Office of Statewide Reporting and Accounting Policy
State of Louisiana
Division of Administration

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April 23, 2025

**MEMORANDUM OSRAP 25-10**

TO: Fiscal Officers

FROM: Brian Fleming, CPA
Director, Office of Statewide Reporting and Accounting Policy

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*

**Link to full statement: GASBS 101**

**Effective Date:** State's fiscal year ending **June 30, 2025**.

## Summary

GASB Statement No. 101 establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). This Statement supersedes previous guidance contained in GASB Statement No. 16, *Accounting for Compensated Absences*, and is effective for fiscal years beginning after December 15, 2023, or the State's FY25 Annual Comprehensive Financial Report (ACFR).

**Prior to this Statement, state entities only reported a compensated absences liability for the cash payout that would be owed to their employees upon termination. Generally, this only included the annual leave payout of up to 300 hours.**

**As a result of this new Statement, the most significant change for state entities is that the compensated absences liability must now include an estimation for earned annual, sick, and k-time leave balances that are *more likely than not* to be settled at a future date as paid time off or paid in cash. This will require a historical analysis of leave usage patterns**.

For the State's ACFR, OSRAP will calculate the annual, sick, and k-time liability for the primary government LaGov agencies using data in LaGov HCM. All other entities (i.e. component units and non-LaGov primary government agencies) will be required to calculate their liability for compensated absences to report in their Annual Fiscal Report (AFR) or any separately issued financial statements.

## Key Provisions

The Statement defines *compensated absences* as 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 post-employment 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.

<u>General recognition and measurement requirements</u>

For **used leave**, a liability should be recognized if it has not yet been paid. For state entities, this is already expected to be included in the accrued payroll liability and GASB does not require the liability for used and unused leave to be aggregated in the financial statements.

For **unused leave**, a liability should be recognized if <u>all</u> of the following are true:

- The leave is attributable to services already rendered.

- The leave accumulates and is carried forward from the reporting period in which it was earned to a future reporting period during which it may be used for time off or otherwise paid in cash or settled through noncash means.

- The leave is <u>*more likely than not*</u> to be used for time off or otherwise paid in cash or settled through noncash means. <u>*More likely than not*</u> means a likelihood of more than 50%. Relevant factors to consider when assessing the likelihood include the following: (a) employment policies related to compensated absences; (b) whether leave that has been earned is, or will become, eligible for use or payment in the future; (c) historical information about the use, payment, or forfeiture of compensated absences; and (d) information known that would indicate that historical information may not be representative of future trends or patterns.

For state entities, the liability for **unused leave** will need to include the portion of annual leave, sick leave, and k-time that is <u>*more likely than not*</u> to be used for time off or paid in cash at separation. The liability for **unused leave** should be measured using the employee's pay rate as of the date of the financial statements. Certain salary-related payments such as the employer share of Social Security/Medicare taxes or defined contribution plan payments (e.g., TRSL's ORP plan) that will be incurred when leave is settled as time off or cash payment at separation should also be included in the measurement of the liability. Defined benefit plan contributions are excluded from the salary-related payments as explained below. Changes to the measurement of the liability in future periods due to a change in pay rate or the associated salary-related payments should be recognized in the period of the change.

<u>Additional clarification and exceptions to the above general recognition and measurement requirements</u>

(1) Leave that is <u>*more likely than not*</u> to be converted to service credit in a defined benefit pension or OPEB plan should not be recognized in the liability for compensated absences. Actuarially calculated liabilities for defined benefit plans already include provision for such benefits, so inclusion in a compensated absences liability would result in double counting.

(2) When measuring the liability for **unused leave**, salary-related payments associated with defined benefit pension plans should be excluded.

(3) Leave that is dependent upon a sporadic event that affects a relatively small portion of employees (e.g., parental leave, military leave, jury duty leave, bereavement leave, etc.) should not be accrued until leave commences. For state entities, a liability would only be accrued for parental leave if an employee started their six weeks of paid parental leave before June 30 and it extends into the subsequent fiscal year. For example, if an employee started paid parental leave on June 24 (one week before June 30) then five weeks of parental leave would be accrued.

(4) When measuring the liability, if the unused leave is not attributable to a specific employee as of the date of the financial statements (e.g., if leave has been donated to a shared employee leave pool), the liability should be measured using an estimated pay rate that is representative of the eligible employee population.

(5) For **unused leave**, the expenses for salary-related payments related to a defined contribution pension plan or defined contribution OPEB plan should be recognized when the liability for that leave is recognized and should be reported as pension expense or OPEB expense, as applicable. Those amounts should not be reported as a pension liability or an OPEB liability. For **used leave**, the salary-related payments related to defined contribution plans should be included in a pension liability or OPEB liability in accordance with the requirements of Statements 68, 73, or 75, as amended.

Note: (6), (7), and (8) below are likely not applicable to most state entities.

(6) Leave that employees are able to take as needed without specified limits (e.g., unlimited leave) should not be accrued until the leave is **used**.

(7) Holiday leave taken on a specific date that is not at the discretion of employees should not be accrued until the leave is **used**.

(8) When measuring the liability, if some or all of the **unused 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. For example, if leave is paid upon termination of employment at one-half of an employee's pay rate at the time of payment, the leave that is more likely than not to be paid upon termination of employment (instead of being used for time off) should be measured using one-half of the employee's pay rate as of the date of the financial statements.

Other considerations

Changes adopted at transition to conform to the provision of this Statement should be reported as a change in accounting principle in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections.* For single period financial statements, this change in accounting principle for compensated absences should be reported retroactively by restating beginning net position. To determine the restatement amount, the prior year compensated absence liability will need to be recalculated based on the requirements of this Statement. The difference between the reported prior year liability and the recalculated prior year liability would be reported as the beginning net position restatement due to a change in accounting principle.

Financial statements prepared using the current financial resources measurement focus (e.g. modified accrual governmental fund financial statements) should recognize the amount of compensated absences expenditures that normally would be liquidated with expendable available resources.

## Disclosure Requirements in the Notes to the Financial Statements

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as it is identified as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

This Statement may require that state entities reevaluate their method for estimating the current portion of the long-term compensated absences liability (i.e. amounts due within one year) which prior to the Statement likely only captured the estimate for leave expected to be paid out in cash during the subsequent year. For both the statement of net position and the long-term liability disclosure, the current portion (i.e., amount due in one year) will also now need to capture the portion of leave that is *more likely than not* to be settled as time off during the subsequent fiscal year. Existing guidance provided by GASB (Implementation Guide 7.22.4) on determining when compensated absence liabilities are "due" is unchanged by the Statement. That guidance provides that "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 cannot be known reliably in advance, 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."

## Estimation Methodologies for Annual and Sick Leave Liability

GASB only provides the relevant factors on page 2 of this memo for assessing the likelihood of whether the leave is *more likely than not* to be used as time off or paid. GASB does not provide or require any specific methodology or flows assumptions (e.g., FIFO, LIFO, weighted average) for estimating the liability under this new Statement. The two optional methods below are tailored to state leave policies for regular classified employees and are being provided by OSRAP as possible options to estimate annual and sick leave liabilities. These are not the only two acceptable methods. Entities that choose to use one of these methods below must still consider the relevant factors provided by GASB on page 2 of this memo and make any necessary adjustments. When selecting a methodology, state entities will need to consider the historical leave usage data that is readily available in their current payroll systems. Because of possible data limitations for some entities, OSRAP is not requiring any specific method be used statewide. It is not expected that state entities perform calculations using multiple methods. Also, the methodology chosen should be applied consistently in each subsequent year.

Both optional methods presented are similar in that a percentage of leave projected to be settled through time off and cash payments (i.e., leave usage rate) must be determined in step 1. The first method (method 1) bases this rate on leave balances <u>in hours</u> while the second method (method 2) bases this rate on leave balances <u>in dollars</u>. Method 2 may be preferable for entities with high variation in salaries and leave balances amongst its employees.

OSRAP will calculate the compensated absences liability for primary government state agencies that use LaGov as their accounting system. All other entities (i.e., component units and non-LaGov primary government agencies) will be required to estimate their liability for compensated absences for reporting in their AFR submitted to OSRAP and their separately issued financial statements. For AFR reporting purposes, state entities may use the statewide leave usage rate estimated by OSRAP based on LaGov data which will be made available in the annual AFR instructions. However, the statewide leave usage rate should not be used by entities with separately issued financial statements without first ensuring it is materially representative of their employees' leave usage patterns.

**Method 1 – Uses historical forfeited and converted leave balance averages (in hours) for separated employees**

Step 1 – Identify all[1] separated employees and their forfeited or converted leave balances during the year[2]. Calculate the average forfeited or converted leave balance (in hours). Next, calculate the average leave balances for active employees from step 2. Add the average leave balances of active employees to the average hours forfeited or converted by separated employees. Divide the average leave balance for actives by that total average hours for actives and separated. This provides the percentage of leave projected to be settled through time off and cash payments.

| | Leave hours forfeited or converted to pension service credit |
|---|---|
| Separated employee #1 | 203 |
| Separated employee #2 | 2,700 |
| Separated employee #3 | - |
| Separated employee #4 | 1,000 |
| Separated employee #5 | - |
| Average hours forfeited or converted to pension service credit (a) | 781 |
| Average leave balance of active employees in Step 2 (b) | 1,748 |
| Total average hours for actives and separated (c = a + b) | 2,529 |
| % of leave projected to be settled through time off and cash payments (d = b / c) | 69% |

Step 2 - Calculate the liability using leave balances for **all** active employees as of the reporting date and apply the rate of leave projected to be settled through time off and cash payments from Step 1.

| | Leave balance at reporting date | Base pay rate at reporting date | Salary-related payment - Social Security and/or Medicare tax rate at reporting date | Liability |
|---|---|---|---|---|
| | A | B | C | A x B x (1 + C) |
| Active employee #1 | 1,800 | $37 | 1.45% | $67,566 |
| Active employee #2 | 1,600 | $25 | 1.45% | $40,580 |
| Active employee #3 | 40 | $15 | 7.65% | $646 |
| Active employee #4 | 900 | $59 | 7.65% | $57,162 |
| Active employee #5 | 4,400 | $52 | 1.45% | $232,118 |
| Average leave balance (b) | 1,748 | | Unadjusted liability | $398,072 |
| | | | % of leave projected to be settled through time off and cash payments from Step 1 (d) | 69% |
| | | | Compensated absences liability | **$274,670** |

[1] If not practicable to include all separated employees, a representative sample may be used.
[2] For entities with no separations or only a limited number of separations during the current year, it may be necessary to include separations from multiple prior years for this analysis and/or consult with OSRAP for alternative options.

**Method 2 – Uses historical forfeited and converted leave balance averages (in dollars) for separated employees**

Step 1 – Identify all[3] separated employees and their forfeited and converted leave balances during the year[4]. Calculate the average value of the forfeited or converted leave balance at separation using the separated employees' base pay rate at separation and any salary-related payments. Next, calculate the average value of active employees' leave balances from step 2. Add the average value of the active employees to the average value of the forfeited or converted leave balances. Divide the average value of leave for actives by that total average value for actives and separated. This provides the percentage of leave projected to be settled through time off and cash payments.

| | Leave hours forfeited or converted to pension service credit | Base pay rate at separation date | Salary-related payment - Social Security and/or Medicare tax rate at separation | Value of leave forfeited or converted to pension service credit |
|---|---|---|---|---|
| | A | B | C | A x B x (1 + C) |
| Separated employee #1 | 203 | $25 | 1.45% | $5,149 |
| Separated employee #2 | 2,700 | $40 | 1.45% | $109,566 |
| Separated employee #3 | - | $15 | 7.65% | $0 |
| Separated employee #4 | 1,000 | $58 | 7.65% | $62,437 |
| Separated employee #5 | - | $30 | 1.45% | $0 |
| Average value of leave forfeited or converted to pension service credit (a) | | | | $35,430 |
| Total value of active employees' leave balance from Step 2 (b) | | | | $398,072 |
| Number of active employees from Step 2 (c ) | | | | 5 |
| Average value of active employees' leave balance (d = b / c) | | | | $79,614 |
| Total average value of all leave for actives and separated (e = a + d) | | | | $115,045 |
| % of leave for active employees projected to be settled through time off and cash payments (f= d / e) | | | | 69% |

Step 2 - Calculate the liability using leave balances for **all** active employees as of the reporting date and apply the rate of leave projected to be settled through time off and cash payments from Step 1.

| | Leave balance at reporting date | Base pay rate at reporting date | Salary-related payment - Social Security and/or Medicare tax rate at reporting date | Liability |
|---|---|---|---|---|
| | A | B | C | A x B x (1 + C) |
| Active employee #1 | 1,800 | $37 | 1.45% | $67,566 |
| Active employee #2 | 1,600 | $25 | 1.45% | $40,580 |
| Active employee #3 | 40 | $15 | 7.65% | $646 |
| Active employee #4 | 900 | $59 | 7.65% | $57,162 |
| Active employee #5 | 4,400 | $52 | 1.45% | $232,118 |
| Total value of active employees' leave balance (b) | | | | $398,072 |
| % of leave projected to be settled through time off and cash payments from Step 1 (f) | | | | 69% |
| Compensated absences liability | | | | $274,670 |

[3] If not practicable to include all separated employees, a representative sample may be used.
[4] For entities with no separations or only a limited number of separations during the current year, it may be necessary to include separations from multiple prior years for this analysis and/or consult with OSRAP for alternative options. If multiple prior years of separations are necessary, consider adjusting the separated employee's base pay rate (step 1, column B) to current dollars. For example, increase the separated employee's base pay rate by 4% for each year between their separation year and the current year.

**All methods - Estimating the current portion of compensated absences liability**

Regardless of which method above is used, the current portion of the estimated compensated absences liability, or the amount that will be "due" within one year, will need to be determined. To estimate the current portion, OSRAP recommends calculating the value (in dollars) of the annual and sick leave earned by employees in the current fiscal year. Next, multiply that amount by the expected percentage to be settled through time off and cash payments that was determined using one of the above methods. Report the result as the current portion of the compensated absences liability. Alternatively, report the current portion equal to the amount of annual and sick leave settled as time off or cash payment in the current fiscal year.

## Liability Estimation Methodology for K-Time

For k-time, similar approaches as provided above for sick and annual leave using historical trends may be acceptable. However, k-time usage and forfeiture projections may require more consideration on management's future expectations and the entity's policies regarding k-time which vary by entity. For example, if the state entity has budgeted to pay out all k-time leave balances at year-end in the subsequent year, the projected future settlement rate should likely be set at 100%. Also, some entities may have a policy or have historically chosen to pay out any unused k-time at termination in which case the projected future settlement rate should likely be set at 100%. Materiality should also be a consideration for estimating k-time. For entities with employees having very few k-time hours at year end, the liability may be immaterial regardless of whether the projected future settlement rate for k-time balances is set at 0% or 100%.

## Additional Resources

Any questions concerning this implementation memo can be directed to Chantel Brooks at 225-342-2209 or chantel.brooks@la.gov.