WHAT YOU NEED TO KNOW ABOUT GASB STATEMENT NO.101, *COMPENSATED ABSENCES*

CRI CARR RIGGS & INGRAM
CPAs and Advisors

What: In June 2022, the GASB issued a new Statement on accounting for and reporting compensated absences—sick leave, vacation, paid time off, parental leave, military leave, and other forms of leave for which a government's employees receive (1) cash when leave is used, (2) cash at the end of employment, or (3) noncash settlement (such as conversion to pension benefits).

Why: GASB's reexamination of Statement No. 16, Compensated Absences, found (1) variation in how governments were applying the standards, (2) changes in the forms of leave governments provide that the standards didn't address, (3) inconsistency with the GASB's Concepts Statements, and (4) certain required disclosures that are less valuable to users of financial statements.

Who: All state and local governmental entities.

When: Fiscal years beginning January 1, 2024 and later (July 1, 2024; October 1, 2024). Earlier application is encouraged.

Summary of the Requirements

Governments should recognize a liability for compensated absences for leave that has not been used if the leave: (1) is attributable to past employee service, (2) carries forward to future periods, and (3) is more likely than not (greater than 50%) to be used, paid, or settled. The liability should include salary-related payments such as Social Security and Medicare taxes.

For cost-benefit reasons, there are three exceptions to that general approach. A government should not recognize a liability until the leave begins for:

1. Parental leave, military leave, jury duty leave and other compensated absences that depend upon the occurrence of a sporadic event that affects a relatively small proportion of employees
2. Unlimited leave
3. Holiday leave that employees are required to take on a specific date.

The liability for compensated absences generally should be measured as: (accumulated leave × employee pay rates as of the date of the financial statements) + salary-related payments.

For leave that will be settled through conversion to defined benefit pensions or other postemployment benefits (OPEB), a government should apply the pension and OPEB standards, rather than the compensated absences standards.

For leave that has been used but not yet paid, a government should recognize a liability for the cash payment or noncash settlement to be made for the leave, including any salary-related payments.

Key Changes to the Standards

- There is a single general approach to measuring and recognizing the liability for compensated absences, rather than different approaches for vacation and sick leave.
- The standards also address leave that has been taken but not yet paid.
- The concept of vesting no longer is relevant to accounting for compensated absences.
- Likelihood of being compensated has been lowered from probable to more likely than not.
- Leave that will be settled by making contributions to a defined contribution plan will be reported as a liability when earned, rather than when the contribution is due to be made.
- In the note disclosure of changes in long-term liabilities, a government may show either separate increases and decreases (the prior requirement) or a single net increase or decrease as long as it is labeled as a net change.
- Governments no longer are required to disclose the governmental funds used to liquidate the liability.

What to Do to Get Ready for Statement 101

The first and most important task is to inventory all types of leave that are provided to employees. Then review the policies for each type of leave to determine:

- Whether balances can be carried forward to future years
- What limitations, if any, affect how much leave can be carried forward
- How much leave has been accumulated to date
- The pay rates at which employees are compensated for leave
- Whether leave is compensated by cash payment or settlement through conversion to retirement benefits (and whether those benefits are provided though defined benefit or defined contribution plans)
- Whether the likelihood that leave will be paid or settled is greater than 50%
- What salary-related payments exist.

If you need assistance with getting ready for the new compensated absences standards, contact your CRI advisor and we'll help get you get ready to apply Statement 101.