

## **GASB 101, *Compensated Absences***

### **FAQs**

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#### **Q1 When is GASB Statement No. 101 *Compensated Absences* effective?**

GASB 101 is effective for fiscal years beginning after December 15, 2023 (Ohio governments are required to implement GASB 101 beginning with calendar year ended December 31, 2024, and fiscal year ending June 30, 2025). (GASB 101 ¶32)

GASB 101 supersedes GASB 16 for the reporting of compensated absences. (GASB 101 ¶7)

#### **Q2 What are the reporting requirements for regulatory and OCBOA filers?**

Similar to GASB 16, liabilities for compensated absences will continue to not be recognized on regulatory statements or on OCBOA cash basis (unmodified) and OCBOA modified cash basis; therefore, these preparers will only need to incorporate changes to their Notes to the Basic Financial Statements. When preparing the Notes to the Basic Financial Statements, for both regulatory, OCBOA cash basis (unmodified), and OCBOA modified cash basis, the following note disclosures should be made:

- the summary of significant accounting policies should describe the accounting treatment for accumulated leave, including balances that can be used for time off as well as balances for which employees are entitled to cash payments, as applicable.

#### **Q3 How do the new GASB 101 requirements differ from those of GASB 16?**

GASB 16 guidance provided one approach for sick leave and a separate approach for vacation leave while GASB 101 does not make this distinction and provides a single approach related to all compensated absences. Although GASB 101 provides a single approach; to better align with the manner in which the information is tracked, local governments may find it easier to do separate calculations for sick leave and vacation leave under GASB 101.

- GASB 16 reported the required liability for both sick leave and vacation leave when the respective payment was probable, while GASB 101 reports the liability when payment is “more likely than not.” “More likely than not” is a lower bar for reporting compensated absences than probable and will likely result in a higher liability being reported. This lower bar impacts the sick leave liability, as the full balance is not expected to be paid at 100 percent. As the likelihood of payment declines, the percentage of the outstanding accumulated balance expected to be paid increases. The same impact is not expected with vacation leave, unless vacation leave is paid at less than 100 percent. For example, if it was probable the outstanding accumulated vacation leave would be paid at 100 percent under GASB 16, it will also generally be “more likely than not” to be paid at 100 percent under GASB 101.
- For sick leave, GASB 16 focused on separation payments, while GASB 101 also includes paid time off. This addition of paid time off for sick leave to the compensated absences liability will also likely increase the amount reported as a liability.
- GASB 16 provided two methodologies (along with illustrations) for estimating the liability related to sick leave, the vesting method and the termination method. GASB 101 does not provide any specific methodology for making these calculations nor does it provide any illustrations. GASB 16 included the vesting method out of concern that the historical information needed for the termination method might not be available to all governments. GASB believes that governments now generally have access to historical data that can facilitate such an estimate. (GASB 101 ¶B13)

## **GASB 101, *Compensated Absences***

### **FAQs**

---

#### **Q4 How are compensated absences defined under GASB 101?**

- GASB 101 paragraph 3 defines a compensated absence as:
  - A compensated absence is 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 postemployment benefits. The payment or settlement could occur during employment or upon termination of employment. Compensated absences generally do not have a set payment schedule. Examples of compensated absences include vacation (or annual) leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave. See also GASB 101 paragraph 4 for additional information related to sabbatical leave.
- As used in GASB 101, termination of employment refers to the end of an employee's active service, which can occur for a variety of reasons, including voluntary resignation or retirement. (GASB 101 ¶5)

#### **Q5 Under GASB 101, when should a liability be recognized for compensated absences**

Financial statements prepared using the economic resources measurement focus will report:

- leave that has not been used; (See Q6) and,
- leave that has been used but not yet paid or settled.

These liabilities are not required to be aggregated for display in the basic financial statements. Applicable salary-related payments should be included in the measurement of those liabilities. (GASB 101 ¶8)

The liability for leave that has been used, but not yet paid, will typically be identified and reported in accrued wages and the salary related payments for the accrued wages will typically be included in intergovernmental payable. These liabilities do not need to be aggregated with compensated absences payable. (See also GASB 101 ¶21)

#### **Q6 Under GASB 101, when should a liability be recognized for compensated absences for leave that has not been used? (Formerly Q4)**

GASB 101 identifies three methodologies for recognizing a compensated absences liability:

- ***Recognize the liability when leave commences***—these liability amounts can typically be identified by the fiscal officer – only significant amounts need to be reported. **(Group 1)**

For types of compensated absences that are dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period, a government should not recognize a liability until the leave commences. For the purposes of this Statement, parental leave, military leave, and jury duty leave should not be recognized as liabilities until the leave commences. However, sick leave and unrestricted sabbatical leave should be recognized in accordance with the provisions in paragraph 9. (GASB 101 ¶14)

- ***Recognize the liability when leave is taken***—these liabilities are typically included in accrued wages. **(Group 2)**

## GASB 101, *Compensated Absences* FAQs

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For the following types of compensated absences, a government should not recognize a liability until the leave is used:

- a. Leave that employees are able to take as needed without specific limits (sometimes referred to as *unlimited leave*)
- b. Holiday leave that is taken on a specific date not at the discretion of employees. (GASB 101 ¶15)

- ***Recognize the liability for leave that has not been used*** – these liabilities will typically need to be calculated/estimated. (**Group 3**) (See Q8):

Except as identified above, a liability should be recognized for leave that has not been used if all of the following are true (GASB 101 ¶9):

- a. The leave is attributable to services already rendered. (See GASB 101 ¶10) Meaning, the employee has already performed the services required to earn the leave.
- b. The leave accumulates. (See GASB 101 ¶11) Meaning, it carries forward from one reporting period to the next. If you have a fiscal year end of December 31, leave that accumulates will carry from December 31 of one year to January 1 of the following year.
- c. The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Meaning, a likelihood of more than 50 percent.

Local governments should review their negotiated agreements and other applicable leave policies to identify types of leave fitting into the above compensated absence categories. This review should be documented for audit purposes.

This review of the negotiated agreements and other applicable leave policies should also identify how leave is accumulated, used, and paid. Details (including accumulation limits and payment percentages) related to payment categories for each type of leave should be identified. Payment categories can include, but are not limited to:

- leave time taken as days off;
- leave time that is converted to cash while an employee is still in active service (buyout);
- unused leave time that is converted to cash upon separation or retirement (separation payments); and,
- other categories identified by the local government.

Also, identify the payment percentages and accumulation limits for each payment category.

### **Q7 How does the flows assumption impact my compensated absences liability?**

Local governments should identify their flows assumption for the pattern of usage of compensated absences. The flows assumption identifies whether the leave a local government expects to pay in the next reporting period will be attributed first to:

- The balances reported as part of the liability at the date of the financial statements (a first-in, first-out [FIFO] flows assumption); or,
- New leave earned in the next reporting period (a last-in, first-out [LIFO] flows assumption).

## **GASB 101, *Compensated Absences***

### **FAQs**

---

GASB did not provide guidance on the flows assumption in the final statement; however, local governments can look to their negotiated agreements/employment policies as they identify their flows assumption. (See GASB 101 ¶¶B43-B45 for discussion of the flows assumption.) In making their evaluation, local governments can also consider past practices established in union/employment negotiations and can review leave usage records to determine how balances are maintained.

It is recommended that local governments adopt a policy related to their flows assumption for compensated absences and disclose such a policy in the notes to their financial statements as part of their summary of significant accounting policies. The flows assumption should be representationally faithful to negotiated agreements and policies. Meaning, the flows assumption aligns with how their compensated absences will be paid. Governments will want to document their rationale for their flows assumption and should have documentation supporting this rationale available for their auditors.

The documentation developed in this step (Q7) can be added to documentation developed in Q6, above.

#### **Q8 How do I identify the leave that has not been used that is more likely than not be used for time off or otherwise paid in cash?**

Every local government will need to follow GASB 101 ¶12 to evaluate whether leave is more likely than not to be used for time off or otherwise paid in cash. Relevant factors to consider include:

- The government's employment policies related to compensated absences
- Whether leave that has been earned is, or will become, eligible for use or payment in the future
- Historical information about the use, payment, or forfeiture of compensated absences
- Information known to the government that would indicate that historical information may not be representative of future trends or patterns.

The remaining discussion illustrates one possible approach:

Note: This approach description illustrates certain requirements of GASB 101. It is illustrative only and is not intended to modify or limit the requirements of GASB 101 or to indicate your auditor's endorsement of the policies or practices shown. Each local government's facts and circumstances will need to be evaluated on a case-by-case basis.

For leave that has not been used (unused balance) that has been identified in Group 3 from Q6 above, perform the following steps for each type of leave:

- Review documentation from negotiated agreements and other applicable policies completed in Q6 and Q7.
- Amounts will be needed by fund and function/financial statement program. If the computer system generates a report by employee with departmental subtotals, these subtotals can be used. Adjustments may be needed if employees are paid out of multiple funds and functions/financial statement programs. Consider if a compensated absence fund is used and what leave payment categories will be paid out of this fund.

## GASB 101, *Compensated Absences* FAQs

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- Identify outstanding leave balances at year end (the balance that accumulates—see Q6, Group 3, above)
  - Ensure amounts used but not yet paid are excluded from year end balances—these amounts are identified in Q5.
  - Ensure both earnings and usage are reflected in the balance as of the report date (i.e. does the report include earnings through the end of the year and usage through the end of the year.)
  - Use the closest report to the end of the year, considering proper cut-off.
  - Adjust earnings/usage if there are significant errors in the amounts.
- Identify rate of pay as of the date of the financial statements (GASB 101 ¶16) (Note: Changes to the measurement of the liability in future period due to a change pay rate should be recognized in the period of change. GASB 101 ¶20)
- Calculate the leave value (outstanding year end leave balance multiplied by the rate of pay)
- Determine the different payment categories for each type of leave. For example:
  - leave time taken as days off
  - leave time that is converted to cash while an employee is still in active service (buyout),
  - unused leave time that is converted to cash upon separation or retirement (separation payments), and
  - other leave categories, as identified.
- Determine the payment percentage. The payment percentage is a term used in this FAQ document to describe the portion of the leave value amount that is more likely than not to be used for time off or otherwise paid in cash. This payment percentage can be developed by reviewing historical information about the use, payment, or forfeiture of compensated absences. (GASB 101 ¶12) The type of information available will depend upon the records maintained by each local government. A separate analysis will need to be done for each payment category within each type of leave (see *\*Allocate by payment percentage* below for further instructions if it is determined there are difference payment percentages by payment category of a single type of leave). The type of information available will depend upon the records maintained by each local government.
  - For sick days taken as time off, some local governments are considering sick leave earned vs. sick leave used. This analysis could be done by:
    - Generating a listing of employees who have left service with the local government, and identifying the total sick leave earned and the total sick leave used over their employment with the local government. Then developing a ratio of hours used to hours earned over their employment with the local government. This could be a listing of employees who left service (retirement or separation) over the past several years. If the information described in this step isn't available, the next step may be a reasonable alternative.
    - Developing a percentage based on the amount tracked in the accounting system related to sick leave balances. If the computer system tracks time as sick leave earned and sick leave used during a reporting period, that information could be used to develop a percentage of leave time used during a reporting period (sick days taken only) compared to leave time earned in that same period. A multi-year average should be developed. Fewer years might be used in the year of implementation when limited historical information is available. This analysis

## GASB 101, *Compensated Absences* FAQs

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should be built up each year until the target level of historical information is developed.

- Adjust the earned and used amounts to ensure these amounts represent only current year earning and usage only (sick days taken) and do not include any sick leave buy-outs, termination payments, or other usage amounts.
- Consider impact of flows assumption on developing historical analysis. For example, if using a LIFO flows assumption, the sick leave usage amounts will need split between usage of amounts earned in the reporting period and usage of amounts in the accumulated balance at the beginning of the reporting period. In this case, the percentage would be accumulated leave used during the reporting period compared to leave time earned in that same period.
- For sick leave buyout:
  - Determine if there is an actual buyout in process at year end.
  - Determine if any future annual buyout is limited to future earnings only.
  - If future buyouts can include accumulated sick leave balances, develop a percentage similar to sick leave above.
- For settled amounts:
  - Determine a separation percentage by using a sample of separated employees over the past five years (including both retirements and separations) and compare sick hours paid (after applying any related percentages or limits) to the available sick balance at separation (before applying any related percentages or limits). To be consistent with other steps in the approach, this comparison is done in hours rather than dollars. This step is similar to the termination method under GASB 16.

The above process identifies sick days taken as time off. This amount can be subtracted from the total sick leave balance and then unused sick-time subject to buy-out can be estimated. Once the estimates for the sick days taken as time off, and the estimate for the buyout are subtracted from the total balance, an estimate of the settled amounts can be made. When all estimates are done, the sick balance estimated for sick time used, buy-out and separation payments should match to the year end sick balance.

Other reasonable methods used to estimate these leave usage amounts will be evaluated on a case-by-case basis.

***\*Allocate by payment percentage, as applicable*** If some or all of the leave is more likely than not to be paid at a rate different from the employee's pay rate at the time the payment is made, a government should measure that portion of the liability using that different rate as of the date of the financial statements. (GASB 101 ¶17) Employee's rate of pay as of the date of the financial statements should be used—the different rate of pay addresses if payment for a specific type of leave will be made at a rate less than 100 percent.

Determine the different payment categories for each type of leave—typically days taken, buyout, and settled amounts paid upon retirement or separation.

- Determine the payment percentage for each payment category.
- Vacation - the payment percentage is typically 100 percent for each payment category.
- Sick leave – the payment percentage varies by payment category.
- Other types of leave will need their payment category and payment percentage analyzed.

## **GASB 101, *Compensated Absences***

### **FAQs**

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- If there are different payment percentages for the different payment categories within a specific leave type, a flows assumption will help with allocation between the different payment categories of a specific type of leave.
- Consider what year's sick leave earnings are eligible to be bought out.

Subsequent Qs in this FAQ document should be evaluated for additional steps related to: salary-related payments, reporting in governmental funds, identifying amounts due within one year, restatements for first year of implementation, note disclosure, and other miscellaneous items.

The above describes one approach towards making the GASB 101 estimates, and as previously mentioned, each local government should adopt their own approach based on the historical information available. The local government should evaluate the historical information being used to determine if there is any information known to the government that would indicate the historical information may not be representative of future trends or patterns. The local government should also evaluate the estimates made to ensure they are reasonable. The approach described is not intended to be all-inclusive.

The above calculation process is not the only approach available. Historical information available will play a role in developing an approach for these estimates. Audit will evaluate the reasonableness of these estimate on a case-by-case basis. Local governments should provide support/background for their calculation process.

#### **Q9 Will my GASB 101 calculation for vacation leave differ from GASB 16?**

The criteria described in Q4, Q5, and Q6 above apply to both sick leave and vacation leave. However, the amount of accumulated vacation leave that will be used for time-off or otherwise paid in cash under GASB 101 will generally be the same as vacation leave for which employees can receive compensation in a future period under GASB 16, if both approaches are using a 100 percent payment percentage. There could be differences in the amount identified as due within one year, see Q12.

#### **Q10 Does GASB 101 require salary-related payments to be included in the liability?**

GASB 101 paragraphs 22 through 26 address salary related payments. Paragraph 23 specifically indicates:

A government should include in the measurement of its liabilities for compensated absences (for both leave that has been used and leave that has not been used) salary-related payments that are directly and incrementally associated with the leave, except as provided in paragraph 26. A payment is directly associated if the amount of the payment is a function of salary to be paid (that is, the amount of the payment depends on the amount of salary to be paid). A payment is incrementally associated if the government will make a payment in addition to the payment for the salary....

Ohio local governments make salary-related payments related to defined benefit pensions and defined benefit OPEB. These types of payments are specifically excluded from GASB 101 salary-related payments as follows:

Salary-related payments related to defined benefit pensions or defined benefit OPEB should not be included in the measurement of liabilities for compensated absences, even if they meet the criteria in paragraph 23. (GASB 101 ¶26)

## **GASB 101, *Compensated Absences***

### **FAQs**

---

#### **Q11 How does GASB 101 impact governmental fund financial statements?**

The requirements for reporting expenditures for compensated absences continue to follow GASB Interpretation 6 (as included in GASB Codification Section C60.127):

...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....

See also GASB 101 paragraph 29.

Generally, these amounts are considered matured and are part of the total liability calculated in Q8. These amounts will need to be identified and reported as governmental fund liabilities. These amounts will be subtracted from the total governmental type activities amount calculated in Q8, to determine the governmental long-term liabilities amount.

#### **Q12 How do I determine amounts due within one year?**

GASB Codification Section 2200.708-4 includes the following guidance:

Q—Paragraph .116 of GASB Codification Section 2200 and paragraph .120 of Section 2300 require governments to report and disclose the portion of compensated absences that is “due within one year of the statement date.” How should governments determine when compensated absences are “due”?

A—Liabilities for compensated absences become “due” upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Because these occurrences and related dollar amounts generally do not have a set payment schedule, the portion of compensated absences due within one year should be estimated. The estimate could be based on such factors as historical trends or budgeted amounts and may be affected by other factors including the government’s policy regarding whether unused amounts from prior years are required to be used before amounts earned in the current period. [GASBIG 2015-1, Q7.22.4, as amended by GASB 101, ¶3 and ¶8]

Governments that have used a comparison of sick days used to sick days earned to develop their estimate of sick days to be taken can also develop an average of sick days taken in a year to develop their estimate of due within one year. Sometimes, the buyout can be limited to the current years accrual which will be paid out within the current year. However, if the buyout is applicable to the accumulated balance, a similar approach can be taken as is used with sick leave. Typically, an estimate of retirements/resignations in the upcoming year is used for amounts settled.

#### **Q13 How do I value a leave pool that is not attributable to a specific employee?**

If the leave is not attributable to a specific employee as of the date of the financial statements (for example, if leave has been donated to a shared employee leave pool), a government should measure the liability using an estimated pay rate that is representative of the eligible employee population. (GASB 101 ¶18)



## **GASB 101, *Compensated Absences***

### **FAQs**

---

#### **Q14 Does GASB 101 change the note disclosure requirements for compensated absences?**

For purposes of the long-term liabilities disclosure, GASB 101 continues to allow separate increases and decreases in compensated absences to be presented, but also allows this disclosure to include a net increase or a net decrease. If a local government presents a net increase or a net decrease, the disclosure should indicate it is a net amount. (GASB 101 ¶30)

Government will no longer need to disclose which governmental funds typically have been used to liquidate compensated absences in prior years. (GASB 101 ¶31)

#### **Q15 Does GASB 101 provide any guidance for post-employment benefits?**

GASB 101 paragraphs 13 and 19 address when leave is settled through conversion to defined benefit postemployment benefits. GASB 101 paragraphs 27 and 28 discuss the relationship of GASB 101 to postemployment benefits.

Some governments allow or require compensated absences (often sick leave) to be paid to an employee upon termination of employment through a distribution to an individual account (instead of directly to the employee) to be used for specified purposes, such as payment of the employee's share of future healthcare premiums. Leave that (a) has not been used, (b) meets the recognition criteria in paragraph 9, and (c) is more likely than not to be paid in this manner should be included in a liability for compensated absences following the general measurement provisions in paragraphs 16 and 17. (GASBS 101 ¶28)

#### **Q16 Will GASB 101 require a restatement?**

When GASB 101 is first implemented, the beginning net position/fund balance will need restated as applicable following the provisions of GASB Statement No. 100, *Accounting Changes and Error Corrections*, including the related display and disclosure requirements. This change should be reported as a change in accounting principle. (GASB 101 ¶33)