

More Liabilities, Please! Changes to Reporting Compensated Absences under GASB 101

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In June 2022, the Governmental Accounting Standards Board (GASB) issued a new standard to update the guidance for reporting on Compensated Absences. GASB 101, Compensated Absences replaces the old standard GASB 16, which was issued over 30 years previously. GASB 101, Compensated Absences is effective for fiscal years beginning after December 15, 2023, and earlier application is encouraged.

There are quite a few differences between the old and new standards. Under GASB 16, sick and vacation leave were considered separate and distinct and received different types of accounting treatment. Under the new standard, all various kinds of leave, including sick leave, will receive the same accounting treatment. In addition, the types of leave have changed dramatically since GASB 16 was issued; therefore, there was a need to bring some of these “other types” of liabilities onto the balance sheet and provide guidance for recognition and exceptions.

Examples of different types of leave in today’s environment can include any combination of the following:

- Vacation and sick leave
- Paid Time Off (PTO)
- Holidays
- Parental Leave
- Certain types of sabbatical leave

Governments must now accrue time that has accumulated and is likely to be used, even if these balances will not be paid upon termination. In addition, the threshold for recognizing a liability decreased from “probable” (likely) to “more likely than not” (likelihood of 50% or higher). The term “more likely than not” will require the government to do some additional assessment of the policies related to compensated absences. This assessment will include whether the leave

has been earned or will become eligible for use or payment in the future, historical information about the use and payment of the leave, and information known to the government that will affect future trends or patterns.

Some consistencies will remain. The governments will continue to use the rate of pay that is in effect as of the balance sheet date when calculating the liability. In addition, all salary-related payments, including the employer's share of payroll taxes, etc. should be included in the calculation.

This statement requires that liabilities for compensated absences be recognized for:

- Leave that has not been used
- Leave that has been used but not yet paid in cash or settled through noncash means
- Three criteria are required to recognize leave that has not been used:
 - The leave is attributable to the services already rendered
 - The leave accumulates
 - The leave is "more likely than not" to be used for time off or otherwise paid in cash or settled through noncash means

There are some exceptions to the general recognition approach described above:

- Leave that is more likely than not to be settled through conversion to a defined benefit post-employment benefit plan should not be included in a liability for compensated absences.
- Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period would only be recognized when the leave commences such as parental leave, military leave, jury duty, etc. (not sick leave or sabbatical leave).
- Unlimited leave and holiday leave taken on a specific date is recognized when used.

At times, there can be leave that is not attributable to a specific employee, i.e. if the entity has a "leave pool". If there is leave of this type as of the date of the financial statements, the GASB has advised that the government should measure the liability using an estimated pay rate representative of the eligible employee population. As auditors, we would want to be able to review how the government determined this number based on supporting documentation.

The note disclosures have changed slightly under the new standard. While there are no new requirements related to the note disclosure, governments now may present the net increase or decrease rather than gross activity. In addition, governments will no longer be required to disclose the governmental funds used to liquidate the liability.

Some time will be needed to prepare for the implementation of this standard. Governments will need to accumulate historical information about these various types of leave and payments and gather some information about expected future eligibilities in the organization. Beginning this process as soon as possible will help to ensure a smooth closeout at year-end.

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