

Accounting Principles Committee (APC)
TACUBO Summer Conference
Tuesday, July 1, 2025
7:15 a.m. – 8:15 a.m.
Agenda

- **Welcome (Leanna Odom/Leslie Fluharty)** (*scan QR code for CPE credit*)
- **Tuition Discounting (Greg Argueta, UT Dallas)**
 - Update on tuition discounting (Comptroller feedback)
 - Questions and answers
- **Guest Speaker (Makayla Matheson, Forvis Mazars)**
- **GASB Statement No. 101, *Compensated Absences*, effective fiscal 2025.** GASB 101:
 - Updates the recognition and measurement guidance for compensated absences by:
 - Aligning the recognition and measurement guidance under a unified model
 - Amending certain previously required disclosures
 - Amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability.
 - Supersedes GASB 16

Comptroller's Highlights:

(<https://fm.xcpa.texas.gov/fmx/pubs/afrrptreq/notes/index.php?menu=1§ion=note5&page=leave>)

Agencies commonly provide benefits to employees in the form of compensated absences. Agencies must account for and report a liability for compensated absences on a basis with governmental fund accounting principles:

- In the agency's annual financial report, prepared using the current financial resources measurement focus (modified accrual), expenditures for compensated absences must be recognized and must be the amount that normally would be liquidated with expendable available financial resources.
- In the agency's annual financial report, prepared using the economic resources measurement focus (full accrual), liabilities for compensated absences must be recognized for leave that has not been used and leave that has been used but not yet paid or settled.

Sick Leave

Agencies become obligated to pay an employee for sick leave when:

- The employee earns the time off
 - The sick leave is made available to the employee
- AND–**

- It is more likely than not that the benefit will be used

Although the entire benefit might not be used if the employee does not become ill or otherwise meet the requirement for use, it is made available to the employee because of past service.

Employees accrue sick leave each month and the entire balance carries over (without limits) at each fiscal year-end. However, unused leave is **not** paid upon termination of employment. Such leave is attributable to services already rendered because employees earn a certain number of hours for each month that they are employed. Therefore, unused amounts of accrued sick leave are forfeited upon termination of employment.

Sick leave accrued by an employee can be used only when the employee is sick, has a doctor appointment, or the employee must care for a family member. Unused sick leave accumulates because the entire balance carries over at the end of each fiscal year.

For financial accounting and reporting purposes, sick leave taken comes first out of hours earned in the current reporting period, Last-In First-Out (LIFO) flows assumption, with calculations made at fiscal year-end. If the sick leave balances are increasing, that means the employees are not using all the hours earned that fiscal year. If this happens year-over-year at the agency level, the balances continue to increase. Under LIFO, the employee uses the hours earned in the current fiscal year before using the accumulated balance from years past. If hours used do not exceed hours earned in the current fiscal year, no liability is recognized. However, if the sick leave liability decreases in a fiscal year because employees use more leave than is accrued for that fiscal year, a liability is calculated and recognized.

Upon termination from state employment, all sick leave balances are forfeit. This is **not** considered a reduction in liability — it is an adjustment to the leave balance and **must not be recognized** in any sick leave liability.

Sick Leave Liability Calculation Methodology

An analysis must be done each reporting period to determine if a liability needs to be recognized. The Comptroller's office performs an annual analysis for agencies that use CAPPS HR/Payroll. Each audited agency and any agency that does not use CAPPS HR/Payroll is required to do its **own annual analysis using its sick leave data. These agencies must estimate how much of the leave is more likely than not to be used as sick leave and recognize that portion as a current liability for compensated absences.**

Example:

| Fiscal Year | Additions | Reductions | Sick Leave Ending Balance | Liability Recognized |
|-------------|------------|------------|---------------------------|----------------------|
| 20X0 | \$ 163,000 | \$ 55,000 | \$ 770,000 | \$ 0 |
| 20X1 | 142,000 | 60,000 | 852,000 | 0 |
| 20X2 | 130,000 | 138,000 | 844,000 | 8,000 |
| 20X3 | 133,000 | 80,000 | 897,000 | (8,000) |
| 20X4 | \$ 135,000 | \$ 87,000 | \$ 945,000 | \$ 0 |

Employee Compensable Leave

GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for unused leave and leave that was used but not yet paid in cash or settled through noncash means. A liability must be recognized for unused leave if the leave:

- Is attributable to services already rendered
- Accumulates
- AND–
- Is more likely than not (50% or more) to be used for time off or otherwise paid in cash or settled through noncash means

A compensated absence is leave for which employees may receive one or more of the following:

- Cash payments when the leave is used for time off
- Other cash payments (such as payment for unused leave upon termination of employment that include voluntary resignation or retirement)
- Noncash settlements (such as conversion to defined benefit postemployment benefits)

Compensated absences generally do not have a set payment schedule.

Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Examples of compensated absences include:

- Vacation (or annual) leave
- Sick leave
- Compensatory time
- Holidays
- Parental leave
- Military Leave
- Bereavement leave
- Certain types of sabbatical leave
- Other types of leave

An agency must evaluate whether leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means by assessing relevant factors, including the following:

- The state's employment policies related to compensated absences
- Whether leave that has been earned is (or will become) eligible for use or payment in the future
- Historical information about the use, payment or forfeiture of compensated absences
- Information known to the agency that would indicate that historical information may not be representative of future trends or patterns

GASB 101 supersedes **GASB Statement No. 16**, *Accounting for Compensated Absences*, and does not apply to benefits that are within the scope of **GASB Statement No. 47**, *Accounting for Termination Benefits*, as amended.

Notes to the Financial Statements

GASB 101 amends the existing requirement to disclose the gross increases and decreases in a compensated absences liability to allow the agency to disclose only the net change, if it is identified as the net amount. In addition, agencies are no longer required to disclose which governmental funds have been used to liquidate the compensated absences liability.

Agencies must report changes adopted at transition to conform to the provisions of GASB 101 as a change in accounting principle in accordance with **GASB Statement No. 100**, *Accounting Changes and Error Corrections*, including the related display and disclosure requirements.

Sick Leave

Employees accrue sick leave from the first day of employment through the last day of attendance at work. A full-time employee accrues eight hours of sick leave on the first day of each month worked. There is no limitation on the amount to be carried forward into the next fiscal year. Once employment is terminated with the state of Texas, the employee is not entitled to payment for any sick leave accrued.

Sick Leave Flows Assumption

Sick leave liability is based on a more likely than not probability. If any part of the leave balance is more likely than not to be used or paid out in the future, it is recognized as a liability. However, GASB 101 does not provide any guidance about how to determine the more likely than not portion of sick leave. Professional judgement must be used to determine whether leave taken comes from the:

- Beginning leave balance, First-In First-Out (FIFO)
- **–OR–**
- Leave earned during the reporting period, Last-In First-Out (LIFO)

Either is allowed under GASB 101— therefore, it is an accounting policy decision.

For financial accounting and reporting purposes, leave taken comes first out of hours earned in the current reporting period, LIFO flows assumption, with calculations made at the end of the reporting period. Under LIFO the employee uses the current reporting period hours earned before using the accumulated balance from prior fiscal years. If hours used do not exceed hours earned in the current reporting period, no liability is recognized. However, if there is a year where the sick leave liability decreases because employees use more leave than is accrued for the current reporting period, a liability is calculated and recognized.

The Comptroller's office performs an annual analysis for unaudited agencies using CAPPS for payroll. All audited agencies and any agency that does not use CAPPS HR/Payroll are required to do their own annual analysis using their sick leave data.

For more information, see **Compensable Leave Liability Methodology**.


Comptroller's Office Methodology for the Liability Calculation

Agencies must report a liability when leave is used for time off but has not yet been paid in cash or settled through noncash means. That liability must be measured at the amount of the cash payment or noncash settlement to be made for the use of the leave. Calculate the compensable leave liability based on the employee's pay or salary rate in effect as of the balance sheet date. Salary-related payments related to defined benefit pensions or Other Postemployment Benefits (OPEB) defined benefit plans must not be included in the measurement of liabilities for compensated absences.

If the leave is not attributable to a specific employee as of the date of the annual financial report (for example, if leave has been donated to a shared employee leave pool), an agency must measure the liability using an estimated pay rate that is representative of the eligible employee population.

May Meeting (SUPERCEDED per June meeting notes) Slides – Notes

Per Lisa Parks (Comptroller's Office) on 6/26/2025, "this was suspended because it uses the FIFO flows assumptions. All Texas agencies will now use LIFO flows assumptions for SICK LEAVE ONLY."



GASB 101, Compensable Leave (cont.)

Agency Sick Leave Accrual

- Agencies are required to accrue for sick leave that has accumulated and is likely to be used, even if the employee will never be eligible for a termination payment related to unused time.
- An accrual is made for sick leave estimated to be taken in the next fiscal year.
- The accrual for sick leave is the current amount only because it is based on the current year's ending balance.



GASB 101, Compensable Leave (cont.)

Methodology for Sick Leave Accrual Calculation

- An accrual is made for sick leave estimated to be taken in the next fiscal year.
- This estimate is based on the 4-year rolling dollar amount of sick leave taken.
- A ratio is determined by comparing the reduction in liability to the ending balance.
- This ratio is applied to the current year's ending balance for the accrual.



GASB 101, Compensable Leave (cont.)

Example

Calculate 4-year rolling dollar amount of sick leave taken.

| 4-Year Period | Beginning Balance | Additions | Reductions | Salary Adjustments | Ending Balance |
|---------------|-------------------|-----------|------------|--------------------|----------------|
| Fiscal X1–X4 | \$3,673,558 | \$536,459 | \$322,736 | \$208,870 | \$4,4096,151 |

Ratio: Reductions Liability / Ending Balance Liability
 $\$322,736 / \$4,096,151 = 7.9\%$

Current Accrual: Ratio * current year ending balance
Fiscal X5 ending balance = \$4,331,709
 $\$4,331,709 * 7.9\% = \$342,205$

Enter a current accrual in USAS for **\$342,205**.

For more information, see AFR Reporting Requirements:

- [Employee Compensable Leave](#)
- [Compensable Leave Liability Methodology](#)

GASB 101, Compensable Leave (cont.)



Notes

- Unaudited agencies that use CAPPs are provided the current accrual ratio in the AFR website.
- Universities and all audited agencies must perform their own analysis using their own sick leave data — this includes agencies that are not deployed on CAPPs HR/Payroll.
- Salary-related payments for defined benefit pension or Other Postemployment Benefits (OPEB) plans **must not be included** in the measurement of liabilities for compensated absences.
- For unused leave, **expenses** for salary-related payments resulting from defined benefit pension or OPEB plans **must not be recognized** when the **liability for that leave is recognized** — these expenses must be reported as an **pension expense** or **OPEB expense**, as applicable.

Do payroll taxes need to be added to the current accrual amount?

No. Medicare and Social Security taxes can be disregarded.

June Meeting Slides - Notes

GASB Updates (Cont.)

GASB 101, Update on Sick Leave Methodology

The following information supersedes the methodology guidance given in the May 14, 2025 APS meeting.

Sick Leave Flows Assumption

- GASB 101 does not provide any guidance about how to determine the more likely than not portion of sick leave.
- FIFO (First-In, First-Out): Sick leave taken comes first from the beginning leave balance
- LIFO (Last-In, First-Out): Sick leave taken comes leave earned during the year
- GASB 101 allows for either flows assumption to be used
- Professional judgement must be used





GASB Updates (Cont.)

GASB 101, Update on Sick Leave Methodology (Cont.)

LIFO Flows Assumption

- The LIFO flows assumption is to be used in evaluating whether a liability is accrued for sick leave.
- Under LIFO the employee uses the current year's hours earned before using the accumulated balance from years past.
- It is more likely than not that accumulated hours would not be used.
- If hours used in current year does not exceed hours earned in current year, no liability is recognized.

For more information, see [Employee Compensable Leave](#).



GASB Updates (Cont.)

GASB 101, Update on Sick Leave Methodology (Cont.)

CAPPS Sick Leave Historical Data

| Fiscal Year | Additions | Reductions | Ending Balances* |
|-------------|----------------|---------------|------------------|
| 2019 | \$ 142,245,000 | \$ 50,731,000 | \$ 640,768,000 |
| 2020 | 163,595,000 | 55,711,000 | 769,615,000 |
| 2021 | 133,565,000 | 60,521,000 | 852,061,000 |
| 2022 | 133,469,000 | 79,908,000 | 976,982,000 |
| 2023 | 130,853,000 | 75,524,000 | 1,092,282,000 |
| 2024 | \$ 138,570,000 | \$ 95,260,000 | \$ 1,174,826,000 |

*Ending balances contain other adjustments, transfers and forfeitures



GASB Updates (Cont.)

GASB 101, Update on Sick Leave Methodology (Cont.)

Yearly Analysis at Agency Level

- The Comptroller's office performs an annual analysis for unaudited agencies that use CAPPs HR/Payroll.
- Each audited agency and any agency that does not use CAPPs HR/Payroll is required to do its own annual analysis using its sick leave data.

For more information, see [Compensable Leave Liability Methodology](#).

GASB Statement No. 102, *Certain Risk Disclosures*, effective fiscal **2025 (fiscal years beginning after June 15, 2024. Earlier implementation is encouraged)**. GASB 102:

- The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.
- See GASB No. 102 for the evaluation criteria and other disclosure examples.
- Example disclosure: The Airport Fund accounts for the City's airport operations and reports \$X million of revenue bonds outstanding on June 30, 20X0. The bond indentures state that the revenue generated by airport operations is pledged as the sole source of repayment for the bonds. XX percent of the Airport Fund's revenues are associated with a single airline customer who has notified the City that it plans to terminate its lease and discontinue service to the City's airport by December 31, 20X0. A loss of revenue from that airline could adversely affect the Airport Fund.

Excerpt from fmx:

NOTE 17 – Risk Management Concentrations or Constraints

GASB 102 establishes financial reporting for certain risks that agencies face. Risks are conditions that give rise to the potential for loss or harm to an agency. Certain conditions may exist that make an agency vulnerable to those risks by exposing it to an increased possibility of loss or harm by limiting its ability to acquire resources or control spending.

GASB 102 also amends the National Council on Governmental Accounting (NCGA) Interpretation 6, *Notes to the Financial Statements Disclosure*, paragraph 5.

A **concentration** is a lack of diversity related to an aspect of significant inflow of resources (revenues) or outflow of resources (expenses). Examples include any composition of:

- Employers

- Industries
- Revenues
- Workforce covered by collective bargaining agreements
- Providers of financial resources
- Suppliers of material, labor or services

A concentration can occur from a tax or grant revenue that comprises a large portion of an agency's overall revenue or from a small group of potential suppliers necessary for the agency's operations.

A **constraint** is a limitation on revenue, spending or borrowing imposed by an external party or by formal action of an agency's or the state's highest level of decision-making authority, such as:

- Limitations on raising revenue
- Limitations on spending
- Limitations on the incurrence of debt
- Mandated spending

A constraint can also result from mandated spending because it prevents alternative uses of funds. These mandates are generally imposed by an external party but can be self-imposed in a manner that would make it externally enforceable and difficult to reverse. The *Texas Constitution* or bills passed through the legislative process are examples of potential mandated spending.

Disclosure Criteria

Agencies must make a note disclosure to the financial statements if all the following criteria are met:


- A concentration or constraint is known to the agency prior to the issuance of the financial statements.
 - The concentration or constraint makes the agency vulnerable to the risk of a substantial impact.
- AND–**
- An event or events associated with the vulnerability:
 - Has occurred
 - Has begun to occur
- OR–**
- Is more likely than not to begin occurring within 12 months of the date the financial statements are issued

A note disclosure to the financial statement is made prospectively and only applies to the current reporting period.

A disclosure is **not** required if the agency takes mitigating action that causes one or more of the above criteria not to be met.

Notes to the Financial Statements

Agencies must make disclosures about each concentration or constraint that meets all the above requirements. Agencies must also provide sufficient information to enable users of financial statements to understand the nature of the circumstances and the agency's vulnerability to the risk of a substantial impact associated with the concentration or constraint. Agencies must also disclose any actions it took to mitigate the risk prior to the issuance of the financial statements.



GASB Updates (Cont.)

GASB 102, Certain Risk Disclosures (Cont.)

Is a Disclosure Needed?

- Just because there is a concentration or constraint, does not mean a disclosure is necessary.
- There must be an event or events that could cause a substantial impact.
- If a mitigating action is taken to reduce the risk, it could negate the need for disclosure.
- AFR disclosure is added to Note 17, *Risk Management*
- This year, a new GASB 102 questionnaire is required to help agencies identify if a disclosure is necessary.

For more information, see AFR Reporting Requirements' [GASB Questionnaires](#).

GASB Statement No. 103, *Financial Reporting Model Improvements*, effective fiscal **2026 (fiscal years beginning after June 15, 2025. Earlier implementation is encouraged)**. GASB 103:

- The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.
- MD&A, unusual and infrequent items, operating vs nonoperating revenue, major component unit information, and budget comparison as RSI are addressed in this Statement.
- See GASB No. 103 for detailed information.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, effective fiscal **2026 (fiscal years beginning after June 15, 2025. Earlier implementation is encouraged)**. GASB 104:

- State and local governments are required to provide detailed information about capital assets in notes to financial statements. Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, requires certain information regarding capital assets to be presented by major class. The objective of this Statement is to provide users of government financial statements with essential information about certain types

of capital assets.

- This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.
- This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.
- See GASB No. 104 for detailed information.
- **Other Topics:**
 - **Comptroller Changes – see 2025 Updates Table for all changes:** fmx.cpa.texas.gov/fmx/pubs/afrrptreq/index.php. (Leanna) A few of the changes noted are:
 - GASB 101 – Note 5 update.
 - GASB 102 – GASB Questionnaires and Note 17 update.
 - **GASB Questionnaires** – added GASB 102 establishes financial reporting for certain risks that agencies face. Risks refer to conditions that give rise to the potential for loss or harm to an agency. Certain conditions may exist that make an agency vulnerable to those risks by exposing it to an increased possibility of loss or harm by limiting its ability to acquire resources or control spending. According to GASB 102, a note disclosure is required when a combination of a condition (concentration or constraint) plus an event associated with the vulnerability may result in a substantially negative impact on the agency. For more information, see **Concentrations or Constraints**. (relates to 102)
 - **Added GASB 102 requirements** for Concentrations or Constraints in Note 17 – Risk Management. (relates to 102)
 - See Accounting Policy Meeting for GASB 101 highlights.

<https://fmx.cpa.texas.gov/fmx/approp/acctpol/meetings/2025/05/agenda.php>
 - See Accounting Policy Meeting for SPA updates (9/1/2024 threshold increased from \$5K to \$10K for category 4 and 5 capital, \$500 to \$9999.99 for controlled

class codes, tracking of “historical treasures,”) SEFA Updates, and GASB 102, GASB 101.

<https://fmxcpa.texas.gov/fmx/approp/acctpol/meetings/2025/06/agenda.php>

- **Any audits of relevance?**
- **Anything else?**
- **Adjourn**