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**Preparing for GASB’s Compensated Absences Changes – Statement 101**

The effective date for GASB’s Statement 101, *Compensated Absences*, has arrived. This will supersede guidance issued in 1992, Statement 16, *Accounting for Compensated Absences*. Since then, benefit practices have evolved, resulting in inconsistent application of guidance and a lack of guidance for new leave types. This update creates a unified model for recognition and measurement for all types of compensated absences and eliminates certain previously required disclosures.



**Background**

Statement 16 distinguished between different types of paid leave, providing different guidance for vacation leave and sick leave. Since Statement 16 was issued, the use of paid time off (PTO) (employees may use accrued hours of paid leave for either vacation or sick time) and compensatory time off (additional time off in lieu of overtime pay) have become more common. As a result, the distinction between vacation and sick leave in Statement 16 does not apply when governments provide PTO.

**Scope**

The statement will apply to the financial statements of all state and local governments and establishes standards of accounting and financial reporting for compensated absences and associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB) (collectively “DC plans”). Examples of compensated absences include vacation (or annual) leave, sick leave, PTO, holidays, parental leave, bereavement leave, and certain types of sabbatical leave.

Definition – Compensated Absence	
Statement 16	Statement 101
Absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave	<ul style="list-style-type: none"> <li>(a) Cash payments when the leave is used for time off</li> <li>(b) Other cash payments, such as payment for unused leave upon termination of employment, which includes voluntary resignation or retirement</li> <li>(c) Noncash settlements, such as conversion to defined benefit postemployment benefits</li> </ul>

## Sabbatical Leave

Sabbatical leave during which an employee is not required to perform any significant duties for the government—unrestricted sabbatical leave—is a compensated absence. Sabbatical leave during which an employee is required to perform duties of a different nature for the government, e.g., research instead of teaching, is not a compensated absence.

*This update does not apply to benefits that are within the scope of Statement 47, Accounting for Termination Benefits, as amended.*

## Recognition & Measurement

### Recognition

Statement 100 provides recognition criteria for both leave that has not been used and leave that has been used but not yet paid or settled.

*GASB believes that governments have obligations for both leave types that relate to compensated absences; however, this Statement does not require those liabilities to be aggregated in the basic financial statements. Aggregation would require some governments to remove amounts for leave that has been used but not yet paid or settled from one liability, such as for accrued payroll or related benefits, and instead include those amounts in another liability together with amounts for leave that has not been used. GASB concluded that the benefit of aggregating leave liabilities does not justify the cost of aggregation; Statement 100 allows governments to include their liability for leave that has been used but not yet paid or settled within a different liability, such as accrued payroll.*

#### A. Leave Used but Not Paid

A liability should be reported when leave is used for time off but has not yet been paid in cash or settled through noncash means, including unlimited leave and date-specific holiday leave. That liability, including any applicable salary-related payments (see details below), should be measured at the amount of the cash payment or noncash settlement to be made for the use of the leave.

#### B. Unused Leave

A liability should be recognized for leave that has not been used if all the following criteria are met:

**The absence is attributable to services rendered** – The employee has performed the services required to earn the leave.

**The leave accumulates** – Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid in cash or settled through noncash means.

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**The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.**

Unused leave generally includes sick leave and unrestricted sabbatical leave. For compensated absences that are dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any reporting period, a government should not recognize a liability until the leave commences. This exception covers parental leave, military leave, and jury duty leave. GASB concluded the costs of tracking these infrequent events would outweigh any benefit of calculating and recognizing a liability.

GASB also created additional exceptions for unlimited leave and holiday leave that is taken on a specific date and not at the employee's discretion. For these situations, a liability should not be recognized until the leave commences.

### More Likely Than Not (MLTN)

Under Statement 16, payments must be probable to be recognized, which is a high threshold. Under the new guidance, the recognition threshold is reduced to MLTN, generally considered to be greater than 50%. Management judgment will still be required by assessing the following relevant factors:

- The government's compensated absence employment policies, which may differ by class of employee
- Whether benefits for which services have been rendered will become eligible for future payment
- Historical information about the use, payment, or forfeiture of compensated absences
- Information known to the government that would indicate that historical information may not be representative of future trends or patterns

*Leave that is MLTN to be settled through conversion to defined benefit postemployment benefits should not be recognized as a liability for compensated absences because such leave is already considered in the pension or OPEB liability.*

### Measurement

The liability for unused leave should generally be measured using an employee's pay rate as of the date of the financial statements, with the following exceptions:

If some or all of the leave is MLTN to be paid at a rate different from the employee's pay rate at the time of payment, *i.e.*, if unused leave is paid upon termination of employment at one-half of an employee's pay rate, the government should measure that portion of the liability using that different rate as of the financial reporting date.

If the leave is not attributable to a specific employee as of the financial statement date, *i.e.*, if leave has been donated to a shared employee leave pool, the liability should be measured using an estimated pay rate that is representative of the eligible employee population.

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If some or all of the leave is MLTN to be settled through noncash means other than conversion to defined benefit postemployment benefits, a government should measure the liability based on the amount for which it is MLTN to be settled.

Changes to the liability measurement in future periods due to a change in pay rate should be recognized in the period of the change.

The liability measurement should include certain salary-related payments.

*Statement 16 currently allows for governments to choose one of two methods for accruing a liability for sick leave: termination payment method or vesting method. These methods are now eliminated.*

### Salary-Related Payments

Salary-related payments are obligations that a government incurs in paying an employee for services rendered; the payment can be either a fixed amount or an hourly wage. Examples of salary-related payments include the employer share of Social Security taxes and the employer share of Medicare taxes.

The compensated absences liability should include salary-related payments that are **directly and incrementally** associated with payments or settlements for compensated absences, except for DC plans. A payment is **directly associated** if the payment amount is a function of salary to be paid. A payment is **incrementally associated** if the government will make a payment in addition to the salary payment. The salary-related payments should be measured using the rates in effect at the financial reporting date. Changes to the measurement of salary-related payments in future periods due to a change in rate should be recognized in the period of the change.

For a salary-related payment that is partly incremental, the only amount that would be incrementally associated is the amount of employer contributions related to the portion of the accumulated leave that is MLTN to be used for time off. For example, a government that provides benefits through a DC pension plan may not be required to make employer contributions related to payments made for unused leave upon termination of employment.

Consistent with Statement 16, for leave that has not been used, salary-related payments related to DC plans should be recognized as pension or OPEB expense when the compensated absence is recognized and reported as a pension or OPEB liability rather than a compensated absences liability.

For leave that has been used, salary-related payments related to DC plans should be included in a pension liability or an OPEB liability in accordance with the requirements of Statements 68, 73, or 75, as amended.

*Salary-related payments related to defined benefit pensions or defined benefit OPEB should not be included in the measurement of liabilities for compensated absences, even if they meet the direct and incremental criteria above.*

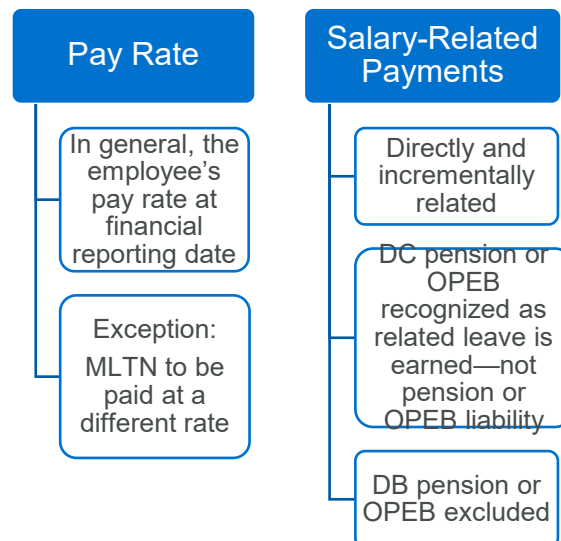
### Relationship to Postemployment Benefits

The projected effects on an employer's **defined benefit** postemployment benefits liability from a payment for compensated absences payment should not be included in the compensated absence liability. Some governments allow or require compensated absences (often sick leave) to be paid to an employee upon termination of

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employment through a distribution to an individual account (instead of directly to the employee) to be used for specified purposes, such as payment of the employee’s share of future healthcare premiums. Leave that has not been used, meets the recognition criteria above, and is MLTN to be paid in this manner should be included in a liability for compensated absences following the general measurement provisions above.

*This is consistent with the treatment under Statement 16.*



## Financial Statements Prepared Using the Current Financial Resources Measurement Focus

The amount of compensated absences recognized as expenditures in financial statements prepared using the current financial resources measurement focus should be the amount that normally would be liquidated with expendable available financial resources.

## Notes to Financial Statements

GASB concluded that gross presentation of compensated absences is less meaningful than for other long-term liabilities. Going forward, to meet long-term liabilities disclosure requirements of Statement 34, a government will

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have the option to present either the separate increases and decreases (gross presentation) or a net increase or a net decrease in its compensated absences liability. A government that discloses a net increase or a net decrease should indicate that it is a net amount. Statement 100 also eliminates the Statement 34 requirement to disclose which governmental funds typically have been used to liquidate the compensated absence liability.

Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, includes compensated absences as an example of a long-term liability. However, unlike other long-term liabilities, compensated absences generally do not have a set payment schedule. Breaking out the long-term and short-term portion requires estimation. GASB declined to provide any additional guidance on estimating cash flows or requiring a specific method for determining for this breakout.

## Transition & Effective Date

These changes are effective for reporting periods beginning after December 15, 2023, and early implementation is encouraged. Transition changes at adoption should be reported as a change in accounting principle in accordance with Statement 100, *Accounting Changes and Error Corrections* (see our article, “[GASB Updates Rules on Accounting Changes & Error Corrections](#)”).

## Conclusion

Being a public servant is not for the faint of heart. Aging infrastructure, limited revenue sources, regulatory changes, and ever-present budgetary constraints are only a few of the many challenges you face as you strive to meet the needs of your residents, customers, and communities. But everyone could use a little help now and then, and Forvis Mazars can help provide the support you need. Our public sector accounting, audit, and consulting experience and resources can help you stay compliant, stretch your dollar, and plan for the future.

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