and should be done for the benefit as a whole. Different recognition and measurement guidance is provided for each type.

### ***Short-Term Employee Benefits***

The IASB/IPSASB standards define short-term employee benefits as “employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.” Paid annual leave and paid sick leave are provided as examples. There are two categories of short-term paid absences—accumulating and non-accumulating.

Accumulating short-term paid absences can be carried forward to future periods and can be either vesting or non-vesting. Vesting paid absences entitle employees to a cash payment for unused days upon termination, while non-vesting paid absences do not. For both vesting and non-vesting accumulating short-term paid absences, a liability should be recognized as employees render the associated service. The resulting liability should be measured “as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.” The estimate should consider whether employees will use accumulated non-vesting paid absences prior to termination.

Non-accumulating short-term paid absences cannot be carried forward and do not entitle employees to a cash payment upon termination. Thus, non-accumulating short-term paid absences should be accounted for in the period the absence is used.

### ***Long-Term Employee Benefits***

The IASB/IPSASB standards explain that other long-term employee benefits are “all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits” and are “not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.” Long-term paid absences such as long-service leave or sabbatical leave are provided as examples.

Unlike short-term paid absences, no specific recognition and measurement guidance is provided for long-term paid absences. Instead, entities are directed to use actuarial valuation methods similar to those provided in the same standards for defined benefit plans. To measure a liability resulting from long-term employee benefits, including long-term paid absences, a government should recognize the net total of (1) service cost, (2) net interest on the net defined benefit liability (asset), and (3) remeasurement of the net defined benefit liability (asset) in surplus or deficit.

### **Academic Research**

The project staff used the Ebsco Discovery tool through the Financial Accounting Foundation’s Information Research Center to search for academic studies related to compensated absences. Two studies and one related discussion article were found. As indicated by a GASAC member at the October 2019 meeting, the lack of academic research may be related to the minimal required disclosures meaning there is not sufficient data with which to do much academic research.

The Crain grantee continued his research into the area of compensated absences with an article (Kido et al., 2012) about the influence of gubernatorial elections on the compensated absences liability. Although compensated absences liabilities tend to increase or decrease with total payroll, there also is some room for discretion in making the estimate. The researchers found that states tended to have lower compensated absences balances in election years and believe that is consistent with an incentive and ability to manipulate the liability.

Van Lent (2012) authored a discussion piece on the Kido et al. article. He asserted that the incentive to manipulate the compensated absences liability may be weak, and the fluctuations in the liability may have other causes.

Ragland (2017) examined the association between compensated absences liabilities and interest cost on general obligation bonds of school districts. She found a significant positive association between the current portion of compensated absences liabilities and interest cost. However, there was not a significant association between the noncurrent portion and interest cost.

## **Industry Publications**

### **The Blue Book**

The Government Finance Officers Association (GFOA) publishes *Governmental Accounting, Auditing, and Financial Reporting*, known as the Blue Book. Chapter 30 summarizes the provisions of Statement 16. The chapter on “Enterprise Funds” briefly discusses the differences between public sector and private sector accounting for compensated absences. The discussion of the SSAP in Chapter 21 includes the following:

The SSAP should disclose policies that affect the accrual of compensated absences. In particular, the SSAP should mention if employees are reimbursed for unused sick leave upon retirement, or if unused sick leave is treated as additional service time in the calculation of postemployment benefits.

The chapter “Detailed Note Disclosures” discusses the need to estimate the amount of compensated absences that will become due within one year. The chapter also includes examples of how the amount can differ depending on whether a government chooses a first-in-first-out (FIFO) approach or a last-in-first-out (LIFO) approach. Under a FIFO approach, much of the leave that employees are expected to take in the next year is time that is already accrued at the financial statement date. Under a LIFO approach, employees would only use leave accrued at the financial statement date in the next year if they take more leave than they earn in that year. Therefore, a FIFO approach generally would result in a higher current portion of the liability.

### **GFOA Checklists**

The GFOA reviews a large number of governmental financial statements through its Certificate of Achievement for Excellence in Financial Reporting (CAFR) program. Reviewers complete a checklist to evaluate the financial statements. In the most recent checklist for general-purpose governments (dated April 2018), there are two mentions of compensated absences, in the context of liabilities in general:

8.12 Has the government refrained from reporting as liabilities in governmental funds the following long-term obligations: 1) unmatured long-term debt (unless the government uses the early recognition option for debt service funds); 2) compensated absences; 3) claims and judgments; 4) net pension and other postemployment benefit liabilities; 5) termination benefits; 6) landfill closure and postclosure care obligations; and 7) pollution remediation obligations?

\* \* \*

12.12c Do the notes report separately the portion of each long-term liability type that is due within one year of the date of the statement of net position (e.g., bonds, leases, compensated absences)?

There are separate checklists for school districts and stand-alone BTAs. Both of those checklists include questions similar to what is in the general-purpose government checklist. Both also mention compensated absences in a question about the calculation of net investment in capital assets (quotation taken from stand-alone BTA checklist):

9.10a2 Has the enterprise fund refrained from including noncapital accrued liabilities (e.g., compensated absences, claims and judgments, landfill closure and postclosure costs) in the calculation of net investment in capital assets?

Loyd and Crawford (2007) published an article that discussed common deficiencies noted by GFOA through its CAFR program reviews. One such deficiency was the “entire balance of compensated absences incorrectly classified as being a current liability in the government-wide statement of net assets.”

More recently, Crawford (2018) identified common errors noted in GFOA’s CAFR program. One of the top 50 (but not in the top 10) deficiencies was failure to “separately disclose increases and decreases in compensated absences.”

## Technical Inquiries

The GASB staff searched the technical inquiries database for entries that had compensated absences as either the primary or secondary topic. The staff found 120 substantive inquiries, dating from November 2004 to August 2019. (See Table 7.)

**Table 7**

## Technical Inquiries Related to Compensated Absences

| Issue              | Number of<br>Inquiries | Percentage    |
|--------------------|------------------------|---------------|
| Governmental funds | 37                     | 30.8%         |
| Pensions/OPEB      | 30                     | 25.0%         |
| Recognition        | 29                     | 24.2%         |
| Measurement        | 15                     | 12.5%         |
| Other              | 8                      | 6.7%          |
| Disclosure         | 2                      | 1.7%          |
| <b>Total</b>       | <b>120</b>             | <b>100.0%</b> |

The most common technical inquiry issue (31 percent) related to reporting—in particular, recognition—of compensated absences in the governmental funds. Another 30 inquiries (25 percent) related to pensions or OPEB. Many of those questions involved handling the conversion of accrued sick leave to postemployment benefits or the inclusion of pension contributions in the compensated absences liability. The inquiries related to recognition (24 percent) involved whether certain benefits should be recognized as compensated absences, with many of them considering termination benefits as the alternative.

Measurement inquiries (almost 13 percent) involved questions about the calculation of the compensated absences liability (for example, what pay rates to use and how to incorporate policies to pay out only a portion of accrued amounts at termination) and estimation of the portion due within one year. Interestingly, none of those inquiries were about how to apply the vesting or termination payment method for accrued sick leave. The eight inquiries in the “other” category (7 percent) were miscellaneous issues such as use of internal service funds, applicability to BTAs, and general questions about how compensated absences are accrued.

The remaining two inquiries were about note disclosures. One was a general question about what disclosures were required and the other was about ways to calculate the increases and decreases for the changes in long-term liabilities table.

## **RESEARCH FINDINGS**

### **Crain Grant**

The Crain Grant study focused on the reporting of compensated absences in financial statements for fiscal years ending 2005–2008. Financial statements of all 50 states and a sample of counties, local governments, and school districts were obtained and reviewed. Data was collected about the amount of the compensated absences liability (including and excluding component units), the total liabilities, and total expenses of the governments. Additionally, disclosures about compensated absences were reviewed.

The liability for compensated absences on average equaled 3.0 percent of total primary government expenses. (See Table 8.) However, for some governments the percentage was greater than 10 percent or even 20 percent. By 2008, the ratio had declined to under 2.9 percent. The GASB staff archival analysis (described in the next section) updated the ratio to 2015, finding an average of 2.6 percent for the governments in the archival random sample.<sup>1</sup>

Based on that measure of magnitude, the liability for compensated absences was relatively less significant for the larger government types. For states, the liability equaled 1.4 percent in 2005 and 1.1 percent in 2015, whereas for counties the respective ratios were under 3.6 percent and 2.7 percent. (See Table 9.) Local government compensated absences liabilities were more than 4.7 percent of expenses in 2005 and under 4.4 percent in 2015; for school districts, the ratios were 3.1 percent and 1.7 percent, respectively. The GASB archival analysis also included colleges and

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<sup>1</sup> The ratios for 2015 cited in the text include all 120 governments in the GASB's archival random sample, 14 of which did not report a liability for compensated absences (2 counties, 4 school districts, and 8 BTAs). For the 106 governments that reported a liability, the ratio of the liability divided by expenses averaged 2.9 percent.

universities and other BTAs, which had average ratios for 2015 of 2.5 percent and 1.7 percent, respectively.<sup>2</sup>

Compensated absences liabilities also appear relatively small when measured as a percentage of total primary government liabilities, declining from 4.2 percent to 4.0 percent from 2005 to 2008. (See Table 10.) The GASB archival analysis found a ratio of under 3.0 percent in 2015.<sup>3</sup> As with the previous ratio, compensated absences as a percentage of liabilities was smallest for states—2.8 percent in 2008 and just 1.3 percent in 2015. (See Table 11.) The ratios for county and local governments were fairly close in 2008—3.4 percent and 3.6 percent, respectively—and were notably higher for school districts at 7.1 percent of total liabilities. The 2015 ratio for school districts dropped considerably to 1.0 percent. The GASB archival analysis found 2015 average ratios for colleges and universities of 3.8 percent and for BTAs, 3.5 percent.<sup>4</sup>

On the other hand, the ratios for counties and localities were higher in 2015 than in 2008—3.6 percent and 4.5 percent, respectively. That is notable because the net pension liability appeared on the face of the financial statements for the first time in 2015, which should have resulted in a reduction of other liabilities' (including compensated absences') proportions of total liabilities across the board. That suggest that the proportion of liabilities represented by compensated absences had increased during the period after 2008 and before implementation of the pension standards in 2015.

**Table 8**  
**Compensated Absences Liabilities as a Percentage of**  
**Total Primary Government Expenses**

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<sup>2</sup> If the governments without compensated absences liabilities are excluded from 2015, the school district average would be slightly below 2.0 percent and the other BTAS average would be 3.6 percent.

<sup>3</sup> The 2015 ratio just for governments with a compensated absence liability was 3.3 percent.

<sup>4</sup> Because more than half of the BTAs in the sample did not have a compensated absences liability, the average ratio for only those that did was much higher—7.6 percent of total liabilities.

| <b>Fiscal<br/>Year</b> | <b>Number of<br/>Governments</b> | <b>Average</b> | <b>Median</b> | <b>Minimum</b> | <b>Maximum</b> |
|------------------------|----------------------------------|----------------|---------------|----------------|----------------|
| 2005                   | 146                              | 3.04%          | 2.27%         | 0.00%          | 23.59%         |
| 2006                   | 158                              | 3.09%          | 2.31%         | 0.00%          | 20.01%         |
| 2007                   | 174                              | 2.93%          | 2.22%         | 0.00%          | 15.26%         |
| 2008                   | 168                              | 2.86%          | 2.22%         | 0.00%          | 19.22%         |
| 2015                   | 120                              | 2.57%          | 1.84%         | 0.00%          | 12.67%         |

**Table 9**  
**Compensated Absences Liabilities as a Percentage of Total Primary Government Expenses, by Type of Government**

| <b>Type of Government/<br/>Fiscal Year</b> | <b>Number of Governments</b> | <b>Average</b> | <b>Median</b> | <b>Minimum</b> | <b>Maximum</b> |
|--------------------------------------------|------------------------------|----------------|---------------|----------------|----------------|
| <b>State</b>                               |                              |                |               |                |                |
| 2005                                       | 50                           | 1.43%          | 1.305%        | 0.58%          | 2.87%          |
| 2006                                       | 50                           | 1.40%          | 1.30%         | 0.57%          | 2.80%          |
| 2007                                       | 50                           | 1.40%          | 1.33%         | 0.56%          | 2.78%          |
| 2008                                       | 49                           | 1.33%          | 1.14%         | 0.57%          | 3.13%          |
| 2015                                       | 15                           | 1.13%          | 0.86%         | 0.56%          | 2.57%          |
| <b>County</b>                              |                              |                |               |                |                |
| 2005                                       | 39                           | 3.55%          | 2.81%         | 0.75%          | 23.59%         |
| 2006                                       | 41                           | 3.40%          | 2.88%         | 0.60%          | 20.01%         |
| 2007                                       | 44                           | 2.72%          | 2.75%         | 0.00%          | 9.29%          |
| 2008                                       | 34                           | 3.21%          | 2.62%         | 0.00%          | 19.22%         |
| 2015                                       | 30                           | 2.69%          | 2.25%         | 0.00%          | 7.71%          |
| <b>City/town/village</b>                   |                              |                |               |                |                |

|      |    |       |       |       |        |
|------|----|-------|-------|-------|--------|
| 2005 | 36 | 4.75% | 3.94% | 1.10% | 11.37% |
| 2006 | 41 | 4.56% | 3.77% | 1.03% | 10.85% |
| 2007 | 45 | 4.79% | 3.90% | 0.97% | 15.26% |
| 2008 | 46 | 4.14% | 3.72% | 0.63% | 11.45% |
| 2015 | 30 | 4.38% | 3.79% | 0.75% | 11.86% |

**Table 9 (continued)**

**School District**

|      |    |       |       |       |       |
|------|----|-------|-------|-------|-------|
| 2005 | 20 | 3.10% | 2.01% | 0.00% | 9.58% |
| 2006 | 25 | 3.61% | 3.65% | 0.00% | 9.10% |
| 2007 | 34 | 3.04% | 2.24% | 0.00% | 8.88% |
| 2008 | 34 | 2.97% | 2.04% | 0.00% | 9.61% |
| 2015 | 25 | 1.66% | 0.38% | 0.00% | 7.64% |

**Business-Type Activity**

|      |    |       |       |       |        |
|------|----|-------|-------|-------|--------|
| 2015 | 15 | 1.67% | 0.00% | 0.00% | 12.67% |
|------|----|-------|-------|-------|--------|

**College/university**

|      |   |       |       |       |       |
|------|---|-------|-------|-------|-------|
| 2015 | 5 | 2.53% | 2.32% | 2.12% | 3.15% |
|------|---|-------|-------|-------|-------|

**Table 10**

**Compensated Absences Liabilities as a Percentage of Total Primary Government Liabilities**

| <b>Fiscal<br/>Year</b> | <b>Number of</b> | <b>Average</b> | <b>Median</b> | <b>Minimum</b> | <b>Maximum</b> |
|------------------------|------------------|----------------|---------------|----------------|----------------|
|------------------------|------------------|----------------|---------------|----------------|----------------|

**Governments**

|      |     |       |       |       |        |
|------|-----|-------|-------|-------|--------|
| 2005 | 146 | 4.24% | 2.99% | 0.00% | 38.74% |
| 2006 | 158 | 4.20% | 2.91% | 0.00% | 35.20% |
| 2007 | 174 | 4.27% | 2.73% | 0.00% | 40.29% |
| 2008 | 168 | 3.97% | 2.80% | 0.00% | 35.10% |
| 2015 | 120 | 2.95% | 1.76% | 0.00% | 25.06% |

**Table 11**

**Compensated Absences Liabilities as a Percentage of Total Primary Government Liabilities, by Type of Government**

| <b>Type of Government/<br/>Fiscal Year</b> | <b>Number of Governments</b> | <b>Average</b> | <b>Median</b> | <b>Minimum</b> | <b>Maximum</b> |
|--------------------------------------------|------------------------------|----------------|---------------|----------------|----------------|
| <b>State</b>                               |                              |                |               |                |                |
| 2005                                       | 50                           | 2.91%          | 2.540%        | 0.79%          | 7.42%          |
| 2006                                       | 50                           | 2.85%          | 2.48%         | 0.76%          | 8.82%          |
| 2007                                       | 50                           | 2.80%          | 2.39%         | 0.76%          | 7.11%          |
| 2008                                       | 49                           | 2.81%          | 2.31%         | 7.10%          | 9.66%          |
| 2015                                       | 15                           | 1.34%          | 1.26%         | 0.24%          | 3.11%          |
| <b>County</b>                              |                              |                |               |                |                |
| 2005                                       | 39                           | 4.36%          | 3.72%         | 0.94%          | 15.80%         |
| 2006                                       | 41                           | 4.17%          | 3.51%         | 0.78%          | 11.29%         |
| 2007                                       | 44                           | 3.67%          | 2.85%         | 0.00%          | 13.63%         |
| 2008                                       | 35                           | 3.36%          | 2.79%         | 0.00%          | 7.29%          |
| 2015                                       | 30                           | 3.57%          | 2.02%         | 0.00%          | 16.58%         |
| <b>City/town/village</b>                   |                              |                |               |                |                |

|      |    |       |       |       |        |
|------|----|-------|-------|-------|--------|
| 2005 | 36 | 4.50% | 2.99% | 0.84% | 17.05% |
| 2006 | 41 | 4.55% | 2.94% | 0.88% | 18.47% |
| 2007 | 45 | 4.25% | 2.89% | 0.93% | 16.02% |
| 2008 | 46 | 3.58% | 2.94% | 0.35% | 13.96% |
| 2015 | 30 | 4.32% | 2.82% | 0.53% | 25.06% |

**Table 11 (continued)**

**School District**

|      |    |       |       |       |        |
|------|----|-------|-------|-------|--------|
| 2005 | 20 | 7.01% | 3.92% | 0.00% | 38.74% |
| 2006 | 25 | 6.49% | 4.45% | 0.00% | 35.20% |
| 2007 | 34 | 7.31% | 4.60% | 0.00% | 40.29% |
| 2008 | 34 | 7.08% | 4.76% | 0.00% | 35.10% |
| 2015 | 25 | 1.02% | 0.40% | 0.00% | 4.15%  |

**Business-Type Activity**

|      |    |       |      |       |        |
|------|----|-------|------|-------|--------|
| 2015 | 15 | 3.53% | 0.0% | 0.00% | 24.71% |
|------|----|-------|------|-------|--------|

**College/university**

|      |   |       |       |       |        |
|------|---|-------|-------|-------|--------|
| 2015 | 5 | 3.77% | 1.72% | 1.24% | 12.10% |
|------|---|-------|-------|-------|--------|

## **Archival Analysis**

The random sample of 120 governments for the archival analysis included 5 governments (2 counties and 3 school districts) that specifically stated that they did not accrue sick leave or vacation at year end. (See Table 12.) One of those counties explained that it cannot reasonably estimate the amount of the liability because employees have an option to receive a payout or applying it to their state pension benefits.

Another nine governments did not identify a compensated absences liability or mention sick leave, vacation, or compensated absences in their financial statements; therefore, it is assumed that they either do not have a compensated absences liability or it is immaterial. Of these nine governments, eight were special districts and one was a school district. Unless otherwise noted, the discussion of the archival analysis results focuses on the 106 governments that reported a compensated absences liability.

## **Disclosures in General**

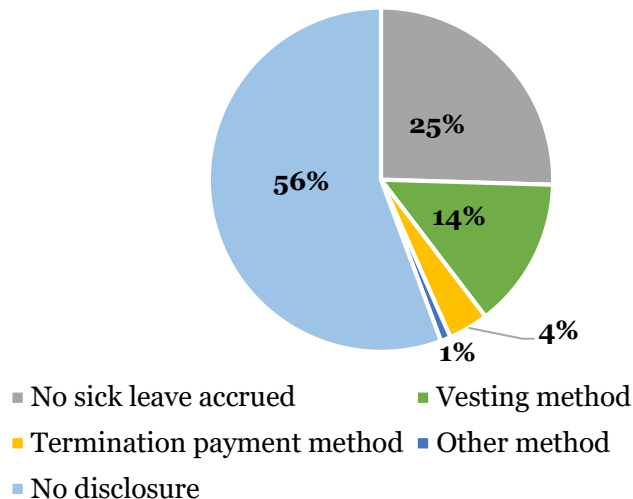
The Crain Grant study's review of disclosures found tremendous variation in the level of detail provided, though all disclosures appeared to be in compliance with the requirements of Statement 16. Similarly, the archival analysis found that there was a varying amount of detail with respect to compensated absences disclosures.

Employment policies, to the extent disclosed, also varied—for example, in whether accumulated sick leave is paid out at termination and subject to what limits. Some governments disclosed different employment policies for different classes of employees, such as uniformed public safety or those belonging to certain labor unions. Some governments allow conversion of accrued compensated absences to pension or OPEB benefits. One state government reports an actuarially determined liability for compensated absences in a fiduciary fund, with assets set aside for funding future payments.

## **Sick Leave Method Disclosure**

With respect to the methods of determining sick leave liabilities, a majority of governments in the sample—59, or 56 percent—did not disclose whether they used the termination payment method or the vesting method. (See Figure 1.) Another 27 (25 percent) specifically stated they did not accrue for sick leave. Of the remaining 20 governments (19 percent) that disclosed their sick leave method, 15 used the vesting method, 4 use the termination payment method, and the last government said it uses the termination payment method for its governmental activities and vesting method for its BTAs.

**Figure 1**  
**Disclosure of Method for Measuring Sick Leave Liabilities**



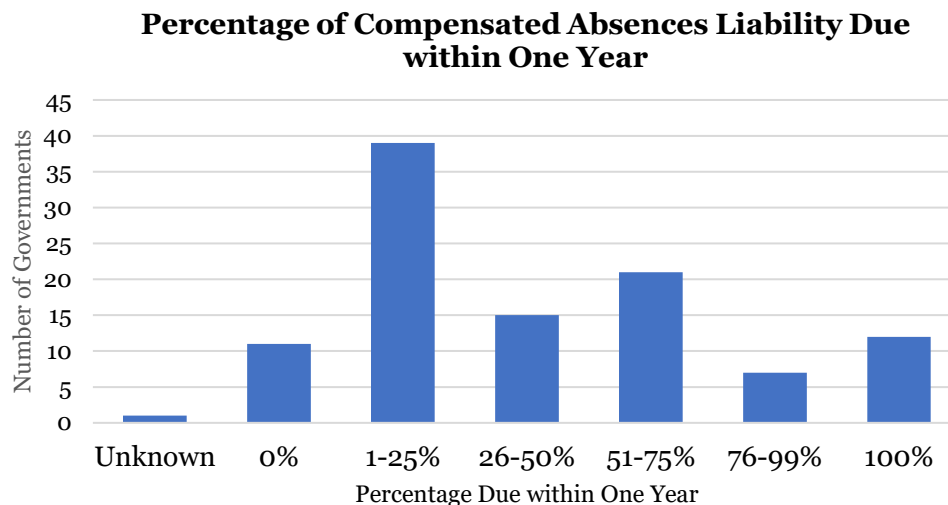
### Change in Long-Term Liabilities

Four of the 106 governments (2 percent) did not disclose the changes in compensated absences. Of those four, two governments did not have a disclosure about changes in long-term liabilities at all. Of the governments that did include compensated absences in their long-term liabilities disclosure, 25 (24 percent) showed only the net change in the liability for governmental activities, BTAs, or both (in other words, either a net increase or decrease, rather than the required gross increase and decrease). The remainder (74 percent) showed gross increases and decreases, as required.

### Current Portion of the Liability

Eighty-two of the 106 governments (77 percent) reported a portion of the liability as due within one year. Twelve governments (12 percent) reported the entire balance as due within one year (shown as 100 percent in Figure 2). Another 11 governments (10 percent) reported the entire balance as due in more than one year (in other words, zero percent due within a year). For one government, it was not evident from the financial statements what portion was due within one year. The average percentage due within one year was 40.1 percent.

**Figure 2**



## Preparer Surveys

### Types of Leave Provided

Preparers were asked whether they provide separate vacation and sick leave, or combined paid time off (PTO). Of the 438 preparers, 380 (87 percent) provide separate vacation and sick leave benefits, 34 (8 percent) provide combined PTO, and 24 (5 percent) provide both (different benefits for different types of employees).

### Current Portion of the Liability

Roughly four times as many preparer respondents (196, or 45 percent) use the FIFO method to calculate the compensated absences balance due within one year than use the LIFO method. About an equal number of respondents (195, or 44 percent) indicated they use an “other” method. Many of those preparers described using an historical average amount or percentage to calculate the balance due within one year—which implies a FIFO approach. Some preparers mentioned that they do not calculate a current portion because the entire balance is reported as either current or noncurrent.

When asked whether they have any difficulties calculating the portion of compensated absences due within one year, 327 respondents (75 percent) answered that they do not. Many of the preparers who reported difficulties mentioned that the calculation is an estimate and it is difficult for them to predict (1) how much leave employees are going to take in the next year or (2) how many employees will terminate and require a payout

of their leave balances. Some preparers also mentioned that the process sometimes is time consuming, particularly if there are reporting limitations with payroll systems or multiple classes of employees with different policies.

### **Pension or OPEB Conversion**

Twenty-one respondents (5 percent) reported their governments allow conversion of compensated absences to pension or OPEB benefits at retirement. A few of those preparers reported difficulties with estimating how many employees will stay until retirement to receive the benefit.

### **Vacation Leave**

Among the 404 preparer respondents whose governments provide separate vacation and sick benefits to some or all employees, 19 (4 percent) reported that vacation leave cannot be carried over at the end of the fiscal year, 44 (11 percent) reported that vacation leave can be carried over but with a limit, and the remaining 341 (85 percent) allow vacation leave to be carried over without a limit. Many of the preparers who reported difficulties mentioned reporting limitations with payroll systems or the estimation of the current portion.

### **Sick Leave**

Of the 404 preparers who provide separate vacation and sick benefits to some or all employees, 152 (38 percent) reported that accumulated sick leave is not paid out to employees at termination of employment, 223 (55 percent) reported that accumulated sick leave is paid out but subject to limitation, and 29 (7 percent) reported that accumulated sick leave is paid out and not subject to limitation.

Those who reported that sick leave is paid out were asked to identify which method they use to calculate the liability. Respondents were close to evenly split between the vesting method (43 percent) and the termination payment method (40 percent).

Those respondents who selected “other” (17 percent) were asked to specify what method they use. A few respondents mentioned using termination payment method for some classes of employees and vesting method for others. Many of those “other” respondents mentioned that they use the entire accrued balance without application of probability of payment. Others made comments that were not directly relevant, such as stating their policies for paying out only upon retirement instead of termination or what percentage of accrued hours will be paid out. A few respondents mentioned that the sick leave liability is immaterial, and one respondent mentioned using an actuary.

Difficulties reported with calculating sick leave mirrored those reported for vacation leave. Data availability and integrity were commonly cited issues, as were the current portion and needing to calculate a liability based on different agreements with different classes of employees. A few respondents mentioned difficulty in estimating how many employees will vest in their accrued sick leave.

### **Paid Time Off**

Six of the 58 preparers whose governments provide PTO to some or all employees reported that PTO is not carried over at the end of a fiscal year, 41 reported PTO that is carried over with a limit, and 11 reported that PTO is carried over without a limit.

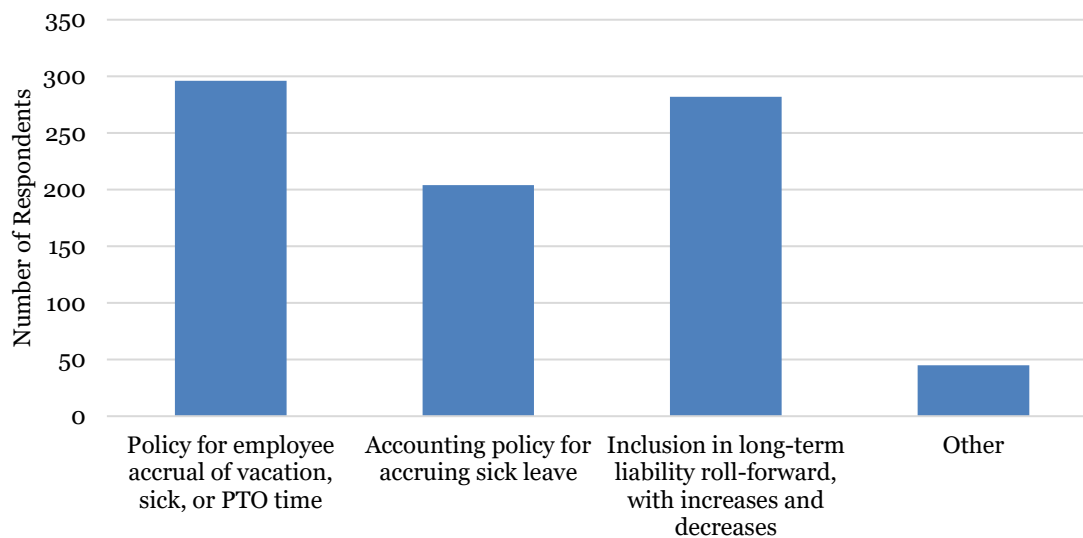
Ten of those preparers reported difficulties with calculating a compensated absences liability for PTO. Several reported data availability and manual processes involved as being the primary source of difficulty. One respondent mentioned a lack of guidance because Statement 16 does not address PTO specifically.

### **Disclosures**

Preparers were asked what information they currently include in their notes to financial statements related to compensated absences. Respondents most commonly disclosed their policy accrual of vacation, sick, or PTO time (68 percent). (See Figure 3.) Almost 47 percent disclosed their accounting policy related to compensated absences. The compensated absences liability was included in the disclosure of changes in long-term liabilities by 64 percent of the respondents.

**Figure 3**

**Information Disclosed about Compensated Absences**



Common disclosures cited by the respondents who selected “other” were the governmental funds used to liquidate compensated absences liabilities and details about union contracts or leave conversion programs. Several mentioned that they do not make disclosures of compensated absences due to immateriality.

Forty-two preparer respondents (10 percent) indicated having some type of difficulties in preparing disclosures related to compensated absences. Many of them mentioned system limitations in obtaining information to determine the amounts of increases and decreases in the liability during the year, particularly when it has to be done separately for governmental activities and BTAs. Other issues included calculating the portion due within one year and aggregating information from various union groups. A few respondents mentioned that their auditors assist with preparation of the notes.

**Other Comments**

A variety of topics were mentioned when respondents were asked for other comments on compensated absences. Many respondents mentioned a desire for the GASB to either leave compensated absences alone or keep any changes to a minimum because they do not view this as a significant liability. Some respondents reiterated comments from other parts of the survey. A few respondents mentioned concerns about the difference in accounting for compensated absences between the governmental funds

and proprietary funds. One respondent requested guidance for prefunding a compensated absences liability.

## Auditor Surveys

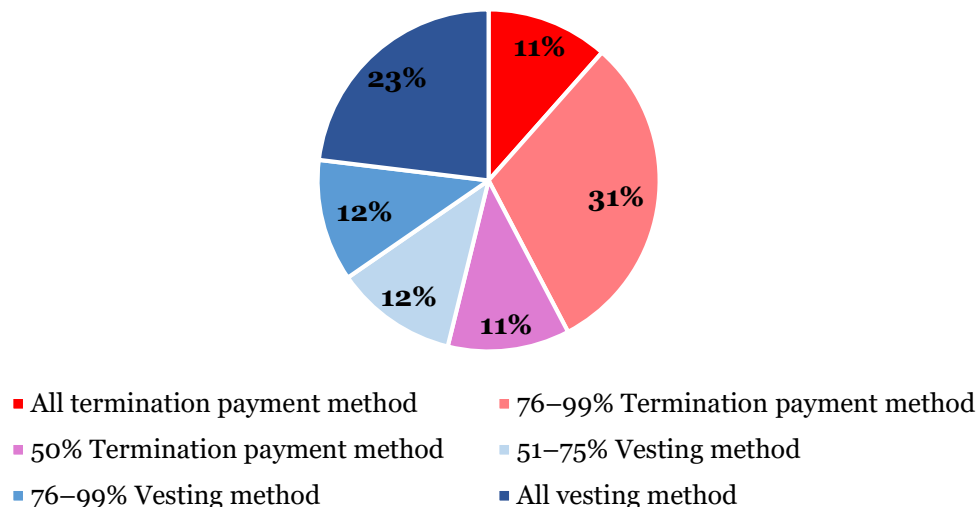
Auditors were first asked what difficulties their clients have experienced with respect to compensated absences. Many responses focused on the process of calculating compensated absences liabilities, including information system limitations, errors in underlying data, and human errors in manual processes. Difficulties reported with the accounting for compensated absences included the calculation not in being accordance with employment policy, forgetting to include the salary-related payments such as employment taxes, and accruing the entire current liability in the governmental funds.

## Sick Leave Method

Twenty-six of the 131 auditor respondents (20 percent) indicated that their clients report a liability for sick leave. Those respondents were asked what percentages of those clients use the termination payment and vesting methods. Most of them (17, or 66 percent) have clients using either of the methods—and almost half of those (8, or 31 percent) state that more than three-quarters of their clients use the termination payment method. (See Figure 4.)

**Figure 4**

### Percentage of Clients That Used Termination Payment vs. Vesting Method



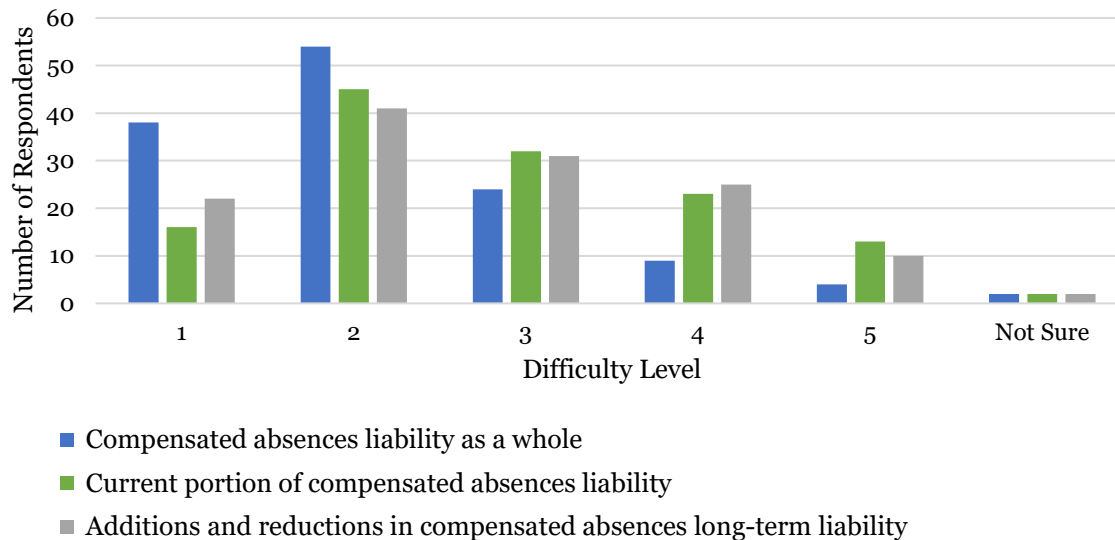
## **Difficulty in Auditing**

Auditors were asked to rate the difficulty of auditing information about the compensated absences liability presented in the financial statements on a scale of 1 to 5, with 1 being “not difficult at all” and 5 being “very difficult.” In general, the respondents did not find the compensated absences liability information difficult to audit. The liability as a whole was least difficult to audit—an average rating of 2.12, with 70 percent rating the difficulty as a 1 or 2. The average ratings for auditing the current portion of the liability (2.78; 47 percent answering 1 or 2) and the increases and decreases in the liability during the year (2.69; 48 percent answering 1 or 2) were somewhat higher.

Respondents who answered 3 or higher were asked about the nature of the difficulties they encounter. For the compensated absences liability as a whole, several explanations related to difficulties in obtaining audit evidence from client records and making sure the accrual is consistent with employment policies, especially if there are different policies for different groups of employees. Regarding the current portion of the compensated absences liability, many comments indicated that difficulty arises because the current portion is an estimate for which clients may not have much justification. Lastly, many respondents having difficulty auditing the increases and decreases in the long-term liability indicated that information to support the amounts often is not available from their client’s systems. The increases and decreases often are estimated or residual amounts.

**Figure 5**

**Difficulty of Auditing Information about the Compensated Absences Liability**



**Sufficiency of Existing Standards**

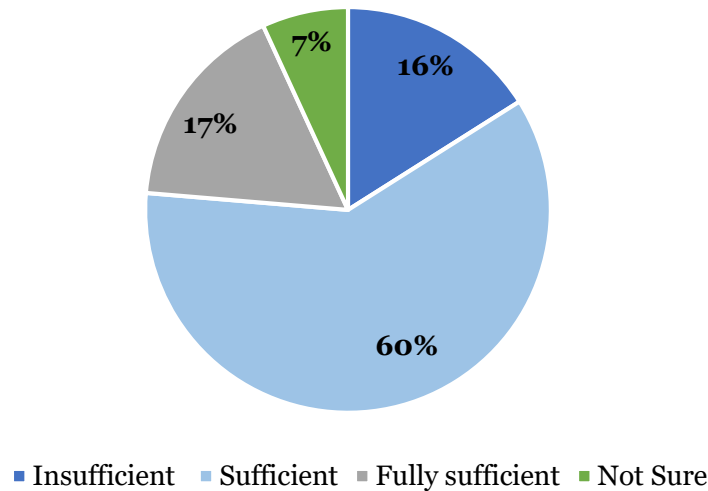
Most of the 131 auditor respondents (79, or 60 percent) believe the existing standards for compensated absences are sufficient or fully sufficient. (See Figure 6.) Fewer than one-sixth of the auditors (21, or 16 percent) consider the standards insufficient.

Respondents who answered “fully sufficient” indicated that compensated absences is a straightforward liability that clients are accustomed to calculating and it generally is not an area of high risk of material misstatement. Comments from respondents who answered “sufficient” echoed those remarks. However, some respondents mentioned inconsistency in disclosures and current-portion calculations as areas where the guidance could be improved.

Many respondents who answered “insufficient” indicated they would like more guidance on determining current versus long-term portions of the liability. Others expressed a desire for (1) guidance on combined PTO and (2) additional illustrations.

**Figure 6**

**Sufficiency of Existing Standards**



**Other Comments**

When asked for any other comments on compensated absences, some auditors reiterated comments from earlier in the survey. Some respondents expressed concerns that a GASB project on the topic would result in more complex and burdensome requirements.

**GASAC FEEDBACK**

GASAC members were asked two questions at their October 2019 meeting about (1) the usefulness of disclosures about compensated absences and (2) any other issues or concerns related to compensated absences accounting and financial reporting. Some financial statement users indicated that compensated absences has not been a factor in their analyses. Other GASAC members indicated that compared to pensions and OPEB, compensated absences is not a significant issue. However, some members raised concerns that governments—particularly small governments—could experience liquidity problems depending on the timing of compensated absence payouts. Lastly, an issue was raised about how accrued compensatory time relates to compensated absences.

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## **APPENDIX A: PREPARER SURVEY INVITATIONS**

### **Invitation to Preparers in Stakeholder Database**

SUBJECT LINE:      GASB Survey on Compensated Absences

The Governmental Accounting Standards Board (GASB) is conducting a survey of preparers of state and local government financial statements regarding how they account for and report compensated absences. The survey is part of a GASB research effort to evaluate current practice and the effectiveness of existing guidance. (Further information about the research can be found at the bottom of this invitation.)

The survey generally should take about 10-15 minutes and can be [accessed by clicking here](#). *The deadline for completing the survey is Friday, July 19, 2019.*

If you would like to review the survey before responding, you can download it in its entirety from the first page of the survey. You also can save your survey answers once you have started and return to complete the survey later.

Thank you in advance for your feedback. Your input is vital to the GASB's efforts to improve accounting and financial reporting.

If you have any questions, please feel free to contact Deborah Beams ([dbeams@gasb.org](mailto:dbeams@gasb.org)). We look forward to hearing from you.

Sincerely,

David R. Bean

Director of Research and Technical Activities

Governmental Accounting Standards Board

### **Information about the research:**

The initial objectives of this pre-agenda research are (1) to evaluate the effectiveness of Statement No. 16, *Accounting for Compensated Absences*, as amended, and (2) to consider whether additional guidance needs to be developed. Further information about the research can be found on the [dedicated page on the GASB website](#).

## **Invitation to GASAC Members Representing Preparers**

SUBJECT LINE: GASB Survey on Compensated Absences

Good morning,

I am following up on our recent communication asking for your assistance in publicizing the GASB's compensated absences survey to your members and encouraging them to respond.

**As of today, the survey is live, and we are ready for you to send the attached invitation to the members of your organization and to any of your organization's committees that are interested in GASB-related issues.** The attached invitation is directed to preparers of governmental financial statements and contains the link to the survey. The survey will be available through July 19, 2019.

You will receive another communication from us in two weeks asking you to send a reminder to your members (text also will be provided for that communication).

If you have any questions, please feel free to contact me ([dbeams@gasb.org](mailto:dbeams@gasb.org)).

Thank you!

### **ATTACHED INVITATION – Preparers**

GASB Survey on Compensated Absences

The Governmental Accounting Standards Board (GASB) is conducting an online survey of financial statement preparers regarding accounting and financial reporting for compensated absences. The survey is part of a GASB research effort to evaluate current

practice and the effectiveness of existing guidance on this topic. (Further information about the research effort can be found on the [dedicated page on the GASB website.](#))

The survey generally should take about 10-15 minutes and can be accessed by following this link: <https://www.fafsurveys.org/se/4CA36E9260F1E935>. *The deadline for completing the survey is Friday, July 19, 2019.*

If you would like to review the survey before responding, you can download it in its entirety from the first page of the survey. You also can save your survey answers once you have started and return to complete the survey later.

## **APPENDIX B: AUDITOR SURVEY INVITATIONS**

### **Invitation to Auditors in Stakeholder Database**

SUBJECT LINE:      GASB Survey on Compensated Absences

The Governmental Accounting Standards Board (GASB) is conducting a survey of auditors of state and local government financial statements regarding accounting and financial reporting for compensated absences. The survey is part of a GASB research effort to evaluate current practice and the effectiveness of existing guidance. (Further information about the research can be found at the bottom of this invitation.)

The survey generally should take about 10-15 minutes and can be [accessed by clicking here](#). *The deadline for completing the survey is Friday, July 19, 2019.*

If you would like to review the survey before responding, you can download it in its entirety from the first page of the survey. You also can save your survey answers once you have started and return to complete the survey later.

Thank you in advance for your feedback. Your input is vital to the GASB's efforts to improve accounting and financial reporting.

If you have any questions, please feel free to contact Deborah Beams ([dbeams@gasb.org](mailto:dbeams@gasb.org)). We look forward to hearing from you.

Sincerely,

David R. Bean

Director of Research and Technical Activities

Governmental Accounting Standards Board

### **Information about the research:**

The initial objectives of this pre-agenda research are (1) to evaluate the effectiveness of Statement No. 16, *Accounting for Compensated Absences*, as amended, and (2) to consider whether additional guidance needs to be developed. Further information about the research can be found on the [dedicated page on the GASB website](#).

## Invitation to GASAC Members Representing Auditors

SUBJECT LINE: GASB Survey on Compensated Absences

Good morning,

I am following up on my recent communication asking for your assistance in publicizing the GASB's compensated absences survey to your members and encouraging them to respond.

**As of today, the survey is live, and we are ready for you to send the attached invitation to the members of your organization and to any of your organization's committees that are interested in GASB-related issues.** The attached invitation is directed to auditors of governmental financial statements and contains the link to the survey. The survey will be available through July 19, 2019.

You will receive another communication from us in two weeks asking you to send a reminder to your members (text also will be provided for that communication).

If you have any questions, please feel free to contact me ([dbeams@gasb.org](mailto:dbeams@gasb.org)).

Thank you!

### **ATTACHED INVITATION – Auditors**

#### GASB Survey on Compensated Absences

The Governmental Accounting Standards Board (GASB) is conducting an online survey of financial statement auditors regarding accounting and financial reporting for compensated absences. The survey is part of a GASB research effort to evaluate current practice and the effectiveness of existing guidance on this topic. (Further information about the research effort can be found on the [dedicated page on the GASB website.](#))

The survey generally should take about 10-15 minutes and can be accessed by following this link: <https://www.fafsurveys.org/se/4CA36E92507FF216>. *The deadline for completing the survey is Friday, July 19, 2019.*

If you would like to review the survey before responding, you can download it in its entirety from the first page of the survey. You also can save your survey answers once you have started and return to complete the survey later.

## **APPENDIX C: INVITATION TO GASAC MEMBERS REPRESENTING AUDITORS AND PREPARERS**

SUBJECT LINE: GASB Survey on Compensated Absences

Good morning,

I am following up on my recent communication asking for your assistance in publicizing the GASB's compensated absences survey to your members and encouraging them to respond.

**As of today, the survey is live, and we are ready for you to send the attached invitation to the members of your organization and to any of your organization's committees that are interested in GASB-related issues.** The attached invitation is directed to preparers and auditors of governmental financial statements and contains the links to the respective surveys. The surveys will be available through July 19, 2019.

You will receive another communication from us in two weeks asking you to send a reminder to your members (text also will be provided for that communication).

If you have any questions, please feel free to contact me ([dbeams@gasb.org](mailto:dbeams@gasb.org)).

Thank you!

### **ATTACHED INVITATION – Auditors and Preparers**

#### **GASB Survey on Compensated Absences**

The Governmental Accounting Standards Board (GASB) is conducting online surveys of financial statement preparers and auditors regarding accounting and financial reporting for compensated absences. The surveys are part of a GASB research effort to evaluate current practice and the effectiveness of existing guidance on that topic. (Further information about the research effort can be found on the [dedicated page on the GASB website.](#))

The survey generally should take about 10-15 minutes. *The deadline for completing the survey is Friday, July 19, 2019.*

The preparer survey can be accessed by following this link:  
<https://www.fafsurveys.org/se/4CA36E9260F1E935>.

The auditor survey can be accessed by following this link:

<https://www.fafsurveys.org/se/4CA36E92507FF216>.

If you would like to review a survey before responding, you can download it in its entirety from the first page of the survey. You also can save your survey answers once you have started and return to complete the survey later.

## **APPENDIX D: PREPARER SURVEY INSTRUMENT**

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### **Compensated Absences – Reexamination of Statement 16**

#### **Survey of Financial Statement Preparers**

Thank you for participating in this survey as part of the Governmental Accounting Standards Board's (GASB) pre-agenda research on compensated absences.

The focus of this research is to study the consistency of application and effectiveness of GASB Statement No. 16, *Accounting for Compensated Absences*.

For more information about this pre-agenda research activity, visit its [dedicated page on the GASB website](#).

#### **Instructions**

If you do not have time to complete the survey in one session and would like to return to the survey at a later time to complete or revise your responses, you can click the **Save** button to retain your responses. After clicking the Save button, you will be presented with a unique link that you should keep and use to return to your survey responses at a later time. *If you wish to return to the survey before submitting it, please be sure to copy and save the link.*

At the conclusion of the survey, you can edit any responses by clicking the **Back** button. *Only click the **Submit** button if you are finished providing feedback.* After submitting, you will be provided with your responses, which can be printed for your records.

If you have any questions about this survey, please contact Deborah Beams, project manager, at 203-956-5240 or [dbeams@gasb.org](mailto:dbeams@gasb.org).

## About You

This background information is requested to assist in the analysis of survey responses and will not be shared with anyone outside of the GASB or the GASB's parent organization, the Financial Accounting Foundation. Responses to this survey are considered anonymous and will not be attributed to specific individuals or governments.

A red asterisk (\*) denotes those questions requiring responses.

A1.-A4.

A1a. \* Your first name: \_\_\_\_\_

A1b. \* Your last name: \_\_\_\_\_

A2. \* Your email address: \_\_\_\_\_

A3. \* Your title: \_\_\_\_\_

A4. \* Your employer (government): \_\_\_\_\_

A5. \* What type of government do you work for?

- ☐ State
- ☐ County
- ☐ City/town/village
- ☐ School district
- ☐ Other taxing district
- ☐ Business-type activity (utility, university, hospital, and so on)
- ☐ Other (please explain): \_\_\_\_\_

A6. \* How many years of experience do you have as a preparer of state or local government financial statements?

- ☐ Less than 5 years
- ☐ 5–10 years
- ☐ 11–15 years
- ☐ 16–20 years

- ☐ More than 20 years

A7. \* What were the total revenues for your primary government from the government-wide statements in your most recently issued annual audited financial statements?

- ☐ Less than \$10 million
- ☐ At least \$10 million but less than \$100 million
- ☐ \$100 million or more

## Survey Questions

### *General Question*

G1.\* Does your government provide separate vacation and sick leave benefits or combined paid time off (PTO)?

- ☐ Separate vacation and sick leave
- ☐ Combined paid time off (PTO)
- ☐ Neither

[End survey for those who selected “Neither”]

G2. \* How do you calculate the amount of compensated absences due within one year?

- ☐ First in, first out (FIFO)
- ☐ Last in, first out (LIFO)
- ☐ Other (please describe: \_\_\_\_\_)

G3. \* What difficulties, if any, do you have with calculating the portion of compensated absences due within one year (if none, please enter “none”)?

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G4. \* Does your government allow conversion of compensated absences to other postemployment benefits (OPEB) or pension benefits?

- ☐ Yes

☐ No

*If you selected "No," please skip to question V1 if you selected "Separate vacation and sick leave" in question G1 or skip to question P1 if you selected "Combined paid time off (PTO)" in question G1.*

G4a. What difficulty, if any, do you have with accounting for the conversion of compensated absences to OPEB or pension benefits (if none, please enter "none")?

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*If you selected "Combined paid time off (PTO)," in question G1, please skip to the Combined PTO section.*

#### *Vacation Leave and Similar*

V1. \* Does your government allow employees to carry over vacation leave at the end of a fiscal year?

☐ Yes

☐ No

*If you selected "No," please skip to question S1.*

V1a. \* Does your government limit the amount of vacation leave hours that employees can carry over at the end of a fiscal year?

☐ Yes

☐ No

*If you selected "No," please skip to question V2.*

V2. \* What difficulties, if any, do you have with calculating a compensated absences liability for vacation leave (if none, please enter "none")?

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*Sick Leave and Similar*

S1. \* Does your government pay employees for accumulated sick leave at termination of employment (for example, resignation or retirement)?

☐ Yes

☐ No

*If you selected "No," please skip to the Disclosures section.*

S1a. \* Does your government limit the amount of sick leave hours that employees can be paid for at termination of employment?

☐ Yes

☐ No

*If you selected "No," please skip to question S2.*

S2. \* What approach do you use to calculate the compensated absences liability for sick leave?

☐ Termination payment method

☐ Vesting method

☐ Other (please describe: \_\_\_\_\_)

[in the web survey, on the above question choices, popup a link to definitions for *Termination payment method* and *Vesting method* from the Glossary]

S3. \* What difficulties, if any, do you have with calculating a compensated absences liability for sick leave (if none, please enter "none")?

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*Combined PTO*

P1. \* Does your government allow employees to carry over PTO at the end of a fiscal year?

☐ Yes

☐ No

*If you selected "No," please skip to the Disclosures section.*

P1a. \* Does your government limit the amount of PTO hours that employees can carry over at the end of a fiscal year?

☐ Yes

☐ No

*If you selected "No," please skip to question P2.*

P2. \* What difficulty, if any, do you have with calculating a compensated absences liability for PTO (if none, please enter "none")?

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### *Disclosures*

D1. \* What information do you currently include in your notes to financial statements related to compensated absences? (check all that apply)

☐ Policy for employee accrual of vacation, sick, or PTO time

☐ Accounting policy for accruing sick leave (termination or vesting method)

☐ Inclusion in long-term liability roll-forward, with additions and reductions

☐ Other (please describe: \_\_\_\_\_)

D2. \* What difficulties, if any, do you have with preparing notes to financial statements related to compensated absences (if none, please enter "none")?

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### **Other Comments**

01. What other comments, if any, would you like to share with the GASB regarding accounting and financial reporting for compensated absences?

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Thank you for participating in the GASB's pre-agenda research on compensated absences.

### **GLOSSARY:**

#### **Termination payment method**

An accrual for earned sick leave should be made only to the extent that it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. The sick leave liability generally would be an estimate based on a governmental entity's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination payment policy and other current factors.

#### **Vesting method**

An accrual for sick leave should be estimated based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. These accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments.

## APPENDIX E: AUDITOR SURVEY INSTRUMENT

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### Compensated Absences – Reexamination of Statement 16

#### Survey of Financial Statement Auditors

Thank you for participating in this survey as part of the Governmental Accounting Standards Board's (GASB) pre-agenda research on compensated absences.

The focus of this research is to study the consistency of application and effectiveness of GASB Statement No. 16, *Accounting for Compensated Absences*.

For more information about this pre-agenda research activity, visit its [dedicated page on the GASB website](#).

#### Instructions

If you do not have time to complete the survey in one session and would like to return to the survey at a later time to complete or revise your responses, you can click the **Save** button to retain your responses. After clicking the Save button, you will be presented with a unique link that you should keep and use to return to your survey responses at a later time. ***If you wish to return to the survey before submitting it, please be sure to copy and save the link.***

At the conclusion of the survey, you can edit any responses by clicking the **Back** button. *Only click the **Submit** button if you are finished providing feedback.* After submitting, you will be provided with your responses, which can be printed for your records.

If you have any questions about this survey, please contact Deborah Beams, Project Manager, at 203-956-5240 or [dbeams@gasb.org](mailto:dbeams@gasb.org).

## About You

This background information is requested to assist in the analysis of survey responses and will not be shared with anyone outside of the GASB or the GASB's parent organization, the Financial Accounting Foundation. Responses to this survey are considered anonymous and will not be attributed to specific individuals or governments.

A red asterisk (\*) denotes those questions requiring responses.

A1.-A4.

A1a. \* Your first name: \_\_\_\_\_

A1b. \* Your last name: \_\_\_\_\_

A2. \* Your email address: \_\_\_\_\_

A3. \* Your title: \_\_\_\_\_

A4. \* Your employer (firm or government): \_\_\_\_\_

A5. \* For what types of governments do you conduct financial audits? (check all that apply)

- ☐ State
- ☐ County
- ☐ City/town/village
- ☐ School district
- ☐ Other taxing district
- ☐ Business-type activity (utility, university, hospital, and so on)
- ☐ None, I do not conduct financial audits of governments
- ☐ Other (please explain: \_\_\_\_\_)

*If you selected "None": We would like to thank you for your interest, but this survey is intended for auditors of government financial statements.*

A6. \* How many years of experience do you have as an auditor of state or local government financial statements?

- ☐ Less than 5 years
- ☐ 5–10 years
- ☐ 11–15 years
- ☐ 16–20 years
- ☐ More than 20 years

### Survey Questions

C1. \* Have any of your governmental clients experienced difficulties with calculating any of the following related to compensated absences? (check all that apply)

- ☐ Vacation and similar
- ☐ Sick leave and similar
- ☐ Current portion of liability
- ☐ Additions and reductions for the changes in long-term liabilities disclosure
- ☐ Other (please describe below)
- ☐ None of the above

*If you selected "None of the above," please skip to question D1.*

C1a. \* For the items you checked in question C1, please describe the difficulties that your governmental clients have experienced:

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C2. \* Do any of your governmental clients report sick leave and similar compensated absences (that are contingent on a specific event that is outside the control of the employer and employee)?

- ☐ Yes
- ☐ No

*If you selected "No," please skip to question D1.*

C2a. \* What proportion of those governments use the termination payment method for sick leave and similar compensated absences?

- ☐ All of the governments
- ☐ 76–99% of the governments
- ☐ 51–75% of the governments
- ☐ 50% of the governments
- ☐ 26–49% of the governments
- ☐ 1–25% of the governments
- ☐ None of the governments

C2b. \* What proportion of those governments use the vesting method for sick leave and similar compensated absences?

- ☐ All of the governments
- ☐ 76–99% of the governments
- ☐ 51–75% of the governments
- ☐ 50% of the governments
- ☐ 26–49% of the governments
- ☐ 1–25% of the governments
- ☐ None of the governments

C2c. \* Do any of your governmental clients use an approach other than the termination payment method or vesting method? If so, please describe that approach:

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D1. \* On a scale of 1–5, with 1 being “not difficult at all” and 5 being “very difficult,” how difficult is it for you to audit the following?

|                                                                                                                | Not difficult<br>at all |   |   |   | Very<br>difficult | Not<br>sure |
|----------------------------------------------------------------------------------------------------------------|-------------------------|---|---|---|-------------------|-------------|
| Compensated<br>absences<br>liability as a<br>whole                                                             | 1                       | 2 | 3 | 4 | 5                 | N           |
| Current portion<br>of<br>compensated<br>absences<br>liability                                                  | 1                       | 2 | 3 | 4 | 5                 | N           |
| Additions and<br>reductions in<br>compensated<br>absences for<br>the long-term<br>liabilities roll-<br>forward | 1                       | 2 | 3 | 4 | 5                 | N           |

D1a. \* If you selected “3,” “4,” or “5” for any of the items in question D1, please describe the specific difficulties encountered in auditing those items:

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E1. \* In your opinion, how sufficient are existing standards for guiding accounting and financial reporting for compensated absences?

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|---------------------------------------------------|---------------------------------------|-------------------------------------|----------------------------------------------|-----------------------------------|
| Not sufficient<br>at all<br><input type="radio"/> | Insufficient<br><input type="radio"/> | Sufficient<br><input type="radio"/> | Fully<br>sufficient<br><input type="radio"/> | Not sure<br><input type="radio"/> |
|---------------------------------------------------|---------------------------------------|-------------------------------------|----------------------------------------------|-----------------------------------|

E1a. \* If you selected *insufficient* or *not sufficient at all*, why do you think those standards are insufficient?

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E1b. \* If you selected *fully sufficient* or *sufficient*, why do you think those standards are sufficient?

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### **Other Comments**

O1. What other comments, if any, would you like to share with the GASB regarding accounting and financial reporting for compensated absences?

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Thank you for participating in the GASB's pre-agenda research on compensated absences.

**GLOSSARY:**

**Termination payment method**

An accrual for earned sick leave should be made only to the extent that it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. The sick leave liability generally would be an estimate based on a governmental entity's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination payment policy and other current factors.

**Vesting method**

An accrual for sick leave should be estimated based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. These accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments.