

Accounting and Reporting Update

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Overview

- GASB 101, Compensated Absences
- Adult-use Cannabis
- Deferred Inflows and Outflows Refresher
- Questions

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Compensated Absences

Overview

- Background and Legal Authority
- New framework to categorize and analyze leave
- Measuring the liability
- Accounting requirements
- Employee Benefit Accrued Liability Reserve Fund

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Compensated Absences

Background

- Previous guidance distinguished between vacation leave and sick leave
- Sick leave either vesting or non-vesting
- Different calculation requirements for different types of leave

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Compensated Absences

Legal Authority

- General Municipal Law section 92(1) authorizes governing boards to provide for the cash payment of the monetary value of accumulated and unused vacation at the time of their separation from service.

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Compensated Absences

Legal Authority

- Elected officials are entitled to salary as an incident of the office.
- Generally, elected officials may take as much or as little time off as they please, and therefore, do not accrue leave time.
- Therefore, there is no compensated absences liability for them.

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Compensated Absences

What is a compensated absence?

- Leave in which employees may:
 - Be paid when the leave is used
 - Be paid for unused leave upon termination of employment
 - Receive a noncash settlement for unused leave time

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Compensated Absences

What is a compensated absence?

- Examples include:
 - Vacation or annual leave
 - Sick leave
 - Paid time off (PTO)
 - Personal leave
 - Holiday leave
 - Parental leave

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Compensated Absences

New Framework

- A liability should be recognized for leave that has not been used and for leave that has been used but not yet paid or settled.

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Compensated Absences

New Framework

- Unused leave is a liability if **all** of the following statements are true:

The unused leave...

1. Is attributable to services already rendered,
2. Accumulates,
3. Is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

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Compensated Absences

Attributable to services already rendered

- The employee has earned the leave

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Compensated Absences

Accumulates

- Leave accumulates if it is earned in one fiscal year and may be carried forward and used or settled in a future fiscal year

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Compensated Absences

More likely than not to be used for time off or otherwise paid in cash or settled through noncash means

- “More likely than not” is defined as more than 50 percent

Compensated Absences

Officials must use professional judgement when determining if leave is more likely than not to be used.

Maintain adequate documentation to support these decisions.

Compensated Absences

More Likely Than Not?

- Employment policies, contracts and collective bargaining agreements
- Whether earned leave is, or will become, eligible for use or payment in the future
- Historical information about the use, payment and forfeiture of leave
- Any information that may indicate that historical information is not representative of future trends or patterns

Compensated Absences

Some leave affects a limited number of employees and is dependent on specific events occurring, such as:

- Parental leave
- Military leave
- Jury duty

Compensated Absences

This leave should not be recognized as a liability until the leave commences.

For example, a city with a 12/31 FYE has an employee taking 3 months of parental leave beginning 12/1.

At FYE, the government would recognize the remaining 2 months of leave as a liability.

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Compensated Absences

While the use of sick leave may be dependent upon a specific event (illness). GASB explicitly states that it should be evaluated in accordance with this new framework and recognized as a liability if it meets the criteria.

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Compensated Absences

New Framework

- Leave that HAS been used but not yet paid or settled should be recognized as a liability, including:
 - Leave with no specific limits (unlimited leave)
 - Holiday leave that is taken on a specific date not at the discretion of the employee

Compensated Absences

Salary-Related Payments

- Included in the liability if directly and incrementally associated with the leave.
 - Directly related: a function of salary, meaning amount of payment depends on amount of salary
 - Incrementally related: payments made in addition to salary

Compensated Absences

Salary-Related Payments

- Some may only be incrementally associated with a portion of recognized leave.
 - For example, if a city is required to make contributions to a defined contribution pension plan related to leave used for time off but not for leave paid upon termination.
 - Only recognize the amount related to leave that is more likely than not to be used for time off.

Compensated Absences

What is Not a Compensated Absence?

- Retirement incentives
- Health insurance for retirees or other post-employment benefits (OPEB)
- Defined benefit pension plan or defined benefit OPEB contributions
- Most other employment-related contractual obligations (longevity bonuses, etc.)

Compensated Absences

Measuring the Liability

Leave that meets the criteria should be recognized using the employee's pay rate as of the date of the financial statements (i.e. fiscal year end).

Compensated Absences

Measuring the Liability

If more likely than not that leave will be paid at a different rate, use that rate.

- Leave policy states sick leave will be paid at one-half employees pay rate upon termination.
- Use one-half the employees pay rate at FYE for sick leave that is more likely than not to be settled in this manner.

Compensated Absences

Measuring the Liability

If leave is not attributable to a specific employee (e.g. donated leave pool), measure using an estimated pay rate that is representative of the eligible employee population.

Compensated Absences

Measuring the Liability

- Leave that has not been used will likely be most of the liability.
 - This should be reported in **687 Compensated Absences**
- Leave that has been used but not yet paid or settled may be reported in other payroll liability accounts since the expense has been incurred.

Compensated Absences

Measuring the Liability

Payments to third parties

- Some governments may allow the value of sick leave at termination to be satisfied by payments to a third party on behalf of the employee.
- For example, it may be used to pay a retiring employee's share of post-employment healthcare insurance premiums.
- This leave is included in the local government's calculation of the compensated absences liability.

Compensated Absences

Accounting Requirements

Governmental funds

- The long-term portion of the liability should be recorded in the Schedule of Non-Current Governmental Liabilities (W) using account code **687 – Compensated Absences**.
- The current portion is reported within the appropriate governmental fund. This is only the liability for employees who have obligated themselves to separate from service by the fiscal year end.

Compensated Absences

Accounting Requirements

Governmental funds (Continued)

- Expenditures may either be charged directly to the functional area (using object .1 personal services or .8 employee benefits), or be charged to undistributed employee benefits in **account code 9089.8**

Compensated Absences

Accounting Requirements

Proprietary funds

- Use account code **687 – Compensated Absences** in the fund.
- Expenses will be charged using normal proprietary accounting procedures.

Compensated Absences

Accounting Requirements

Annual Financial Report

- Compensated absences liabilities should be reported regardless of whether reserve funds have been set aside to offset the liability.
- Funding of the long-term liability is NOT required.
- The current portion is already considered funded because an expenditure is recognized at the same time a current liability is recognized.

Compensated Absences

EBALR

General Municipal Law section 6-p authorizes local governments to set aside resources to satisfy their liability for future payments of certain compensated absences.

Compensated Absences

EBALR

- What can be included?

The value of accrued but unused:

- Vacation leave
- Sick leave
- Personal leave
- Holiday leave

Compensated Absences

EBALR

- What can NOT be included?

- Lump sum retirement incentives
- Employer share of health insurance or OPEB
- Pension plan contributions
- Payments for accrued leave not made under circumstances involving termination of service

Compensated Absences

EBALR

- Fiscal prudence dictates the balance of EBALR should not exceed the long-term portion of the liability for compensated absences.

Compensated Absences

Budgeting

- Appropriations should be included in the annual budget for expected terminations and retirements.
- If these are being paid with EBALR reserve funds, account code 511 – Appropriated Reserves should be included in the budget.

Examples

Paid time off earned each month, carries over without limits at end of fiscal year, and any unused leave is paid upon termination.

- Leave is attributable to services already rendered because employees earn a certain number of hours or days for each month they are employed
- Leave accumulates because it carries over at FYE
- Unused leave is paid upon termination

This leave is recognized as a liability for compensated Absences.

Examples

Sick leave is earned each month and carries over without limits at FYE, but any unused leave is not paid upon termination.

- Leave is attributable to services already rendered
- Leave accumulates because it carries over at FYE

Must estimate how much leave is more likely than not to be used as paid leave and recognize that portion as a liability for compensated absences.

Examples

Sick leave is earned each month does not carry over at FYE and is not paid upon termination.

- Leave is attributable to services already rendered
- Leave does not accumulate

Because leave does not accumulate, it is not recognized as a liability for compensated absences.

Examples

Vacation leave is made available on the first day of the fiscal year, but is earned throughout the year, carries over at FYE without limits, and is paid upon termination.

- At the beginning of the year, leave is not attributable to services already rendered. However, at FYE unused leave is fully earned.
- Leave accumulates

Because there are no carrying limits and leave is paid upon termination, all unused leave is recognized as a liability for compensated absences.

Examples

Compensatory time is earned as employees work overtime and carries over at FYE.

Unused compensatory time is not forfeited and is required to be paid upon termination.

- Leave is attributable to services already rendered.
- Leave accumulates
- Leave is paid upon termination

All compensatory time is recognized as a liability for compensated absences.

Examples

Medical insurance premiums are paid at a flat monthly amount based on historical medical claims experience.

Because the payment amount is not a function of salary to be paid, it is not directly associated and is not included in the liability for compensated absences.

Examples

Employees are subject to Medicare and Social Security payroll taxes calculated as a percentage of salary paid, up to stated federal limits.

- The payment amount is a function of salary to be paid; therefore they are directly associated.

The Employer will make an additional payment for these taxes when compensated absences are paid, whether they are paid as leave is used or upon termination, therefore the payments are incrementally associated as well.

The salary-related payments are included in the liability for compensated absences.

Adult-Use Cannabis Background

- The Marijuana Regulation and Taxation Act (MRTA) was signed into law on March 31, 2021.
- It established the Office of Cannabis Management, which is charged with overseeing and implementing all aspects of the law.
- It amended NYS Tax Law, creating a tax on the sale or transfer of adult-use cannabis products.
- Among these taxes, local governments are entitled to a 4% excise tax imposed upon each sale.

Adult-Use Cannabis

Revenue account code **A1116 – Tax on Adult-Use Cannabis** should be used to record this tax.

County retains 25% of the revenue and distributes 75% to the city, town or village in which the sale was made.

Adult-Use Cannabis Accounting

- Counties
 - Only record their portion as revenue.
 - Amount due to other governments is recorded as a debit to account code **200 cash** and credit to account code **631 due to other governments** until remitted.
- Towns and Villages
 - Amounts split pursuant to distribution agreement.
 - If no agreement, split evenly between them.

Deferred Inflows and Outflows

Background

- September 2013 Accounting Bulletin, *Reporting Deferred Inflows and Outflows of Resources as Required by GASB 63 and 65*
- GASB Concepts Statement No. 4, *Elements of Financial Statements*

Deferred Inflows and Outflows

Background

- **Deferred Inflows of Resources**
 - An acquisition of net assets by the government that is applicable to a future reporting period.
- **Deferred Outflows of Resources**
 - A consumption of net assets by the government that is applicable to a future reporting period.

Deferred Inflows and Outflows

Background

- Only instances identified by GASB in authoritative statements will be considered a deferred inflow or outflow of resources.
- No criteria or framework to distinguish on your own.
- No more deferred revenue.
- Deferred outflows are rare for cities and villages in NYS, guidance is mostly focused on deferred inflows.

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Deferred Inflows and Outflows

Real Property Taxes

- Resources received prior to the period when they are required to be used (new fiscal year), do not meet the definition of a liability.
- Therefore, a deferred inflow of resources is recognized for taxes received prior to the start of the fiscal year.
- Reported in **694 Deferred Taxes**.

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Deferred Inflows and Outflows

Federal and State Grants

- If all eligibility requirements except those associated with time have been met, it is not likely the provider can recapture resources.
- Time requirements mean you have to spend these resources in a specified period in the future.
- Recipient government reports these as a deferred inflow of resources in **account code 691**.

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Deferred Inflows and Outflows

New Guidance

- Newer GASB guidance will explicitly state when a deferred inflow or outflow of resources should be used.
- GASB 87 *Leases*, GASB 96 *Subscription-based Information Technology Arrangements*, and others contain such guidance.

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Deferred Inflows and Outflows

Key Takeaway

Deferred inflows of resources
does not equal
Deferred/Unearned Revenue

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Questions?

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