



ACCOUNTING

Comp Time

New Standard on Compensated Absences Becomes Effective

BY MICHELE MARK LEVINE

Governments that have a December 31, 2024, fiscal year end and issue financial statements prepared in accordance with generally accepted accounting principles (GAAP) are the first that are required to report in accordance with GASB Statement No. 101, *Compensated Absences*, which became effective for fiscal years beginning after December 15, 2023, and all financial reporting periods thereafter. The August 2022 issue of *GFR* contained an article, “GASB 101: Literally,” that summarized the key provisions of the statement, and a review of that article may be helpful as governments adopt the new requirements [available at gfoa.org/materials/gfr822-gasb101]. More recently, GFOA made

available to members a full GASB 101 illustration showing one approach to estimating compensated absence liabilities, which may be helpful to governments that don't have detailed historic records on leave accumulation, use, and settlement from sophisticated timekeeping systems [available at gfoa.org/materials/gasb-101-tool-sick-leave]. Even though we've provided those resources, now that governments are in the process of preparing conforming financial statements for the first time, some updates and reminders are in order.

Financial statements affected

GASB 101 made no changes to the accounting and financial reporting for compensated absences in governmental funds; only proprietary and fiduciary

funds, as well as governmental activities and business-type activities in government-wide financial statements, are affected by the pronouncement.¹ The remainder of this article addresses only these statements, which are all reported using an economic resources measurement focus and a full accrual basis of accounting. In these, liabilities for most kinds of compensated absence (vacation, sick leave, paid time off, unrestricted sabbatical leave) are recognized (1) when leave has been earned, if (2) it can be used in a subsequent period, and (3) is more likely than not (any probability above exactly 50 percent) to either be paid (in the form of wages and salaries, with related taxes and contributions, when leave is taken) or to be paid in cash or otherwise

settled during or on termination of employment. Certain less-common types of leave, discussed below, are recognized at different points in time.

The most significant change resulting from GASB 101 will likely be for governments that don't pay cash for or convert to other benefits the unused sick leave when employees separate, and thus did not previously need to factor sick leave into their measurement of compensated absence liabilities. However, pre-GASB 101, it seems that some governments limited their recognition of a liability for unused vacation leave to the "capped" amount of leave that employees could have settled (paid out) upon separation, even though employees had the right to use all earned leave prior to separation. In those cases, governments will now need to include both vacation leave more likely than not to be used in addition to the vacation leave more likely than not to be settled in their compensated absence liability.

Leave usage flow assumptions

The need for a leave usage flow assumption is an important consideration that was not directly addressed in the August 2022 *GFR* article mentioned above. To measure (for example, estimate) compensated absence liabilities for leave more likely than not to be used, governments need to make a flow assumption regarding the order in which accumulated leave is used. While an exposure draft of what ultimately became GASB 101 did specify that a "first in, first out," or FIFO, flow assumption was required, the final statement explicitly excluded that dictate.² Governments should consider existing leave policies, legal and contractual requirements, and the flow assumptions inherent in their pre-GASB 100 compensated absence measurement methodology when selecting a flow assumption. However, if there is no existing explicit or implicit leave use flow assumption, one will need to be made. In all cases, the flow assumption for leave usage should be documented as an accounting policy when implementing GASB 101.

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Does the government assume employees use their accumulated leave in the order in which it was earned? That is a FIFO flow assumption, in which case the leave earned and unused as of the end of the reporting period is expected to be used before any leave that would be earned in the future. Generally, this assumption will result in a higher compensated absence liability, as a larger portion of all leave expected to be taken by an employee in the future has already been earned as of period-end.

Alternatively, does the government assume employees first use the leave they most recently earned? That "last in, first out," or LIFO, flow assumption would mean that much—perhaps most or even all—of the leave that will be taken in the future will be leave that has not yet been earned, and thus leave for which the government does not have a liability at period end. LIFO would generally be expected to yield a lower compensated absence liability for leave more likely than not to be used. For example, some classifications of employees may use, on average, less leave than they earn each year. In that case, a LIFO assumption may yield no liability for that group. However, the level of detail at which this analysis is performed should be carefully considered, as there may be significant differences among employee groups. Assuming usage based only on broad averages may inappropriately ignore usage patterns—for example, if many employees in a group take significantly more sick leave toward the end of their careers.

Pay rate

While it is not expected to be issued in final form until July 2025, GASB's Exposure Draft of Implementation Guidance Update-2025 (IG Update ED) includes a proposed question and answer that would clarify what pay rate should be used in measuring compensated absence liabilities for accumulated leave time that is more likely than not to be either used as leave or settled. Specifically, it should always be based on the rate that is in effect at fiscal year-end, regardless of any known or expected pay rate changes in future periods. Per the IG Update ED, the reference in GASB 101, paragraph 17, to a "different rate" at which the employee is more likely than not to be paid is referring to circumstances where a percentage of pay (such as 50 percent) or a set dollar amount will be used to settle leave, not situations when actual pay rates are known or expected to change in the future.³

Apply provisions of GASB 100

Governments are required to implement GASB 101 by following guidance for changes in accounting principles found in GASB Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100). In reviewing annual comprehensive financial reports (ACFRs) submitted to GFOA's Certificate of Achievement for Excellence in Financial Reporting (COA) Award Program, GFOA staff see that many governments that early implemented GASB 101 had not properly displayed or disclosed

the effect of the change in accordance with GASB 100. Under GASB 100, which is also discussed more fully in the August 2022 *GFR* article, the effects of accounting changes and error corrections must be displayed on the face of the financial statements. The display on the face of the statements of activities can include either (1) each individual accounting change and error correction, or (2) the aggregate amount for all accounting changes and error corrections; it is not sufficient to simply display the beginning net position or fund balance amounts “as adjusted or restated” and then to provide the details in a note. If aggregated amounts are displayed, a note disclosure detailing each individual accounting change and error correction is also required.

Effect of pensions and other postemployment benefits (OPEB)

For governments that permit conversion of unused leave to defined benefit (DB) postemployment benefits (DB pension or DB OPEB credit), the effects of such conversions should be included in the actuarial measurement of liabilities for these benefits, which are separately factored into pension or OPEB liabilities (or assets) in employers' financial statements.

For governments that contribute to defined contribution (DC) pensions or OPEB, contributions that will be required in the future related to payment of accumulated leave should be included in the compensated absence liability and reported as pension or

OPEB expense in the period when the liability for the related leave is recognized. However, such DC plan contributions may only be required for leave that is more likely than not to be used as leave; employer contributions may not be made for leave that is settled. In this way, the measurement of compensated absence liabilities and expenses may differ between leave more likely than not to be used and leave more likely than not to be settled.

Leave for which compensated absence liabilities are not recognized as it is earned


Recognition of leave—*excluding sick leave or unrestricted sabbatical leave*, that is (1) dependent on an occurrence of a sporadic event that affects only a small portion of employees in a reporting period (such as parental, jury duty, military and bereavement leaves), and (2) unlimited leave or holiday leave that must be taken on a specific date—is not based on earning, but on when leave commences or is taken, respectively.⁴ Governments should assess whether these amounts are material, and if so, include them in measuring compensated absence liabilities.

Update compensated absences note disclosures

GASB 101 made only a single change to note disclosure requirements for compensated absences. Specifically, once GASB 101 is implemented, governments need only disclose a net increase

or net decrease in the liability as part of the long-term liability roll-forward note disclosure, contrasted with the current requirement to separately report increases and decreases during the year. Make certain, however, that you specifically disclose that the number is a net change, as required by GASB 101, since increases and decreases for all other liabilities in that note disclosure are reported separately. While no other changes are explicitly required, it is important that governments update their existing disclosure language to properly reflect the new way in which compensated absence liabilities are measured, as discussed above. For example, discussion of vesting requirements would no longer be appropriate, since they will affect the measurement of compensated absence liabilities only indirectly, though the estimate of amounts is more likely than not to be used or settled.

Conclusion

GASB 101 was issued back in June 2022, at which point implementation may have seemed a long way off. But the time to recognize, measure, and disclose our compensated absence liabilities using the new standards—or “comp time”—is now. 

¹ GASB 101 paragraph 29.

² GASB Exposure Draft Compensated Absences, issued February 24, 2021, paragraph 14 and GASB 101 basis for conclusion paragraphs B44-B45.

³ GASB Exposure Draft *Implementation Guide Update—2025* paragraph 4.18.

⁴ See the August 2022 article, “GASB 101: Literally” (at gfoa.org/materials/gfr822-gasb101), for further discussion on recognition and measurement for these types of leave.



WANT TO LEARN MORE ABOUT GASB 101 IMPLEMENTATION?

Sign up for GFOA's March 10, 2025, Compensated Absences webinar.

This session, which is worth 1.5 CPEs, will examine the various types of leave organizations provide to their employees, the ways in which the obligations for compensated absences are incurred and settled by governments, and how these obligations are properly accounted for, reported, and disclosed. The session will also discuss the importance of the flows assumption in estimating the amount of leave that is more likely than not to be used in the future.

See GFOA's event calendar at gfoa.org for more information and to register.



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