

# GASB 101 – Compensated Absences

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I'm sure if you have been to one of HeinfeldMeech's recent trainings you may have heard that the Governmental Accounting Standards Board (GASB) just crossed 100 issued Statements. While [GASB Statement 101](#) won't have quite the same financial impact that recently implemented GASB Statements like leases (GASB 87) or subscription based IT assets (GASB 96) the impact will most likely be felt by all governments that offer leave to employees. GASB 101 is effective for fiscal years beginning after December 15, 2023 (fiscal year 2024-25 for most entities), but early implementation is encouraged.

GASB 101, Compensated Absences replaces the GASB 16 which was issued in 1992. The objective of GASB 101 is to better meet the information needs of financial statement users by updating recognition and measurement guidance to be under a unified model. GASB 16 was primarily focused on the model of vested sick and vacation leave, for example if everyone quit on June 30<sup>th</sup> of a given fiscal year how much would the governmental entity have to pay out. GASB 101 is changing the model to not just address vested sick and vacation leave but also looks at various kinds of vested and unvested leave a governmental entity could provide such as PTO, sick, vacation, unrestricted sabbatical leave and other leave that meets the following criteria:

- The leave is attributable to services already rendered
- The leave accumulates; and
- The leave is more likely than not to be used for time off or otherwise paid or settled

The Statement provides a definition of leave that is attributable to services already rendered as "leave for which an employee has performed the services required to earn the leave", in other words the employee has worked the hours to earn the leave. The statement also defines leave

accumulates as “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”. The final bullet of leave is more likely than not to be used for time off or otherwise paid or settled means a likelihood of more than 50 percent. The Statement specifically excludes recognizing a liability for unlimited leave, holiday leave, parental leave, military leave and judicial leave until the leave is used. The Statement also specifically excluded termination benefits (addressed by GASB 47) and leave more than likely to be converted into certain retirement plans.

If you are thinking the implementation of GASB 101 will most likely result in an increase in the compensated absences liability that is reported, you would be correct. The governmental entity would still calculate and report the liability for vested leave (sick, vacation, comp time, PTO) as before but what will also be required is calculating and reporting a liability for leave that will not get paid out when the employee separates employment but meets the three bullet criteria above. For example, if the government has a sick leave policy where employees can earn sick leave that accumulates and is more than 50% likely to be used, but the leave does not get paid out when the employee leaves, the government would be required to include the unvested sick leave in the beginning liability, activity and ending liability for compensated absences. Another example could be where the government only pays out leave for 100 hours of vacation leave but allows the employee to accumulate an unlimited vacation leave and is more than 50% likely to be used, the government would be required to include the vested and unvested vacation leave in the beginning liability, activity and ending liability for compensated absences.

One limiting factor on how large the compensated absences liability ends up being is that the government can multiply the unvested liability by the historical percentage in which the unvested leave ends up being used as part of determining the amount of leave that is more likely than not of being used, paid out or settled. In other words, if the amount of unvested leave that ends up being used is historically 75 percent then the unvested leave amount could be multiplied by that percentage, and thereby reducing the liability.

Finally, there were some other changes in the Statement that do not lessen the work required but also don't add to it including that the government is no longer required to present the gross additions and deductions to the liability and is only required to report the net change in the notes to the financial statements. Although, we imagine the auditors will still want the gross changes so they can perform test work and analytics on the additions and deductions. The final change is the removal of the requirement to disclose which funds are typically used to pay the compensated absences.

Although most of the clients we work with have until June 30, 2025 to implement the new statement we recommend that governments start planning early. Don't wait until the auditors are asking for the compensated absence report before you start trying to figure out what effect GASB 101 will have on your government! Have discussions with your auditors, review your leave policies and determine the impact on your financial statements.

**Related articles:**

- [GASB 94: P3s and APAs is Effective – Don't Miss It!](#)
- [GASB 87 Leases – Year 2 Trials and Tribulations](#)
- [GASB 96 – Subscription-Based Information Technology Arrangements \(SBITA\)](#)