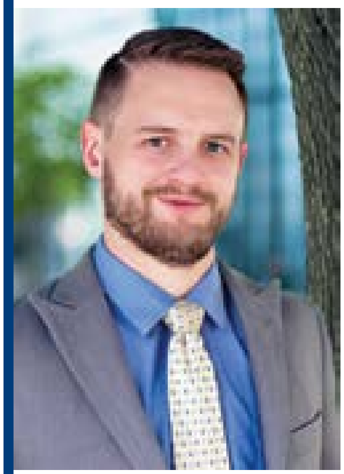
Accounting for Success

GASB 101 Is Here – What Bankers Need to Know About Its Impact on Government Borrowers



Michael E. Mast, CPA, CFE
Government Practice Group Leader
Belfint Lyons & Shuman, P.A.

"GASB 101 is not just an accounting technicality—it reshapes how compensated absence liabilities are measured..."

For bankers, understanding GASB 101 (Governmental Accounting Standards Board) is critical because it changes how governments measure and report compensated absence liabilities - directly affecting the financial position information you may rely on to assess lending risk. Effective for fiscal years beginning after December 15, 2023, this new standard can increase reported liabilities, reshape the way government borrowers present their financial health, and may alter key metrics.

What's Changed and Why It Matters to Bankers

- **Increases in Reported Liabilities:** GASB 101 changes the way leave is measured, and many governments will report larger compensated absence liabilities. Increases in compensated absence liabilities will potentially change debt ratios, net position, and other key credit indicators.

- **Expanded Cost Recognition:** In addition to direct wages, the liability must now include salary-related costs such as payroll taxes and defined pension contributions. This means the reported obligation better reflects the true payout cost and will increase liability totals.

- **Streamlined Disclosures:** In the notes to the financial statements, governments are now only required to disclose the net change in the liability, rather than detailing gross increases and decreases. While this makes reports easier to read, it also means bankers should dig deeper into the notes for year-over-year context.

- **Modernized Definitions:** Updated terms now align with current employment practices, reducing inconsistent application across governments.

Types of Leave Covered

The standard applies broadly, including vacation, sick leave, paid time off, parental leave, bereavement leave, and certain sabbatical leaves—all of which now fall under the revised measurement rules.

Timing for Your Borrowers

If a government's fiscal year began after December 15, 2023, GASB 101 applies now. For December 31, 2024 year-end governments, the first set of financial statements under the new rules is already in the books.

Key Takeaways for Credit Analysis

- Expect increased liabilities on the statement of net position, which could affect perceived credit strength.

- Because the change impacts long-term obligations, it may influence liquidity assessments and other key credit metrics.

- Review management's discussion and analysis (MD&A) and footnotes closely for explanations of the changes and their magnitude.

- Trend analysis will need to account for the step-up effect in liabilities so that prior-year comparisons remain meaningful.

Banker Action Steps

1. **Identify** whether the borrower's fiscal year start triggers GASB 101 implementation.
2. **Compare** compensated absence liabilities year-over-year; isolate the accounting change from operational trends.
3. **Adjust Ratios** – Recalculate debt ratios considering the new liability base.
4. **Ask Questions** – How does management plan to fund these obligations? Is there a reserve policy?
5. **Document** any covenant compliance issues caused solely by the standard change.

Bottom Line

GASB 101 is not just an accounting technicality—it reshapes how compensated absence liabilities are measured, and that can ripple into the financial metrics that you rely on for lending decisions. A proactive review of your government borrowers' 2024 financial statements will help you adjust your analysis and maintain accurate risk assessments.