

GASB 101

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Objectives

- Provide an overview of implementation of GASB 101, *Compensated Absences*

Brief overview

- Effective date: Fiscal years beginning after December 15, 2023
- Supersedes GASB 16, *Accounting for Compensated Absences*
- Aims to create a more consistent accounting for compensation absences
- Creates a unified recognition and measurement framework for all types of compensated absences

Definition of compensated absence

Leave that entitles employees to receive one or more of the following:

- Cash payments when leave is used for time off
- Other cash payments (e.g., payment for unused leave upon termination of employment)
- Noncash settlements (e.g., conversion to defined benefit postemployment benefits)

Implementation of GASB 101

1. Review all leave offered by the Organization and determine which leave requires accrual, and when that accrual is recognized, under GASB 101
2. For leave that requires accrual as it is earned: determine more likely than not amount of the leave that will need to be accrued
3. Measurement of the accrual for compensated absences at the reporting period based upon:
 - Hours that have been earned by employees as of the reporting date
 - Current pay rates, unless leave will be paid at different rates
 - More likely than not amount that will be used/paid/settled

Step 1 – Identify leave needing accrual

Recognition criteria:

- **Attributable:** Employee must have performed the services necessary to earn the leave
- **Accumulates:** Leave must be carried forward to a future reporting period
- **More likely than not:** Leave must be more likely than not to be used, paid or settled (i.e., greater than 50% likelihood)

Types of compensated absences

Compensated absences fall into one of three types:

- Accrued when earned
- Accrued when leave commences (i.e., expense/accrual is not recognized until the employee commences the leave, then the full amount of the leave is accrued)
- Recognize expense as leave is taken (i.e., expense/accrual is recognized as the employee takes leave, as payroll expense is recognized)

Examples of “accrued when earned”

- PTO/vacation/sick leave
- Unrestricted sabbatical leave – when the employee is not required to perform any duties while away
- Time off in lieu/compensatory time – overtime hours worked that can be used as extra time off instead of the employee receiving additional pay

Examples of “accrued when commences”

- Leave that is “dependent upon sporadic events that affects a relatively small proportion of employees”
 - Bereavement leave
 - Parental leave (also adoption and foster care leave)
 - Military
 - Court leave
 - Jury duty
 - Workers’ compensation leave
 - Administrative leave

(Consider whether this would be material based upon the Organization’s policies)

Examples of “recognize as taken”

- Holidays (this does not include floating holidays taken at the employee’s discretion)
- Unlimited PTO (or similar)
- Short-term/long-term disability
- Sabbatical leave when the employee is required to perform duties while away (e.g., research instead of teaching)
- Active duty military leave

(Amounts will be recognized as employees are paid through the normal payroll process)

Conclusion

Step 1:

- A. The Organization should now understand it's various leave policies, and which leave will need to be accrued when earned under GASB 101
- B. Only the leave that is “accrued when earned” will be subject to the analysis performed in Step 2

Step 2 – “More likely than not” analysis

- Only performed for leave that is being accrued when earned
- The analysis is not applicable for leave that is recognized when the leave commences, or leave that is recognized as the leave is taken
- Analysis is designed to meet the requirement to recognize an accrual for leave that is “more likely than not” to be used, paid or settled
- If unused leave is paid out at termination of employment – 100% of leave will be accrued, unless it is paid out at a different amount to 100% of the leave (e.g., leave is paid out at 50% of the unused balance or pay rate at termination)

Conversion to Pension/OPEB

If unused leave is settled through conversion to defined benefit postemployment benefits:

- Need to accrue the amount of the leave that is more likely than not to be used prior to conversion
- The remaining benefits likely to be converted to defined benefit postemployment benefits are excluded from the accrual as they are already considered to be included in the pension or OPEB liabilities

“More likely than not” analysis

- Generally based upon historical usage/payment patterns
- Also consider:
 - Employment policies, and any changes
 - Eligibility for use versus future payment, and any changes
- Are historical trends reflective of current reality and the future, or are adjustments to historical trends necessary:
 - Historical period to use (2 to 5 years is most common)
 - What is the level of materiality – are amounts material? How sensitive is the calculation?
- GFOA has tools available

Historical analysis

- When considering the complexity of the historical analysis:
 - Materiality
 - Cost versus benefit
- Considering “pooling” of employees with similar leave characteristics:
 - Are leave policies similar
 - Is usage similar
- Flows assumption:
 - FIFO versus LIFO: does this impact the usage percentage, amount of forfeited leave, etc.
- Different probabilities for different leave (e.g., vacation versus sick leave)

Conclusion

Step 2:

- A. The Organization now has a calculation for each type of leave that is “accrued when earned” (and possibly by “pool” of employees) of the % that meets the more likely than not threshold that will be applied to the accrual

Step 3 – Measurement

For leave that is accrued when earned:

- Number of hours earned as of the end of the reporting period
- Multiply hours by current pay rates (unless, some or all of the amount will be paid at a different rate, in which case use that rate)
- Apply the “more likely than not” percentage (i.e., usage percentage) calculated in Step 2

Consider whether an accrual is necessary for leave that is accrued when it commences

Consider whether any other accrual is necessary for leave that has been taken but not accrued above

Other measurement considerations

- When leave is not attributable to a specific employee (i.e., pooled leave), use an estimated pay rate representative of the eligible employee population
- Include salary-related payments in the accrual if they are directly or incrementally associated with the leave:
 - Medicare taxes
 - Social Security taxes
 - Payments to defined contribution plans
 - DO NOT include payments related to defined benefit pension or OPEB plans



Questions?

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Thank you

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