

Understanding the Latest GASB Audit Updates: What You Need to Know About Statement 101

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Why the Change?

The goal of GASB 101 is to standardize and clarify the accounting treatment of compensated absences, ensuring consistent recognition of leave-related liabilities across governmental entities. These changes are meant to enhance transparency and comparability in financial reporting.

What Counts as Compensated Absences?

The types of compensated leave addressed include:

- Vacation and annual leave
- Sick leave
- Paid time off (PTO)
- Personal leave
- Comp time
- Holidays and floating holidays
- Bereavement, parental, military, jury duty, and sabbatical leave
- Unlimited leave
- Others based on entity policy

Key Concepts: When to Recognize a Liability

Not all types of leave are treated the same. Here's a breakdown of the main scenarios:

☑ Recognize a Liability (if leave is vested or likely to be used):

- Vacation, PTO, personal leave, comp time
- Sick leave that accumulates and is more likely than not to be used or paid
- Leave paid out upon termination

These should be recorded using the employee's pay rate at the end of the fiscal year, unless a different rate is more likely for payout.

☒ Do Not Recognize a Liability (until leave is used or event occurs):

- Sporadic-event leave (e.g., bereavement, jury duty, parental leave, military leave)
- Sabbatical leave involving continued work duties
- Holiday leave taken on fixed dates
- Unlimited leave
- Floating holidays (used at employee discretion)

There are additional considerations that need to be had with respect to sabbatical leave and floating holidays. If sabbatical leave involves continued work duties while on leave, this is not considered a compensated absence. In addition, if floating holidays are to be used at the employee's discretion they should be evaluated with vacation/sick leave.

The Tricky Case of Sick Leave

Sick leave treatment depends on multiple factors:

- Not recognized: If it doesn't carry over or isn't paid at termination *or isn't more likely than not to be used*
- Recognized: If it carries over and is expected to be used or paid
- Estimate required: If it carries over but not to calendar year-end, or if payout likelihood varies

Each scenario should be carefully evaluated using historical data and current policy.

How Clients Should Prepare

Two questions guide implementation:

1. How do you determine 'more likely than not'?
 - Assess existing leave policies
 - Historical usage or payout trends
 - Known changes that may affect usage in future
2. What pay rate should be used?
 - Use the financial statement date rate unless:
 - Payout is expected at a different rate
 - Leave is pooled or donated
 - It will be settled in non-cash form

Additional Considerations

- Recalculate beginning balances for FY25
- Disclosures can show either separate increases/decreases or net changes
- No need to disclose specific funds used to pay liabilities
- Salary-related payments (e.g., Social Security, Medicare) must be included
- Defined benefit pension/OPEB costs are excluded
- Defined contribution plans may be included depending on payout timing

Wrapping It Up

While GASB Statement 101 introduces a new layer of complexity, it also offers much-needed clarity. By aligning your policies and calculations with these updates, you can ensure compliance and avoid surprises during your next audit.

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