

GASB 101

COMPENSATED ABSENCES

SUPERCEDES GASB STATEMENT NO. 16

EFFECTIVE DATE AND TRANSITION

- Effective for fiscal years beginning after December 15, 2023 (calendar year 2024 and fiscal year 2025). Early application is encouraged.

WHY GASB 101

Pre-agenda research indicated several issues with existing standards, including:

- A lack of guidance for certain types of leave.
- Inconsistent application of those standards
- Potential inconsistencies with the conceptual framework that was developed after the issuance of GASB Statement No. 16.

SCOPE AND APPLICABILITY

A compensated absence is leave for which employees may receive one or more

- Cash payments when the leave is used for time off;
- Other cash payments, such as payment for unused leave upon termination of employment; or
- Noncash settlements, such as conversion to defined benefit postemployment benefits.

Excludes Termination Benefits within the scope of GASB Statement No. 47.

EXAMPLES

- Vacation leave
- Sick leave
- Paid time off (PTO)
- Holidays
- Parental leave
- Bereavement leave
- Certain types of sabbatical leave

RECOGNITION AND MEASUREMENT

For leave that has not been used, a liability should be recognized if:

- The leave is attributable to services already rendered.
- The leave accumulates (no use-it-or-lose-it).
- The leave is **more likely than not** to be used for time off or otherwise paid in cash or settled through noncash means.

For leave that has been used, a liability should be recognized when:

- Leave has been used for time off but has not yet been paid in cash or settled through noncash means

MORE LIKELY THAN NOT

Factors to consider:

- Employment policies related to compensated absences
- Whether earned leave is, or will become, eligible for use or payment in the future
- Historical information about the use, payment, or forfeiture of compensated absences
- Known information that would indicate that historical information may not be representative of future trends or patterns.

EXCLUSIONS

- Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits
- Compensated absences that are dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees (parental leave, military leave, and jury duty) not until leave commences.
- Unlimited leave
- Holiday leave for specific date not at the discretion of the employee

FLows ASSUMPTION

- Cash payments for leave to be used for time off
- Cash payments for unused leave upon termination of employment
- FIFO vs. LIFO

EMPLOYEE'S PAY RATE

A liability for leave should be measured using an employee's pay rate as of the date of the financial statements, unless:

- Some or all of the leave is more likely than not to be paid at a rate different from the employee's pay rate at the time the payment is made
- Some or all of the leave is more likely than not to be settled through noncash means other than conversion to defined benefit postemployment benefits

SALARY-RELATED PAYMENTS

- A government should include in the measurement of its liabilities for compensated absences salary-related payments that are directly and incrementally associated with the leave.
- Includes employer share of social security and medicare taxes
- Excludes employer share of defined **benefit** pensions or defined **benefit** OPEB
- Includes employer share of defined **contribution** pension or defined **contribution** OPEB (only for leave that is more likely than not to be used)

NOTE DISCLOSURE

For the purpose of the long-term liabilities note disclosure, a government should present either:

- The separate increases and decreases, or
- A net increase or a net decrease in its liability

QUESTIONS

Jared Cottrell, CPA

Principal – Government Services

jared.cottrell@reaadvisory.com