GASB 101
Compensated Absences

AASBO
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ALABAMA DEPARTMENT OF
EXAMINERS
OF PUBLIC ACCOUNTS

GASB 101

- Compensated Absences
  - Issued June 2022
  - Effective for FY beginning after December 15, 2023 (FY2025)
    - Objective to update the recognition and measurement guidance for compensated absences. Supersedes GASB 16, Accounting for Compensated Absences (1992)
    - Establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pension and defined contribution other postemployment benefits.

Differences between GASBS 16 and GASBS 101

Aspect	GASB 16	GASB 101
Effective Date	Issued in 1992	Effective for fiscal years beginning after December 15, 2023
Scope	Focused on vacation and sick leave, with separate accounting treatments	Applies to all types of compensated absences (e.g., vacation, sick, PTO, parental, bereavement) under a unified model
Recognition Criteria	Liability recognized only if leave vests and is payable upon termination	Liability recognized if: (1) leave is attributable to past service, (2) it accumulates, and (3) it is more likely than not to be used or paid (i.e., >50% likelihood)
Measurement Focus	Primarily termination-based (vesting or termination method)	Conceptual framework based on usage likelihood, not just termination payout
Sick Leave Treatment	Often excluded unless paid out at termination	Included if more likely than not to be used before termination, even if not paid out
Calculation Method	Vesting or termination method	No prescribed method; entities must use historical data and judgment to estimate usage
Salary-Related Payments	Included if directly associated with leave	Continues to include salary-related payments (e.g., payroll taxes, pension contributions)
Policy Implications	Entities could avoid liability if leave wasn't paid out	Entities may now need to accrue liability even for non-vesting leave if usage is probable

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- What is a compensated absence?
  - Leave for which employees may receive one or more
    - (a) cash payments when the leave is used for time off;
    - (b) other cash payments, such as payment for unused leave upon termination of employment; or
    - (c) noncash settlements, such as conversion to defined benefit post employment benefits.
  - Payment or settlement could occur during employment or upon termination of employment (end of employee's active service). Compensated absences generally do not have set payment schedules. Examples include: vacation/annual leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave and certain types of sabbatical leave.

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- **Liability should be recognized in financial statements for leave that has not been used and leave that has been used but not yet paid or settled.**
  - Leave that has not been used should be recognized if
    - (a) leave is attributable to services already rendered,
    - (b) leave accumulates,
    - (c) leave is *more likely than not (*)* to be used for time or otherwise paid in cash or settled through noncash means.
- (*) – more likely than not defined as likelihood of more than 50%
- **Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be recognized as a liability for compensated absences. ** (See GASB 101 B25)
- ***Parental, military and jury duty leave should not be recognized as liabilities until the leave commences.

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- Use Professional Judgment
- GASB 101 ¶ 12:A government should 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:
  - a. The government's employment policies related to compensated absences
  - b. Whether leave that has been earned is, or will become, eligible for use or payment in the future
  - c. **Historical information about the use, payment, or forfeiture of compensated absences**
  - d. Information known to the government that would indicate that historical information may not be representative of future trends or patterns.

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- Liability for leave should be measured using employee's rate of pay as of the date of the financial statements. If any leave if more likely than not to be paid at a rate different from employee's pay rate at time payment is made, entity should measure that portion of the liability using that different rate (i.e., leave paid upon termination at one-half employee's pay rate).

- Salary-Related Payments
  - Should include in measurement of liability for compensated absences any salary-related payments that are directly and incrementally associated with the leave (i.e., employer share of social security and Medicare taxes). Use rates in effect as of financial statement date.
  - Do not include salary-related payments related to defined benefit pensions or defined benefit OPEB in compensated absences calculation.

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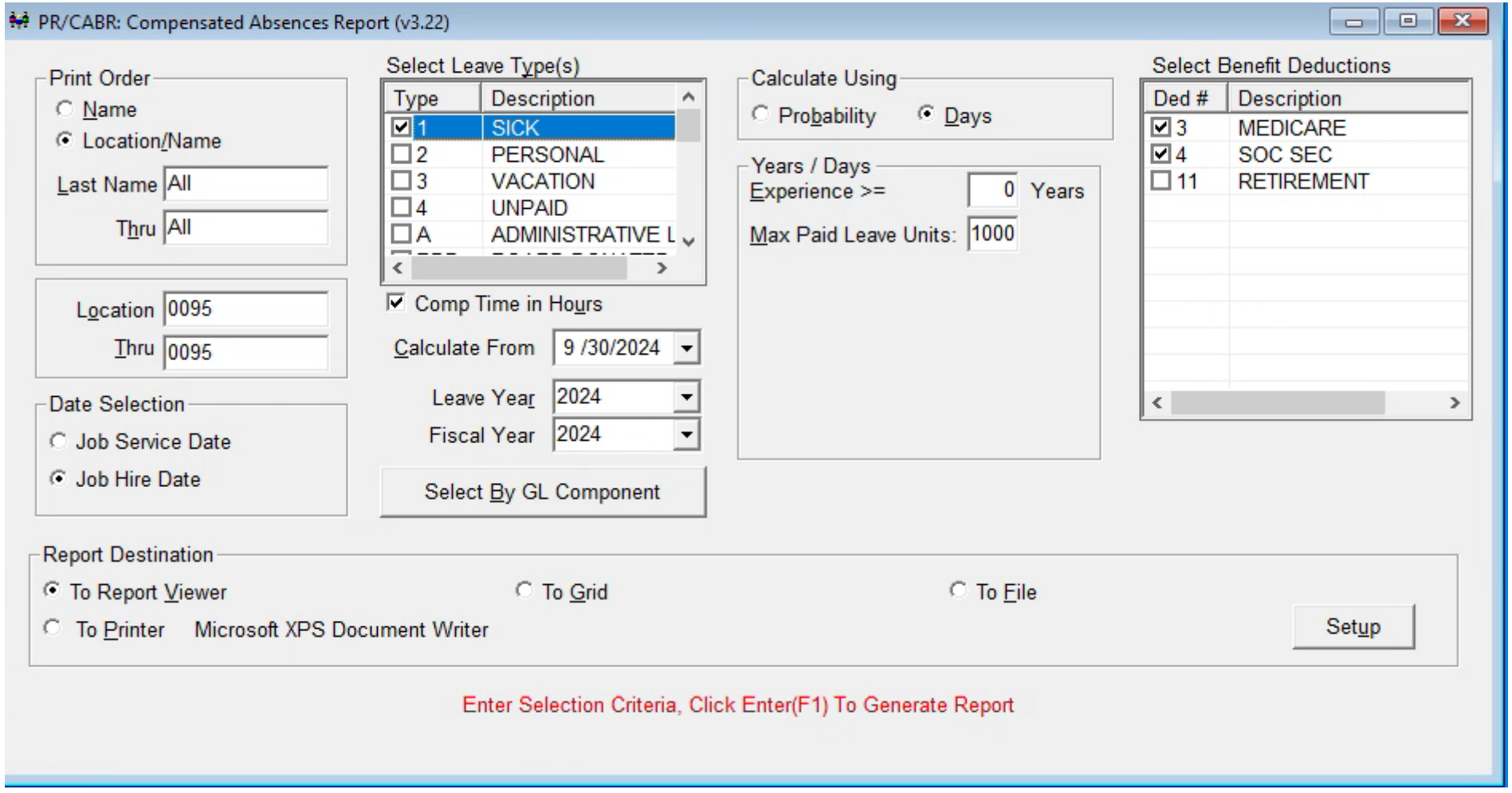
- Report for Calculating Liability : PR CABR



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- Report that can be used to calculate compensated absence liability for Sick Leave:
- PR CABR

RUN DATE: 04/17/2025
RUN TIME: 03:57PM

MCAI PAYROLL SYSTEM
LIABILITY FOR COMPENSATED ABSENCES
BOARD OF EDUCATION
LEAVE TYPES INCLUDED:
SICK
CALCULATIONS BASED ON EMPLOYEE EXPERIENCE >= 0 YEARS AND MAXIMUM DAYS ALLOWED = 1,000

REPORT LOCATION:
ALPHABETICAL WITHIN LOCATION
CERTIFIED EMPLOYEES

EMPLOYEE NAME	EMP NUMBER	JOB NO	EMP TYPE	CERT TYPE	HIRE DATE	YEARS EXPER	ACCUM LEAVE	MAX DAYS LEAVE	Prob PCT	PAY RATE	EMPLYR LIAB %	ESTIM PAY DUE
	14498	20	TE	C	2018-09-25	5	8.50	1,000.00		321.51	7.65	2,941.90
	25830	1	TE	C	2022-08-02	1	21.00	1,000.00		366.06	7.65	8,275.34
	15990	1	TE	C	2005-08-10	18	101.00	1,000.00		423.30	7.65	46,023.93
	24357	1	TE	C	2019-08-01	4	20.50	1,000.00		276.96	7.65	6,112.02
	15121	1	TE	C	2004-08-04	19	10.50	1,000.00		366.06	7.65	4,137.67
	17617	20	EA	C	2021-09-06	2	111.50	1,000.00		391.70	7.65	47,015.65
	7848	1	TE	C	1995-10-23	28	12.50	1,000.00		400.36	7.65	5,387.34
	12245	1	TE	C	2001-03-21	22	63.00	1,000.00		377.16	7.65	25,578.80
	23295	1	TE	C	2017-08-02	6	7.00	1,000.00		276.96	7.65	2,087.03
	12513	1	TE	C	2001-07-23	22	109.50	1,000.00		377.16	7.65	44,458.40
	13182	1	TE	C	2002-02-21	21	12.50	1,000.00		369.73	7.65	4,975.18
	15857	1	TE	C	2005-04-27	18	41.50	1,000.00		315.17	7.65	14,080.14
	16109	1	TE	C	2005-08-10	18	9.50	1,000.00		362.44	7.65	3,706.58
	2339	20	TE	C	2022-12-05	1	12.00	1,000.00		373.43	7.65	4,823.97
	21589	1	TE	C	2015-01-05	8	27.00	1,000.00		328.12	7.65	9,536.97
	25718	1	TE	C	2022-01-31	1	10.00	1,000.00		254.55	7.65	2,740.23
	21921	1	TE	C	2015-08-10	8	46.50	1,000.00		308.96	7.65	15,465.69
	13344	1	TE	C	2002-06-10	21	177.00	1,000.00		373.43	7.65	71,153.54
	17123	1	TE	C	2006-09-18	17	45.00	1,000.00		358.85	7.65	17,383.59
	10117	1	TE	C	1998-09-17	25	62.50	1,000.00		388.58	7.65	26,144.15
	20136	1	TE	C	2012-05-10	11	125.50	1,000.00		338.06	7.65	45,672.16
	17603	1	TE	C	2007-08-06	16	19.50	1,000.00		383.21	7.65	8,044.25
	9293	1	TE	C	1997-08-21	26	43.00	1,000.00		392.47	7.65	18,167.24
	11036	1	TE	C	1999-09-30	24	94.00	1,000.00		410.85	7.65	41,574.32
	14047	1	TE	C	2014-08-04	9	99.00	1,000.00		357.42	7.65	38,091.50
	20661	1	TE	C	2020-08-04	3	3.00	1,000.00		265.33	7.65	856.88
	12737	1	TE	C	2001-08-21	22	4.00	1,000.00		377.16	7.65	1,624.05
	25868	1	TE	C	2022-08-02	1	1.00	1,000.00		254.55	7.65	274.02
	15069	1	TE	C	2004-08-04	19	31.50	1,000.00		377.16	7.65	12,789.40
	21859	1	TE	C	2015-08-10	8	23.00	1,000.00		328.12	7.65	8,124.09
	12279	1	TE	C	2001-03-26	22	61.50	1,000.00		369.73	7.65	24,477.88

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- Report that can be used to calculate Sick leave compensated absences Liability :
- PR CABR

RUN DATE: 04/17/2025 MCAI PAYROLL SYSTEM Page 4 of 4

RUN TIME: 03:57PM LIABILITY FOR COMPENSATED ABSENCES PR CABR

COUNTY BOARD OF EDUCATION

LEAVE TYPES INCLUDED:

REPORT LOCATION: SICK

ALPHABETICAL WITHIN LOCATION CALCULATIONS BASED ON EMPLOYEE EXPERIENCE >= 0 YEARS AND MAXIMUM DAYS ALLOWED = 1,000

NON-CERTIFIED EMPLOYEES

EMPLOYEE NAME	EMP NUMBER	JOB NO	EMP TYPE	CERT TYPE	HIRE DATE	YEARS EXPER	ACCUM LEAVE	MAX DAYS LEAVE	Prob PCT	PAY RATE	EMPLYR LIAB %	ESTIM PAY DUE

Func	Total
1100	528,576.99
2180	8,275.34
2210	72,168.08
2220	5,387.34
2310	100,489.46
3200	16,037.77
9140	26,097.11
TOTAL:	757,032.09

END OF REPORT

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- Change in accounting principle so should be reported retroactively by **restating beginning net position** for the cumulative effect, if any, of the change to the newly adopted accounting principle on prior periods.

- **Note Disclosure** – present the changes in compensated absence liability in the long-term liabilities note disclosures (required by paragraph 119b of Statement 34) as in past. No longer required to disclose which governmental funds have been used to liquidate the compensated absences liability.

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- Where is liability reported?
  - Reported on Government Wide Financial Statements (economic resources measurement focus and accrual basis of accounting)
  - Long-term Debt
    - Due within one year
    - Due after one year

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- B41 - Statement 34, as amended, requires governments to report the amount of long-term liabilities that are due within one year. As previously noted, compensated absences are different from certain other long-term liabilities because compensated absences generally do not have a set payment schedule, thereby making the amount due within one year an estimate. Some preparers surveyed in the pre-agenda research indicated difficulties in determining that estimate, and some users interviewed expressed concerns about the reliability of the resulting estimate. For those reasons, the Board considered an exception to the Statement 34 requirements. However, there is evidence that financial statement users consider that amount in assessing short-term liquidity and management of the workforce. Weighing the benefits provided to users against the difficulties faced by some preparers, the Board concluded that the liability for compensated absences should continue to be reported in two components: the amount estimated to be due within one year and the amount estimated to be due in more than one year (although those amounts may be combined with other long-term liabilities on the face of the financial statements). The Board believes that estimating the amount due within one year is not more burdensome to preparers than determining other required estimates. The Board also believes that the expected benefits to financial statement users of having that information justify the perceived costs to preparers.

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- Governmental Fund Financial Statements (current financial resources measurement focus and modified accrual basis of accounting)
  - GASBS 101 ¶127
  - 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**. Liabilities for compensated absences are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements.

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- **B6. The Board believes that governments have obligations for both (a) leave that has not been used and (b) leave that has been used but not yet paid or settled. The liabilities that result from both obligations relate to compensated absences; however, this Statement does not require those liabilities to be aggregated for display 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 attributable to leave that has not been used. The Board believes that the expected benefit of aggregating liabilities for leave that has not been used and leave that has been used but not yet paid or settled does not justify the perceived costs of aggregation. Therefore, this Statement 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.**

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- B57. The Board considered whether guidance should be developed or amended for the recognition and measurement of compensated absences in governmental funds. Previous guidance for recognition of compensated absences under the current financial resources measurement focus was provided in paragraph 13 of Statement 16, as amended. That guidance was expanded upon by Interpretation 6, as amended. The Board considered whether the existing guidance should be evaluated in light of separate deliberations on improvements to the financial reporting model. Given the timing of this Statement, the Board determined that the proposals in the reexamination project for the financial reporting model should not be considered for application to compensated absences in this Statement. Furthermore, the Board determined that it would be inappropriate to develop new guidance specifically for the recognition of compensated absences in the governmental funds, given that such guidance could be amended or superseded by new financial reporting model guidance. Therefore, the Board decided to carry over the guidance previously contained in Statement 16, as amended, and not to amend the guidance in Interpretation 6, as amended, regarding the recognition and measurement of compensated absences in governmental funds using the current financial resources measurement focus.

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- Example –
  - Sick leave that is earned each month and carries over without limit at the end of the fiscal year, but any unused leave is not paid upon termination of employment
    - Leave accumulates because it carries over at the end of the fiscal year. **Government should estimate how much of the leave is more likely than not to be used as paid leave and recognize that portion as a liability for compensated absences**.
  - Remember, leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees should not be recognized as a liability until the leave commences (i.e., parental leave, miliary leave, and jury duty leave)

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- To do –
  - Review polices for all types of leave
  - Determine which types of leave
    - (1) accumulate
    - (2) are attributable to services already rendered
    - (3) are more likely than not to be used for time off or otherwise paid in cash or settled through non-cash means.
  - Determine amount of liability for the balances of these types of leave at 9/30.
    - Estimate how much is likely to be converted to retirement credit and determine if that will affect amount of liability reported.
    - Estimate how much likely to be used within next year to calculate short-term portion to report on government wide financial statements
    - Determine if any leave will be liquidated with current financial resources and need to be reported on the governmental fund statements.

Questions?

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