GASB Exposure Draft

**February 24, 2021**

**Comments Due: June 4, 2021**

Proposed Statement

of the Governmental Accounting Standards Board

# Compensated Absences

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the GASB for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 4-7

Governmental Accounting Standards Board

## COMPENSATED ABSENCES

## WRITTEN COMMENTS

**Deadline for submitting written comments:** June 4, 2021

**Requirements for written comments.** Comments should be addressed to the Director of Research and Technical Activities, Project No. 4-7, and emailed to director@gasb.org.

## OTHER INFORMATION

**Public hearing.** The GASB has not scheduled a public hearing on the issues addressed in this Exposure Draft.

**Public files.** Written comments will become part of the GASB's public file and are posted on the GASB's website.

This Exposure Draft may be downloaded from the GASB's website at www.gasb.org.

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## Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for (1) establishing and improving standards of state and local governmental accounting and financial reporting to provide useful information to users of financial reports and (2) educating stakeholders—including issuers, auditors, and users of those financial reports—on how to most effectively understand and implement those standards.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, the GASB is issuing this Exposure Draft setting forth proposed standards on accounting and financial reporting for compensated absences.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to all Board members and to staff members assigned to this project, and comments are considered during the deliberative process leading to a final Statement. In deciding on changes in accounting and financial reporting standards, the GASB also takes into consideration the expected benefits and the perceived costs associated with the changes. Only after the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as considered appropriate, will a vote be taken to issue a final Statement. A majority vote of the Board is required for adoption.

## Summary

The objective of this proposed Statement is to better meet the information needs of financial statement users by enhancing the recognition and measurement guidance for compensated absences and by refining the related disclosure requirements. This objective would be achieved by aligning the recognition and measurement guidance for all types of compensated absences under a unified model and by eliminating certain previously required disclosures.

## Recognition and Measurement

This proposed Statement would require that a liability for compensated absences be recognized if (1) the absence accumulates, (2) the absence is attributable to services rendered, and (3) the absence is *more likely than not* to be either paid (including being paid for use) or settled through other means. Absences that accumulate would be those that can be carried forward from the reporting period in which they are earned to a future reporting period when they will be paid or settled. Absences that are attributable to services rendered would be those for which an employee already has performed the services required to earn the payment or settlement. In estimating the accumulated leave that is more likely than not to be paid or settled, a government would consider relevant factors, such as employment policies related to compensated absences and historical information about the payment of compensated absences, among others.

This proposed Statement also would establish guidance for measuring a liability, which generally would require accumulated leave to be multiplied by an employee's pay rate as of the financial reporting date. Certain salary-related payments that are both *directly* and *incrementally* associated with payments for compensated absences also would be included in the measurement of a liability.

This proposed Statement would require that accumulated leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits not be included in the compensated absences liability. Accumulated leave that is more likely than not to be paid to an employee through a distribution to an individual account to be used for specified purposes would be included in the compensated absences liability following the general measurement provisions of this proposed Statement. In addition, specific guidance is provided for salary-related payments related to defined contribution pensions or defined contribution other postemployment benefits.

In estimating the amount of the compensated absences liability that is due within one year, governments would be required to use the first-in, first-out flows assumption.

With respect to financial statements prepared using the current financial resources measurement focus, this proposed Statement would require that a governmental fund liability and expenditure be recognized as payments for compensated absences come due each period.

## Notes to Financial Statements

This proposed Statement would provide an exception to the existing requirement to disclose the gross increases and decreases in a compensated absences liability such that governments would be allowed to disclose only the net change in the liability. In addition,

governments would not be required to disclose which governmental funds typically have been used to liquidate the compensated absences liability.

## Effective Date

The requirements of this proposed Statement would be effective for reporting periods beginning after December 15, 2022. Earlier application would be encouraged.

## How the Changes in This Proposed Statement Would Improve Financial Reporting

The proposed unified recognition and measurement model would result in a compensated absences liability that more appropriately reflects when a government incurs an obligation for compensated absences. In addition, the proposed model could be applied consistently to any type of compensated absence and would eliminate potential comparability issues between governments that offer different types of leave.

The proposed model also would result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which would enhance the relevance and reliability of information about the compensated absences liability.

The proposed requirement that governments use the first-in, first-out flows assumption to estimate the amount of the compensated absences liability that is due within one year would enhance comparability across governments.

## How the Board Considered Costs and Benefits in the Development of This Proposed Statement

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. The Board believes that the expected benefits that would result from the implementation of this proposed Statement—more relevant, reliable, consistent, and comparable information about compensated absences—are significant and justify the perceived costs of implementation and ongoing compliance.

Certain proposals made by the Board are intended to mitigate the costs associated with this proposed Statement, such as using a current value measurement rather than requiring complex calculations that may necessitate the use of an actuary and not requiring the disclosure of certain information that is not essential to users or for which the expected benefits did not outweigh the perceived costs. For example, as previously noted, this proposed Statement provides exceptions to the requirements to disclose the gross increases and decreases in the compensated absences liability, as well as the governmental funds typically used to liquidate the liability. In addition, the disclosure of employment policies related to compensated absences and the closeness of a government's workforce to retirement would not be required.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

# Proposed Statement of the Governmental Accounting Standards Board

## Compensated Absences

## February 24, 2021

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# Proposed Statement of the Governmental Accounting Standards Board

## Compensated Absences

## February 24, 2021

## INTRODUCTION

1. Governments commonly provide benefits to employees in the form of compensated absences. The objective of this Statement is to better meet the information needs of financial statement users by enhancing the recognition and measurement guidance for compensated absences and by refining the related disclosure requirements.

## STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

### Scope and Applicability of This Statement

2. This Statement establishes standards of accounting and financial reporting for compensated absences. This Statement also establishes standards of accounting and financial reporting for defined contribution pensions and defined contribution other postemployment benefits (OPEB) that meet the definition of a salary-related payment. The requirements of this Statement apply to the financial statements of all state and local governments.

3. A *compensated absence* is (a) leave that employees use for time off with pay, (b) leave for which employees receive payment upon termination of employment, or (c) leave for which employees receive settlement through other means, such as conversion to postemployment benefits. Compensated absences generally do not have a set payment schedule. Examples of compensated absences include vacation leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave.

4. As used in this Statement, *termination of employment* means the end of an employee's active service, which can occur for any reason, including voluntary resignation or retirement.

5. This Statement does not apply to benefits that are within the scope of Statement No. 47, *Accounting for Termination Benefits,* as amended.

6. This Statement supersedes Statement No. 16, *Accounting for Compensated Absences,* and *Implementation Guide No. 2015-1,* Questions Z.16.1 and Z.16.2. This

Statement amends NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* paragraphs 42, 43, and 158; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraph 119; Statement No. 67, *Financial Reporting for Pension Plans,* paragraphs 6 and 51; Statement No. 68, *Accounting and Financial Reporting for Pensions,* paragraphs 8, 123, 124, 127, and 139; Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* paragraphs 11, 102, 103, 106, and 128; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* paragraphs 10 and 63 and footnote 6; Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* paragraphs 8, 230, 231, 234, and 246 and footnote 5; Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* paragraph 14; Implementation Guide 2015-1, Questions 5.255.1 and 7.22.4; Implementation Guide No. 2017-2, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* Question 4.20; and Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting),* Questions 4.18 and 4.496.

## Recognition and Measurement

7. A liability for compensated absences should be recognized in financial statements prepared using the economic resources measurement focus if (a) the absence accumulates (see paragraph 8), (b) the absence is attributable to services rendered (see paragraph 9), and (c) the absence is *more likely than not*[1] to be either paid or settled through other means. Accumulated leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in the compensated absences liability.

8. An absence that *accumulates* is one that can be carried forward from the reporting period in which it is earned to a future reporting period when it will be paid or settled. For example, an employee who does not use all the vacation time earned in one year may have the ability to use it in the next year. In contrast, paid holidays that are linked to a specific date often are required to be used when the holiday occurs. (See paragraph 22 for applicability to sabbatical leave.)

9. An absence that is *attributable to services rendered* is one for which an employee already has performed the services required to earn the absence.

10. A government should estimate the absences that are more likely than not to be either paid or settled by assessing relevant factors, including:

[1]The term *more likely than not* means a likelihood of more than 50 percent.

a. The government's employment policies related to compensated absences, which may differ by class of employee
b. Whether benefits for which services have been rendered will become eligible for payment in the future
c. Historical information about the payment (either when leave is used or paid upon termination of employment) or forfeiture of compensated absences
d. Information known to the government that would indicate that historical information may not be representative of the expected payment of compensated absences in the future.

11. The measurement of the liability for compensated absences—except as described in paragraph 13—should include a calculation of accumulated leave (often measured in hours) multiplied by an employee's pay rate as of the financial reporting date—except as described in paragraph 12. Changes to the measurement of the liability in future periods due to a change in pay rate should be recognized in the period of the change. In addition, the measurement of the liability should include certain salary-related payments. (See paragraphs 17–20.)

12. If accumulated leave is more likely than not to be paid at a rate different from the employee's pay rate at the time of payment (for example, if unused leave is paid upon termination of employment at one-half of an employee's pay rate), the government should measure the liability by multiplying the accumulated leave by the different rate as of the financial reporting date. However, the accumulated leave that is more likely than not to be paid at the same rate as the employee's pay rate should be measured at the employee's pay rate as of the financial reporting date, as specified in paragraph 11. Changes to the measurement of the liability in future periods due to a change in rate should be recognized in the period of the change.

13. Any accumulated leave that is more likely than not to be settled through some means other than conversion to defined benefit postemployment benefits should be measured at the amount for which the liability is more likely than not to be settled.

14. A government should use the first-in, first-out (FIFO) flows assumption when estimating the amount of the compensated absences liability that is due within one year.

## Relationship with Postemployment Benefits

15. The projected effects on an employer's defined benefit postemployment benefits liability resulting from a payment for compensated absences should not be included in the compensated absences liability. (Paragraphs 20 and 21 address salary-related payments related to defined contribution postemployment benefits and defined benefit postemployment benefits, respectively.)

16. Some governments allow or require accumulated leave (often sick leave) upon termination of employment to be paid to an employee 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. Accumulated leave that is more likely than not to be paid in this manner should be included in the compensated absences liability following the general measurement provisions in paragraphs 11 and 12.

## Salary-Related Payments

17. *Salary-related payments* are additional obligations that a government incurs related to paying an employee for services rendered. (The term *salary* in *salary-related payments* represents any pay provided to the employee, whether it is a fixed amount or an hourly wage.) Examples of salary-related payments include the employer share of Social Security taxes and the employer share of Medicare taxes.

18. A government should include in its compensated absences liability salary-related payments that are directly and incrementally associated with payments or settlements to be made for compensated absences, except as provided in paragraphs 20 and 21. 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 that represents the compensated absence (for example, accumulated leave multiplied by pay rate). The salary-related payments should be measured using the rates in effect at the financial reporting date. Changes to the measurement of salary-related payments in future periods due to a change in rate should be recognized in the period of the change.

19. A salary-related payment may be incrementally associated only in part. For example, a government that provides benefits through a defined contribution pension plan may not be required to make employer contributions related to payments made for unused leave upon termination of employment. In that case, the only amount that is incrementally associated is the amount of employer contributions related to the portion of the accumulated leave that is more likely than not to be used as paid leave.

20. Salary-related payments related to defined contribution pensions or defined contribution OPEB that are directly and incrementally associated with payments to be made for compensated absences should be (a) recognized as pension or OPEB expense when the compensated absence is recognized and (b) reported as a pension or OPEB liability rather than a compensated absences liability. Changes to the measurement of salary-related payments in future periods due to a change in rate should be recognized as pension or OPEB expense in the period of the change.

21. Salary-related payments related to defined benefit pensions or defined benefit OPEB should not be included in the compensated absences liability, and the guidance in paragraph 20 should not be applied to these payments, even if they meet the criteria in paragraph 18.

### Sabbatical Leave

22. Sabbatical leave meets the criteria for recognition as a compensated absences liability if an employee is not required to perform any significant duties for the government during the sabbatical (unrestricted sabbatical leave). If the employee is required to perform duties of a different nature for the government during the sabbatical (for example, research instead of teaching), the sabbatical is not a compensated absence. Unrestricted sabbatical leave also accumulates (see paragraph 8) when there is a minimum service period. For example, if seven years of service is required to be eligible for unrestricted sabbatical leave, that leave accumulates over seven years.

23. In evaluating whether unrestricted sabbatical leave is more likely than not to be paid, a government should consider the likelihood that an employee will remain employed with the government long enough to become eligible to use the leave and the likelihood that the unrestricted sabbatical leave will be used.

### Financial Statements Prepared Using the Current Financial Resources Measurement Focus

24. The amount of compensated absences recognized as expenditures in financial statements prepared using the current financial resources measurement focus should be the amount that normally would be liquidated with expendable available financial resources. Compensated absences liabilities normally are 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. The compensated absences liability in financial statements prepared using the current financial resources measurement focus should be measured using the same pay rate as the liability recognized in financial statements prepared using the economic resources measurement focus.

## Notes to Financial Statements

25. For the purpose of the long-term liabilities disclosure required by paragraph 119b of Statement 34, as amended, a government should present either (a) the separate increases and decreases or (b) a net increase or a net decrease in its compensated absences liability. A government that discloses a net increase or a net decrease should indicate that it is a net amount.

26. The disclosure requirement in paragraph 119d of Statement 34, as amended, is not required to be applied to compensated absences liabilities.

## EFFECTIVE DATE AND TRANSITION

27. The requirements of this Statement are effective for reporting periods beginning after December 15, 2022. Earlier application is encouraged.

28. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. Also, the reason for not restating prior periods presented, if applicable, should be disclosed. In the first period that this Statement is applied, the notes to financial statements should disclose the nature of the restatement and its effect.

**The provisions of this Statement need not be applied to immaterial items.**

# Appendix A

## BACKGROUND

A1. Governments often provide paid leave benefits to their employees, such as vacation leave and sick leave. Statement 16, issued in 1992, addressed accounting and financial reporting for those compensated absences. Consistent with the GASB's commitment to periodically reexamine its standards, in August 2018, the Board approved a pre-agenda research activity to gather information regarding the effectiveness of Statement 16 and to determine whether improvements were needed.

A2. Pre-agenda research conducted for compensated absences indicated several issues with the existing standards, including a lack of guidance for certain types of leave, inconsistent application of those standards, and potential inconsistencies with the conceptual framework that was developed after the issuance of Statement 16.

A3. During their annual discussion of technical plan priorities in March 2019, members of the Governmental Accounting Standards Advisory Council (GASAC) ranked compensated absences in the top third of all pre-agenda research activities and potential topics. In October 2019, GASAC members discussed issues related to compensated absences and identified issues that could be considered in a current technical agenda project.

A4. Based on the pre-agenda research findings and GASAC input, the Board added a project on compensated absences to the current technical agenda in December 2019. Deliberations began in February 2020. Additional outreach with financial statement users, including a survey and in-depth interviews, was conducted in order to inform the Board's deliberations regarding note disclosure requirements. Feedback received from GASAC members at their March, June, and October 2020 meetings also was considered during the Board's deliberations. When project issues are discussed with GASAC members, the GASAC does not take formal positions either in support of or in opposition to those issues.

# Appendix B

# BASIS FOR CONCLUSIONS

## Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than others.

## Scope and Applicability of This Statement

B2. This Statement defines a compensated absence as (a) leave that employees use for time off with pay, (b) leave for which employees receive payment upon termination of employment, or (c) leave for which employees receive settlement through other means, such as conversion to postemployment benefits. The Board believes that *leave* generally is understood to encompass various circumstances in which an employee may be paid even though they are absent from work. The Board also believes that describing different possible methods of payment or settlement clarifies that the scope of the definition is not limited to a specific method of payment or settlement.

B3. The phrase *termination of employment* is used frequently in this Statement. Because that phrase sometimes is used to describe an involuntary job loss, the Board decided to clarify that its use in this Statement refers to the end of an employee's active service for any reason.

B4. This Statement excludes termination benefits because after considering the current accounting and financial reporting guidance, the Board concluded that termination benefits that also meet the definition of a compensated absence (for example, termination benefits that allow for the vesting of previously unvested sick leave) are sufficiently addressed in Statement 47, as amended.

## Recognition and Measurement

### Recognition Criteria

B5. This Statement includes three criteria for recognition of a compensated absences liability in financial statements prepared using the economic resources measurement focus: the absence accumulates, the absence is attributable to services rendered, and the absence is more likely than not to be either paid or settled through other means. Potential recognition criteria that were rejected by the Board were the absence vesting and the amount of the absence being reasonably estimable.

### *Accumulates*

B6. The Board believes that leave should accumulate in order for it to be recognized as a liability because if it does not accumulate, a government would not have an obligation for it at the financial reporting date. For example, some governments have a "use-it-or-lose-it" policy by which any unused leave is forfeited at the end of the fiscal year. Those governments do not have an obligation at the end of the fiscal year to provide payment in a future period. The Board concluded that leave that does not accumulate does not meet the definition of a liability in paragraph 17 of Concepts Statement No. 4, *Elements of Financial Statements,* because there is no present obligation. However, if employees are allowed to carry over unused leave into the next reporting period, a government would have an obligation to provide paid leave in a future period (or, in some cases, a cash payment upon termination of employment or settlement through another benefit). When leave accumulates, governments often maintain rolling balances such that employees know the cumulative amount of leave they have available to use.

### *Attributable to Services Rendered*

B7. The recognition criterion that the absence should be attributable to services rendered is based on the principle of the employer-employee exchange. Under that principle, employees perform services for the government and the government provides compensation, including benefits, in return. Some benefits are provided while the employees are in active service and others may be provided after active employment has ended. However, all benefits are provided in exchange for services rendered. The Board believes that if compensated absences are provided to employees in exchange for the employees' services, a criterion for recognition as a liability should be that the employee has already performed the services to which the compensated absence is attributable.

### *More Likely Than Not to Be Either Paid or Settled*

B8. Some accumulated compensated absences may not be either paid or otherwise settled, depending on a government's employment policies. Therefore, the Board decided to incorporate a probability threshold into the recognition criteria that compensated absences would need to meet in order to be recognized as a liability. Statement 16, as amended, required payment to be *probable* in order to be recognized. The Board considered that threshold along with *expected* to be paid or settled and *more likely than not* to be paid or settled. The Board believes the application of *probable* in the context of compensated absences could be interpreted as a high threshold, which may result in an understatement of the compensated absences liability. A definition could be provided to mitigate that concern, however, specific criteria to identify when the *probable* threshold has been met have not been established in GASB guidance to date, and establishing that guidance in this Statement may lead to inappropriate application of that definition to other standards. The Board believes *expected* would represent more flexible, less prescriptive guidance for the estimation. However, the Board determined that the threshold of being *expected* to be paid or settled would not be sufficiently descriptive of the level of certainty

that a government should have regarding whether an absence should be included in the liability. The Board believes that for compensated absences, the *more likely than not* threshold provides a clear minimum level of probability that enhances consistency and comparability. Based on those considerations, the Board concluded that the probability threshold should be that the leave is *more likely than not* to be either paid or settled.

B9. The Board acknowledges that governments may have to exercise professional judgment in estimating amounts of leave that are more likely than not to be paid. The Board considered adapting the termination payment method or vesting method for sick leave from Statement 16, as amended, to provide guidance for how preparers should estimate forfeitures of leave. Paragraph 32 in the Basis for Conclusions of Statement 16 noted that the inclusion of the vesting method was due to concern from stakeholders that the historical information required for the termination payment method might not be available to all governments. Based on stakeholder outreach, the Board believes that governments now generally have access to historical data that can facilitate such an estimate. However, the Board believes that requiring a specific method to determine the estimate may be overly prescriptive. Therefore, in order to provide flexibility to preparers in estimating potential forfeitures of accumulated leave, the Board decided to provide general guidance in the form of factors to consider in determining that estimate.

B10. Specifically, the Board believes that certain factors provide governments with a contextual basis to estimate whether leave is more likely than not to be paid, including employment policies related to compensated absences; historical information about leave usage patterns, payments upon termination of employment, and forfeitures of leave; and information about current and expected future eligibility. Those factors may need to be evaluated in combination with each other. The Board also determined that governments should consider factors that may indicate that historical information would not lead to a representative estimate of whether leave is more likely than not to be paid. The Board believes that governments should exercise judgment in considering historical information because, in some instances, a government may be aware of information that contradicts historical trends of payment for leave usage, payment upon termination, and forfeiture.

### *Vesting*

B11. Absences for which an employee is entitled to a payment for unused leave upon termination of employment have been referred to as vesting absences. For example, sick leave vests if a government pays employees for unused sick leave upon termination of employment. However, sick leave would be nonvesting if a government does not pay employees for unused amounts upon termination of employment.

B12. The Board concluded that vesting should not be a criterion for recognition of a compensated absences liability. A government still has an obligation for nonvesting leave that will be used as time off because it is a benefit earned by employees that has not yet been used as paid leave. However, the government is obligated only to the extent that employees will use the leave because unused nonvesting leave generally is forfeited upon

termination of employment. Therefore, although not a separate criterion for recognition, vesting may be relevant in determining whether the absence is more likely than not to be paid.

### *Amount Is Reasonably Estimable*

B13. Being reasonably estimable is a criterion for recognition of some types of liabilities, such as asset retirement obligations in Statement No. 83, *Certain Asset Retirement Obligations,* as amended. However, the criterion tends to be applied when there is significant uncertainty, and, in some cases, the information normally is not available to determine a reliable estimated amount. The Board believes that this is not the case for compensated absences. The information necessary to estimate the compensated absences liability is expected to be available from human resources records. The Board concluded that governments would be able to reasonably estimate the compensated absences liability and, therefore, rejected *reasonably estimable* as a potential criterion for recognition.

## Sick Leave

B14. The Board considered whether sick leave and similar leave should have different recognition and measurement criteria, as it did in Statement 16, as amended. The use of sick leave is conditional on a required event, such as an employee becoming ill (or meeting some other requirement in order to use the leave) and, therefore, one could assert that a government does not become obligated to pay for such leave until the required event occurs. However, the Board believes that a government becomes obligated to pay an employee for sick leave when the employee earns the time off and the sick leave is made available to the employee, if it is more likely than not that the benefit will be used. Although the entire benefit might not be used if the employee does not become ill or otherwise meet the requirement for use (particularly if the leave is nonvesting), it is made available to the employee because of their past service. Another factor considered by the Board was the introduction of paid time off (PTO) as discussed in paragraph B15. After considering those factors, the Board concluded that sick leave should have the same recognition and measurement criteria as other types of leave.

## Paid Time Off

B15. Statement 16, as amended, did not address PTO, which employees can use for any reason, including vacation or illness. Many governments that offer PTO accounted for it under the vacation leave provisions of Statement 16. However, that practice meant that any PTO that ultimately was used for illness was accounted for differently than it would have been if the government offered separate vacation and sick leave. During the deliberations, that difference was highlighted as a significant inconsistency in practice that needed to be addressed. The Board believes that by adopting the unified recognition model in this Statement, comparability among governments will be enhanced.

## Use of Paid Leave versus Payment upon Termination of Employment

B16. The Board considered whether leave that does not vest but will accumulate for use in the future as paid leave should be recognized as a liability if it is more likely than not that the benefit will be used. The Board understands that the future use of nonvesting leave might not result in an increase in the total amount paid to an employee over their period of service. For example, in the case of a salaried employee, the amount paid is the same regardless of actual hours worked or used as paid leave. However, the nonvesting leave that is allowed to accumulate to another period for future use represents a present obligation of the government to provide a benefit for past service—paid leave in the future. Ultimately, the Board concluded that it is appropriate to recognize a liability and an expense for that benefit when the employee provides the service that earns it and it is more likely than not that the benefit will be paid or settled.

## More Likely Than Not to Be Converted to Defined Benefit Postemployment Benefits

B17. This Statement requires that accumulated leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits be excluded from the compensated absences liability because it already is taken into account in a pension or OPEB liability. The Board believes that such treatment allows the compensated absences liability to more appropriately reflect the obligation of the government. (The amount that would result from the general measurement approach of accumulated leave multiplied by the employee's pay rate often is not representative of the amount of benefits employees will receive if that leave instead is included in the defined benefit pension or defined benefit OPEB calculation.) Additionally, the Board believes that including the effect of leave that is eligible to be converted to pension or OPEB credits in the defined benefit pension or defined benefit OPEB liabilities produces a more representative measure of the payments ultimately needed to settle those liabilities. Including the effect of such unused leave in both the compensated absences *and* defined benefit pension or defined benefit OPEB liabilities would result in double-counting that leave and, therefore, an overstatement of governments' liabilities. However, the Board recognizes that there could be some overlap, which is expected to be insignificant, because of the actuarial methodology applied to certain postemployment benefits and the *more likely than not* provision employed in this Statement. Although the inclusion of unused leave that is more likely than not to be converted to defined benefit pension or defined benefit OPEB benefits requires governments to make certain assumptions about employees—such as how many employees will stay employed until retirement and how much unused leave will be converted at that time—many governments already make such assumptions under the provisions of Statement 16, as amended, without much difficulty, as reported in outreach conducted during pre-agenda research. Therefore, the Board decided that accumulated leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should continue to be excluded from the compensated absences liability.

## Pay Rate That Should Be Used for Measurement

B18. The Board deliberated whether the pay rate used to measure the liability should be addressed. Considering that paragraph 10 of Statement 16, as amended, specified that the current pay rate at the financial reporting date should be used, the Board believes that not providing any guidance would cause inconsistency in practice, which could reduce comparability.

B19. The Board considered four alternatives for the pay rate that should be used: (a) the pay rate in effect when leave is earned, (b) a projected future pay rate, (c) the next year's pay rate (if known), and (d) the employee's pay rate at the financial reporting date.

B20. The Board noted that using *the pay rate in effect when leave is earned* would not appropriately reflect the present obligation of the government at the reporting date. Additionally, that alternative would have required governments to track the accumulated leave earned at each specific pay rate, which could have resulted in significant administrative burden for preparers. Accordingly, the Board decided not to pursue that alternative.

B21. Given that many employees' pay rates change over their career because of cost-of-living adjustments, merit raises, and promotions, using *a projected future pay rate* (and discounting to present value) may provide a more accurate representation of the present obligation at the reporting date. However, the Board believes that alternative would require preparers to make complex estimates associated with future events and may require the use of an actuary. After considering the expected increase in costs associated with that alternative when compared to the additional precision in the calculation of the liability, the Board determined that governments should not be required to project employees' pay rates in the measurement of the compensated absences liability. (See paragraph B25 for consideration of present value.)

B22. *The next year's pay rate* (if known by the government) was suggested during outreach with preparers during pre-agenda research. Some governments may know at year-end the pay rates that will be in effect as of the first day of the next fiscal year. Therefore, when calculating the compensated absences liability at the financial reporting date, the government could use the employee's pay rate for the next fiscal year but would not have to project pay rates beyond that point. The Board noted that some governments may change pay rates at times other than fiscal year-end and may not know employees' pay rates that will be in effect during the next fiscal year. However, because next year's rate does not reflect the present obligation of the government as of the reporting date, the Board decided not to incorporate the next year's pay rate in the measurement of the compensated absences liability.

B23. In considering *the employee's pay rate at the financial reporting date,* the Board noted that Statement 16, as amended, required governments to measure the liability using the pay rate in effect at that date. Paragraph 46 of the Basis for Conclusions of Statement 16 explained that the Board chose that alternative because the current rate is "objective,

easily measurable, and not affected by the timing of pay increases." The Board also noted that a current value measurement is required elsewhere in the GASB literature, such as in Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs,* as amended; Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* as amended; and Statement 83, as amended. In considering the factors above, the Board decided that the employee's pay rate at the financial reporting date should continue to be used to calculate the compensated absences liability.

B24. As discussed in paragraphs 10 and B10, the Board believes that governments should consider certain factors, such as employment policies related to compensated absences, in estimating the absences to include in the compensated absences liability. A common factor that affects compensated absences is an employment policy, often related to payments upon termination of employment, that limits the payment to a reduced pay rate. Additionally, some leave might be required by law to be paid at a higher rate, such as one-and-a-half times the employee's pay rate. The Board believes that including leave that is subject to such employment policies or laws in the compensated absences liability at the employee's pay rate as of the financial reporting date could result in an overstatement or understatement of the liability. To address the accounting for compensated absences subject to such employment policies or laws, the Board decided that governments should estimate the amount of leave that is more likely than not to be paid at a rate different from the employee's pay rate and should apply the different rate to that leave. As a result, the Board believes that the measurement of the compensated absences liability will incorporate such employment policies and laws and will better reflect governments' obligations for compensated absences.

## Present Value

B25. An approach considered by the Board was to measure the compensated absences liability at present value. GASB standards often employ the use of present value in the measurement of long-term liabilities, although this approach is typically used only when there are scheduled payments due to be made over time (thus, it is known when those future cash flows will take place). Compensated absences generally do not have a set payment schedule, and governments would be required to estimate amounts and timing for future years. The Board concluded that the compensated absences liability should not be measured at present value because the uncertainties related to the timing and eventual amount of the portion of the compensated absences liability that will be paid make it difficult for governments to predict future cash flows and, as noted in paragraph B21, likely would require the use of an actuary. Moreover, the Board believes that measurement of compensated absences at current value is comparable to discounting expected future cash flows at the inflation rate, therefore achieving much of what present value intends to achieve.

## Insurance

B26. The Board considered providing guidance for insurance for compensated absences. One type of compensated absence for which insurance may be obtained is short-term disability leave. However, short-term disability leave generally does not accumulate and would not be recognized as a liability under the criteria in this Statement. The Board believes it is uncommon for governments to obtain insurance for compensated absences that would meet the criteria for recognition as a liability; therefore, the Board decided not to include specific guidance for that situation.

## Resources Set Aside for Compensated Absences Liabilities

B27. Some governments set aside cash or other assets for their compensated absences liabilities in a separate account, an internal service fund, or a trust fund that meets the fiduciary fund reporting requirements. The Board considered providing guidance on certain topics related to those activities: the applicability of fiduciary activity guidance, right of offset, and recognizing the compensated absences liability in an internal service fund. However, the Board believes that the guidance in Statement No. 84, *Fiduciary Activities,* as amended, is sufficient for governments to determine whether their activities related to compensated absences qualify for reporting as fiduciary activities. Statement 84 is intended to apply to all types of fiduciary activities, including any related to compensated absences. Similarly, the Board believes that the general guidance found in paragraph 501 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* as amended, which prohibits offsetting assets and liabilities unless a right of offset exists, is sufficient to address questions related to offsetting of prefunded assets and compensated absences liabilities. Likewise, the Board believes that the general guidance in NCGA Statement 1, as amended, related to recognizing liabilities in proprietary funds is sufficient to determine whether a compensated absences liability should be recognized in an internal service fund.

## Amount Due within One Year

B28. Statement 34, as amended, requires governments to separately report the amount of long-term liabilities that is due within one year. As previously noted, compensated absences are different from certain other long-term liabilities because compensated absences generally do not have a set payment schedule, thereby making the amount due within one year an estimate. Some preparers surveyed in pre-agenda research indicated difficulties in determining that estimate, and some users interviewed expressed concerns about the reliability of the resulting estimate. For those reasons, the Board considered an exception to the Statement 34 requirements. However, the Board concluded that the amount of compensated absences due within one year should continue to be estimated and reported separately from the amount due in more than one year (though those amounts may be combined with other long-term liabilities on the face of the financial statements) because of evidence that financial statement users consider the amount to assess short-

term liquidity and management of the workforce. The Board believes (a) that estimate is not more burdensome to preparers than other required estimates and (b) the cost relief to preparers would not justify the loss of information to financial statement users.

B29. Implementation Guide 2015-1 provided guidance in Question 7.22.4 on how governments could estimate the amount due within one year. The Board considered whether to provide additional guidance in this Statement or specify a certain method of determining the estimate (beyond the flows assumption discussed in paragraphs B30 and B31). The Board concluded that Question 7.22.4, as amended by this Statement, is the appropriate method of providing guidance on how to determine the estimate because it elaborates on the application of Statement 34, as amended, to this specific type of liability. The Board also decided not to require a specific method of determining the estimate because doing so could limit the flexibility of governments to make appropriate judgments based on their circumstances.

B30. A key assumption in the estimate of the amount due within one year is the flows assumption for the pattern of usage of compensated absences. The flows assumption, whether implicit or explicit, is used in the determination of how much of the amount the government expects to pay in the next reporting period will be attributed to the recognized liability at the financial statement date and how much will be attributed to the leave earned in the next reporting period.

B31. The Board considered whether to prescribe a specific flows assumption to enhance comparability across governments. The Board also considered specifying that the flows assumption should be determined based on a government's employment policies and requiring the use of the FIFO flows assumption in the absence of a relevant employment policy. However, whereas some governments have an employment policy that specifies FIFO use of leave, the Board is unaware of any governments that have a last-in, first-out employment policy. After considering those factors, the Board concluded that the effect of an alternative based on employment policies would have the same practical effect as prescribing the use of FIFO for all governments, and the use of a single flows assumption will enhance comparability.

## Relationship with Postemployment Benefits

B32. Payment of compensated absences could impact defined benefit postemployment benefits if amounts paid affect the employee's compensation on which those postemployment benefits are based. This Statement also requires that projected effects on defined benefit postemployment benefits not be included in the compensated absences liability because they already are considered in the projected benefits of the applicable postemployment benefit liability.

B33. Under Statement 16, as amended, accumulated leave that was transferred to an individual account for the payment of healthcare premiums was included in the compensated absences liability. According to Question 4.18 in Implementation Guide 2017-3 and footnote 6 of Statement 16, as amended, payment of accumulated leave

through a healthcare account is one example of a payment upon termination of employment for sick leave. The Board does not observe a meaningful difference in the recognition, measurement, and presentation of a direct payment to an employee of unused leave or the payment of unused leave into an individual account. Accordingly, the Board decided that leave paid into an individual account should continue to be included in the compensated absences liability and should be accounted for in the same manner as leave that will be paid directly to an employee.

## Salary-Related Payments

B34. After considering the guidance on salary-related payments in Statement 16, as amended, the Board concluded that specific guidance should continue to be provided. Absent specific guidance, the Board believes that some governments might not include those items in their compensated absences liability, which would hinder comparability.

B35. The Board considered whether salary-related payments should be recognized for all leave that meets the general recognition and measurement provisions or only that leave that would be paid upon termination of employment, which was the approach taken in Statement 16, as amended. Although salary-related payments are not paid directly to the employee, they are a present obligation of the government based on the services that the employee has rendered, and the Board believes salary-related payments are associated with the employer-employee exchange. Consistent with the discussion in paragraph B7, the Board believes salary-related payments should be recognized when the employee provides the service that results in a benefit, even if that benefit reflects only an employee's right to paid leave in the future. The full obligation for that benefit includes the salary-related payments that an employer will make when the leave is used. The Board noted that this conclusion is consistent with the discussion in paragraph B16.

B36. In determining which salary-related payments should be included in the compensated absences liability, the Board decided to include those payments that are directly and incrementally associated with the compensated absence. The Board believes guidance on salary-related payments should be broad enough to encompass many types of benefits and, therefore, elected not to provide a specific listing of which salary-related payments to include. Instead, the guidance on includable salary-related payments requires recognition of those items for which an employer is obligated to make an additional payment as a result of compensated absences, if that additional payment is a function of the salary to be paid to the employee. The Board believes including those salary-related payments best reflects the full amount of a government's obligation related to compensated absences.

B37. The Board believes that employer payments or credits to a defined contribution pension plan or defined contribution OPEB plan should be considered salary-related payments and recognized as a liability at the time the employee provides services. However, the Board decided to specify that those amounts should be recognized as

pension or OPEB expense and a pension or OPEB liability, instead of being included in the measurement of the compensated absences liability, because of the nature of those types of payments.

B38. Consistent with Statement 16, as amended, the Board concluded that salary-related payments related to defined benefit pensions or defined benefit OPEB should not be included in the measurement of the compensated absences liability. Future payments to defined benefit plans, as well as the future expected benefits from such plans that may result from the future payment of compensated absences, are included in the actuarial calculations for those defined benefit plans; therefore, as noted in paragraphs B17 and B32, it is appropriate to exclude them from the compensated absences liability.

B39. The Board also considered the rate that should be used for salary-related payments in the measurement of the compensated absences liability, similar to the provisions in paragraphs B18 and B19 regarding pay rate. The Board considered whether it was necessary to provide specific guidance on this topic and, if so, which rate should be used. Alternatives considered were (a) the rate in effect when leave is earned and accumulated, (b) the current rate at the financial reporting date, (c) a projected future rate, and (d) the next year's rate (if known). Consistent with the Board's conclusion for pay rate, the Board decided to provide specific guidance and to require the current rate at the financial reporting date. Many of the Board's considerations in reaching that conclusion were consistent with those discussed in paragraphs B20–B23. An additional difficulty that the Board noted with respect to alternative (c) is that rates for salary-related payments often are set by outside parties, such as the federal government (in the case of Social Security and Medicare taxes).

## Sabbatical Leave

B40. This Statement provides that only unrestricted sabbatical leave meets the definition of a compensated absence. If an employee is required to perform duties of a different nature for the government during the sabbatical, the employee is not paid for leave. Payments the employee receives during the sabbatical are for services rendered in that period. Statement 16, as amended, stated that unrestricted sabbatical leave is recognized during the period an employee earns the right to the leave if it is probable that the employer will compensate the employee for the benefit through paid leave or other means. That guidance is consistent with the similar conclusions reached in this Statement that the liability should represent the amounts more likely than not to be paid. As such, the Board decided that the liability for unrestricted sabbatical leave should consider the likelihood that sabbatical leave will be used (for example, some employees may choose not to take sabbatical and may not otherwise be compensated) or that employees may leave employment before they become eligible to use sabbatical leave. The pre-agenda research did not indicate any significant issues with the broad recognition and measurement guidance in Statement 16, as amended, and, therefore, the Board concluded that only broad guidance was needed in this Statement.

### Financial Statements Prepared Using the Current Financial Resources Measurement Focus

B41. The Board considered whether guidance should be developed or amended for the recognition and measurement of compensated absences in governmental funds. Previous guidance for recognition of compensated absences under the current financial resources measurement focus was provided in paragraph 13 of Statement 16, as amended. That guidance was expanded upon by Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements,* as amended. The Board considered whether the existing guidance should be evaluated in light of financial reporting model deliberations. Given the timing of this Statement, the Board determined that the financial reporting model proposals should not be considered for application to compensated absences. Furthermore, the Board determined that it would be inappropriate to develop new guidance specifically for the recognition of compensated absences in the governmental funds, given that such guidance could be amended or superseded by the financial reporting model guidance. Therefore, the Board decided to carry over the guidance previously contained in Statement 16, as amended, and not to amend the guidance in Interpretation 6, as amended, regarding the recognition and measurement of compensated absences in governmental funds using the current financial resources measurement focus.

## Note Disclosures

B42. In evaluating disclosures about the compensated absences liability, the Board considered the disclosure requirements for long-term liabilities in Statement 34, as amended, which include compensated absences as well as other potential disclosures identified during research on compensated absences. The Board considered information gathered in user surveys and interviews in addition to information provided by preparer and auditor surveys conducted during pre-agenda research when deliberating which disclosures should be required for compensated absences.

### Amendments to Existing Disclosure Requirements

B43. The Board concluded that an amendment to paragraph 119b of Statement 34 was appropriate for compensated absences. Prior to that amendment, a government was required to separately disclose increases and decreases in its compensated absences liability. Based on user outreach, the Board believes that user interest in gross additions and reductions is limited and that the disclosure of that information may be less meaningful for compensated absences than for other long-term liabilities because the compensated absences liability increases and decreases in less structured ways and generally does not have a set payment schedule. Users primarily expressed interest in overall trends of the compensated absences liability, which can be inferred from the net change. Additionally, surveys of preparers and auditors conducted during pre-agenda research indicated that the separate disclosure of increases and decreases can be challenging for some governments due to system limitations. The Board believes that

providing an option for this disclosure requirement will lead only to the loss of information that is considered by users to be of limited value while reducing preparation costs for this information. Because the disclosure of separate increases and decreases still is required for other long-term liabilities, the Board concluded that a government should indicate whether the amount presented for compensated absences is net in order to further clarify the disclosure.

B44. The Board also concluded that an exception to paragraph 119d of Statement 34 was appropriate for compensated absences. Prior to that exception, a government was required to disclose which governmental funds typically have been used to liquidate the compensated absences liability. Based on user feedback received in the development of this Statement, the Board believes the use of this specific disclosure with respect to compensated absences is limited. User feedback indicated that interest in compensated absences as a whole generally was higher if a government is distressed. However, in those situations, the fund typically used for liquidation is less relevant because distressed governments often attempt to liquidate liabilities using any available resources. Accordingly, the Board determined that information is not essential to a user's understanding of the compensated absences liability and, therefore, established an exception to that disclosure requirement.

## Other Disclosure Considerations

### *Exceptions to Other Existing Disclosure Requirements*

B45. Statement 34, as amended, also requires the disclosure of the beginning and ending balances of the compensated absences liability and the portion of the compensated absences liability that is due within one year. The Board considered whether those existing disclosure requirements provide information that is essential to a user's understanding of compensated absences. Governments are not required to separately report compensated absences on the face of the financial statements, and, therefore, discrete information about the compensated absences liability is required only as a result of the long-term liability disclosure requirements.

B46. User outreach indicated that the beginning and ending balances of the compensated absences liability are used to examine the financial health of a government and analyze a government's liabilities. In some cases, a user can assess the relative significance of a compensated absence liability only if the amount is separately disclosed. Users noted that their analysis of compensated absences generally begins by examining the balances to determine whether further attention is warranted. For those reasons, the Board believes that the beginning and ending balances of the compensated absences liability are essential to a user's understanding of the financial statements. Additionally, because a government needs to calculate those balances to prepare financial statements, the Board believes that the requirement to disclose the balances is not overly burdensome.

B47. The Board also believes that the disclosure of the portion of the liability due within one year is essential to a user's understanding of the financial statements. Financial

statement users stated that the disclosure assists in their assessment of short-term liquidity. As noted in paragraph B28, the Board decided to retain the requirement to report the amount of the compensated absences liability due within one year separately from the amount due in more than one year. As such, governments already are required to estimate the amount but are not required to present it separately from other long-term liabilities on the face of the financial statements, so the disclosure may be the only place for users to find the disaggregated amount.

### *Other Potential Disclosures*

B48. The Board considered, but did not require, several other potential disclosures about compensated absences, including pertinent employment policies and the closeness of a government's workforce to retirement. Pre-agenda research found that some governments voluntarily disclose information about employment policies related to compensated absences. User outreach indicated that disclosure, when provided, was rarely used. The costs of requiring that disclosure may be somewhat decreased because some governments already provide the information voluntarily, and the cost of providing the information may be insignificant to others; however, the Board determined that the expected benefit of requiring the disclosure would not justify the anticipated cost.

B49. Regarding the potential disclosure of the closeness of a government's workforce to retirement, a large number of retirements within a short timeframe could lead to significant cash outflows or budgetary concerns for some governments. A disclosure such as the average age of the workforce may provide insight into the likelihood of upcoming retirements. Users indicated some interest in that information, but some users noted that type of measure would ignore potential terminations of employment for other reasons (such as voluntary resignations) and may require disaggregation by employee class or salary level to be meaningful. Ultimately, the Board did not identify a disclosure of this type for which the expected benefit justified the anticipated cost of preparation and, therefore, decided not to require disclosure of this information. Some users noted that a number of unanticipated retirements may be a greater issue of concern for smaller governments, but the Board concluded that cost-benefit concerns are an even greater factor for smaller governments and, therefore, also did not adopt this disclosure requirement for a subset of governments.

B50. The Board considered several other potential disclosures related to compensated absences, including leave utilization rates, the further disaggregation of the liability by type of leave or salary level, and estimated future payments for compensated absences. For all potential disclosures that were considered but not required, the Board compared the cost of preparing the information with its expected limited use and determined the expected benefit of those additional disclosures would not justify the anticipated costs of preparing them. The Board also noted that the additional information about the compensated absences liability would result in a greater level of disclosure for compensated absences than is required for other long-term liabilities. Finally, some users expressed interest in disclosures related to collective bargaining agreements, but the

Board believes compensated absences are not a primary consideration in collective bargaining agreements, and, therefore, that type of disclosure requirement was not appropriate in this Statement.

## Considerations Related to Benefits and Costs

B51. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B52. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B53. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes the assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B54. The Board concluded that the reporting requirements of this Statement will benefit users because they will (a) receive more robust estimates of the compensated absences liability and (b) be given information that is more consistently reported and more comparable among governments. That guidance will benefit preparers and auditors as well by providing them with a unified model for recognition and measurement of the compensated absences liability that can be applied to any type of leave, which addresses the issue identified in pre-agenda research about lack of guidance for certain types of leave. A unified model also eliminates the potential comparability issues between governments that offer PTO and governments that offer separate vacation and sick leave. The Board believes this Statement also provides clear guidance, which may help governments apply the standards consistently. The recognition and measurement model

does not require complex calculations that may necessitate the use of an actuary because the Board believes the incremental precision in the liability does not justify the costs of obtaining such a calculation. Two amendments to existing note disclosure requirements also are offered by this new guidance, creating additional cost relief for both preparers and auditors while resulting in only a minor loss of information for users. The disclosure of employment policies related to compensated absences and the closeness of the workforce to retirement, as well as other potential disclosures suggested in user interviews, ultimately were not required as the costs to preparers and auditors were not justified by the potential benefits to users.

## Effective Date and Transition

B55. The provisions of this Statement are effective for reporting periods beginning after December 15, 2022. In considering the changes introduced in this Statement, the Board concluded that the effective date allows adequate time for financial statement preparers to plan for the transition and implementation of this Statement. Some governments may wish to implement the guidance earlier than the effective date, which this Statement encourages.

B56. With respect to transition, the Board concluded that it is appropriate to require retroactive application of the provisions of this Statement, if practicable, for all prior periods presented. The Board believes retroactive application provides more useful and comparable information than prospective application and that the information necessary to apply this Statement retroactively likely is readily available. The phrase *if practicable* has been used in other GASB standards in a similar context as used in this Statement with respect to transition provisions that require restating the financial statements for all prior periods presented. The Board believes that reasonable efforts should be employed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should not be considered equivalent to *not practicable*.

# Appendix C

# ILLUSTRATIONS

C1. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here.

## Illustration 1—Application of the Recognition Criteria

Compensated absences are recognized as a liability if they (a) accumulate, (b) are attributable to services rendered, and (c) are more likely than not to be either paid or settled through other means. (See paragraph 7.) The following are examples of certain types of compensated absences that a government may offer to its employees, evaluated according to the recognition criteria; they are not exhaustive of all types of leave that may be offered. The examples are presented as illustrations to demonstrate the application of the recognition criteria. Ultimately, a government's consideration of those recognition criteria determines whether a compensated absence should be recognized as a liability.

a. *Paid time off (PTO) that is earned each month, carries over without limits at the end of the fiscal year, and for which any unused leave is paid upon termination of employment*. Some governments offer their employees general PTO that can be used for vacation time, sick time, or other time off, at the discretion of the employee. The leave accumulates because it carries over at the end of the fiscal year. The leave is attributable to services already rendered because employees earn a certain number of hours or days for each month that they are employed. Because there are no limits on carrying over unused leave and any unused leave is paid upon termination of employment, all PTO is more likely than not to be paid. Accordingly, all accumulated PTO is recognized as a compensated absences liability.

b. *Sick leave that is earned each month and carries over without limits at the end of the fiscal year, but any unused leave is not paid upon termination of employment.* Governments often offer leave to employees that can be used only when an employee is sick. Some governments allow employees to accumulate sick leave during their employment, but any unused amounts are forfeited upon termination of employment. The leave accumulates because it carries over at the end of the fiscal year. Such leave also is attributable to services already rendered because employees earn a certain number of hours or days for each month that they are employed. The government would estimate how much of the accumulated leave is more likely than not to be used as paid leave and recognize that portion as a compensated absences liability.

c. *Sick leave that is earned each month, does not carry over at the end of the fiscal year, and is not paid upon termination of employment.* Unlike Example b, this sick leave does not accumulate because it does not carry over at the end of the fiscal year (in other words, the unused leave is forfeited). Accordingly, such leave is not recognized as a compensated absences liability in annual financial statements.

d. *Sick leave that is earned each month, does not carry over at the end of each calendar year, and is not paid upon termination of employment.* If the government's fiscal year does not coincide with the calendar year, sick leave accumulates because it does carry over at the end of the fiscal year, even though employees may only have until the end of the calendar year to use it. Such leave also is attributable to services already rendered because employees earn a certain number of hours or days for each month that they are employed. The government would estimate how much of the accumulated leave is more likely than not to be used as paid leave before the leave is forfeited at the end of the calendar year and recognize that portion as a compensated absences liability.

e. *Vacation leave that is allotted on the first day of the fiscal year (or at inception of employment) and added to the employee's time bank, is not reconciled if an employee terminates during the year, carries over at the end of the fiscal year without limits, and is paid upon termination of employment.* Some governments add leave for the entire year into employees' time banks on the first day of the fiscal year (or, for new hires, on their first day of employment). Such leave accumulates because it carries over at the end of the fiscal year. If a government considers that leave to be fully earned as of that date (that is, it is not reconciled if an employee terminates during the year), the leave is considered to be attributable to services rendered. In other words, employees earn such leave just by being employed as of the date the leave is made available in their time bank. Because there are no limits on carrying over unused leave and any unused leave is paid upon termination of employment, all of the vacation leave is more likely than not to be paid. Thus, all accumulated vacation leave is recognized as a compensated absences liability.

f. *Vacation leave that is allotted on the first day of the fiscal year (or at inception of employment) and added to the employee's time bank, is reconciled if an employee terminates during the year, carries over at the end of the fiscal year without limits, and is paid upon termination of employment.* Some governments add leave for the entire year into employees' time banks on the first day of the fiscal year (or, for new hires, on their first day of employment) as an *advance* for the year to provide flexibility with regard to when employees may use their paid leave. Because that leave carries over at the end of the fiscal year, it accumulates. If an employee terminates during the year, the government reconciles the amount of leave that has been used by the terminating employee against the amount of leave that has been earned by that employee. Therefore, such leave is considered to be attributable to services already rendered only as it is earned by an employee throughout the year. At the beginning of the fiscal year, even though leave has been added to employees' time banks, the leave

is not yet attributable to services rendered and, therefore, is not recognized as a compensated absences liability. By the end of the fiscal year, the unused portion of leave is fully attributable to services rendered because it has been earned by employees throughout the year. Because there are no limits on carrying over unused leave and any unused leave is paid upon termination of employment, all of the vacation leave is more likely than not to be paid. The accumulated vacation leave at the end of the year is recognized as a compensated absences liability.

g. *PTO without specific limits.* Some governments offer their employees the ability to use as much leave as they need, provided that the employees complete their job responsibilities (sometimes referred to as *unlimited PTO*). Such leave does not accumulate because employees do not maintain a bank of time that they have earned, and unused time does not carry over at the end of the fiscal year; rather, employees always have unlimited leave that can be used at their discretion. Because PTO without specific limits does not accumulate, such leave is not recognized as a compensated absences liability.

h. *Holidays.* Many governments offer employees paid leave for certain days recognized as national or state holidays. Those paid absences do not accumulate because they do not carry over at the end of the fiscal year; rather, employees have the ability to take off specific days during the year. Although some employees may earn compensatory time (Example i) if they work on national or state holidays, such time is separate from holiday leave. Given that holiday leave does not accumulate, such absences are not recognized as a compensated absences liability.

i. *Compensatory time that is allotted as employees work overtime and carries over at the end of the fiscal year. Per state statute, unused compensatory time is not forfeited and is required to be paid upon termination of employment.* Some governments offer employees compensatory time (often referred to as "comp time") if they work overtime or on holidays or weekends. The leave accumulates because it carries over at the end of the fiscal year. Such leave is attributable to services already rendered because it is allotted as the employees work overtime or on holidays or weekends. Because there are no limits on carrying over unused compensatory time and any unused compensatory time is paid upon termination of employment, all of the compensatory time is more likely than not to be paid. Thus, all accumulated compensatory time is recognized as a compensated absences liability.

j. *Parental leave.* Many governments allow employees to take extended periods of paid leave due to the birth or adoption of a child. Parental leave accumulates if, at the end of the fiscal year, employees have not used all of the paid leave allowed for a certain birth or adoption event (for example, if the birth or adoption took place near the end of the fiscal year) and can use the remaining leave in the next fiscal year. Such leave is attributable to the services rendered prior to the birth or adoption. The government would estimate how much of the remaining leave is more likely than not to be paid and recognize that portion as a compensated absences liability.

k. *Military leave.* Another common type of leave offered by governments is military leave, which provides employees with paid leave (often at a reduced pay rate) when the employees are required to report to the armed forces. Similar to parental leave (Example j), military leave accumulates if, at the end of the fiscal year, an employee has not used all of the paid leave allowed for a qualifying military leave event. Such leave is attributable to the services rendered prior to the employee reporting for duty. The government would estimate how much of the remaining leave is more likely than not to be paid and recognize that portion as a compensated absences liability.

## Illustration 2—Flows Assumption

At June 30, 20X1, Mayer County has a total compensated absences liability of $50,000. It expects to pay $40,000 in fiscal year 20X2 (both payroll for leave used and payments to terminating employees) based on an average of the actual payments made during the past five years. Mayer County also expects its employees to earn an additional $35,000 of leave in fiscal year 20X2. In accordance with paragraph 14 of this Statement, Mayer County is required to use the first-in, first-out flows assumption. Therefore, the $40,000 expected to be paid in fiscal year 20X2 is assumed to come first from the $50,000 liability at June 30, 20X1. Mayer County reports an amount due within one year of $40,000 and an amount due in more than one year of $10,000.

## Illustration 3—Application of Salary-Related Payments

Paragraphs 18 and 20 of this Statement require that a government include in a compensated absences liability (or defined contribution pension or defined contribution OPEB liability, as applicable) certain salary-related payments that are directly and incrementally associated with payments to be made for compensated absences. Drenner College provides the following employee benefits, which it needs to evaluate against the recognition criteria. The following examples are not exhaustive of all salary-related payments that may be applicable.

a. *Medicare and Social Security payroll taxes*. Employees of Drenner College are subject to those payroll taxes, which are calculated as a percentage of salary paid, up to the stated federal limits. The payment amount for those payroll taxes is a function of salary to be paid; therefore, the payments are directly associated. The government also will make an additional payment for those payroll taxes when compensated absences are paid (beyond the amount of the salary for the compensated absence), whether the compensated absences are paid as leave is used or upon termination of employment; therefore, those payments are incrementally associated as well. Accordingly, those salary-related payments are included in the compensated absences liability.

b. *Defined contribution pensions.* Drenner College has a defined contribution pension plan. The plan terms require Drenner College to provide defined contribution pensions equal to a set percentage of salary paid for the pay period, excluding

payments of unused leave upon termination of employment. Because the defined contribution pension provided under the plan terms is a function of salary to be paid, it is directly associated. However, Drenner College provides defined contribution pensions related to compensated absences only in circumstances in which they are used as paid leave, not for payment of unused leave upon termination of employment. Therefore, the defined contribution pensions are incrementally associated only with leave more likely than not to be used and are included in the measurement of salary-related payments only in those cases. In accordance with paragraph 20, those amounts are reported as a pension liability. There will be no incremental defined contribution pension for leave that is paid upon termination of employment. Therefore, it is not incrementally associated, and no defined contribution pensions are reported as a pension liability for leave that is more likely than not to be paid in that manner. To determine the amount of defined contribution pensions to include in the pension liability, Drenner College will need to separately estimate the amount of leave that is more likely than not to be used as paid leave rather than paid upon termination of employment.

c. *Medical Insurance for Active Employees.* At Drenner College, medical insurance premiums are paid at a flat monthly amount based on historical medical claims experience. Because the payment amount is not a function of salary to be paid, it is not directly associated and is not included in the compensated absences liability.

d. *Life Insurance for Active Employees.* At Drenner College, life insurance premiums are a function of an employee's *normal* salary, but the premium paid does not increase or decrease based on the actual amount paid. Although the life insurance premiums do have a relationship to salary, the payment amount is not a function of the salary to be paid and, therefore, is not directly associated and is not included in the compensated absences liability.

# Illustration 4—Note Disclosure—Net Change in the Liability

CROW CITY
NOTE X - DETAIL NOTES ON ALL FUNDS
LONG-TERM DEBT
Long-Term Liability Activity

| Governmental Activities | Beginning Balances | Additions | Reductions | Ending Balances | Amounts Due within One Year |
|---|---|---|---|---|---|
| Bonds and Notes Payable: | | | | | |
| General Obligation Bonds | $ 9,520,000 | $ 1,201,000 | $ (600,350) | $ 10,120,650 | $ 817,200 |
| Notes Payable | 945,600 | 75,000 | (115,000) | 905,600 | 116,500 |
| Total Bonds and Notes Payable | 10,465,600 | 1,276,000 | (715,350) | 11,026,250 | 933,700 |
| Other Liabilities: | | | | | |
| Compensated Absences | 310,430 | 143,545* | - | 453,975 | 382,673 |
| Other Obligations | 40,820 | - | - | 40,820 | - |
| Total Other Liabilities | 351,250 | 143,545 | - | 494,795 | 382,673 |
| Governmental Activities Long-Term Liabilities | $ 10,816,850 | $ 1,419,545 | $ (715,350) | $ 11,521,045 | $ 1,316,373 |
| **Business-Type Activities** | | | | | |
| Bonds and Notes Payable: | | | | | |
| General Obligation Bonds | $ 12,275,600 | $ 890,000 | $ (1,100,700) | $ 12,064,900 | $ 988,700 |
| Sales Tax-Backed Bonds | 6,670,000 | - | (810,000) | 5,860,000 | 635,000 |
| Total Bonds and Notes Payable | 18,945,600 | 890,000 | (1,910,700) | 17,924,900 | 1,623,700 |
| Other Liabilities: | | | | | |
| Compensated Absences | 56,710 | - | (24,985)* | 31,725 | 19,570 |
| Developer Agreements | 1,920,909 | 87,220 | (64,932) | 1,943,197 | - |
| Other Obligations | 37,503 | - | - | 37,503 | - |
| Total Other Liabilities | 2,015,122 | 87,220 | (89,917) | 2,012,425 | 19,570 |
| Business-Type Activities Long-Term Liabilities | $ 20,960,722 | $ 977,220 | $ (2,000,617) | $ 19,937,325 | $ 1,643,270 |

*The change in the compensated absences liability is presented as a net change.

## Appendix D

## CODIFICATION INSTRUCTIONS

### *Codification of Governmental Accounting and Financial Reporting Standards*—December 2022 Update

D1. The instructions that follow update the December 31, 2020 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification) for the provisions of this Statement. Only the paragraph number of this Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

**REPORTING LIABILITIES** **SECTION 1500**

.102 [In the list of amending sources of NCGAS 1, ¶42, remove GASBS 16, ¶6 and add GASBS XX, ¶7.]

.103 [In the list of amending sources of NCGAS 1, ¶43, remove GASBS 16, ¶13 and add GASBS XX, ¶7 and ¶24.]

* * *

**BASIS OF ACCOUNTING** **SECTION 1600**

Sources: [Remove GASBS 16; add GASBS XX.]

.129 [In the sources, remove GASBS 16, ¶13 and add GASBS XX, ¶24.]

* * *

**COMPREHENSIVE ANNUAL FINANCIAL REPORT** **SECTION 2200**

.708-4 [In the second sentence of the answer, replace *cannot be known reliably in advance* with *do not have a set payment schedule.*] [GASBIG 2015-1, Q7.22.4, as amended by GASBS XX, ¶3]

* * *

**NOTES TO FINANCIAL STATEMENTS** **SECTION 2300**

.106 [In the sources, replace *NCGAS 1, ¶158* with *NCGAS 1, ¶158, as amended*.]

.120 [Replace subparagraph (b) with the following:] Increases and decreases (separately presented, except a net increase or a net decrease may be presented for compensated absences in lieu of the separate presentation with an indication that it is a net amount)

[Replace subparagraph (d) with the following:] Which governmental funds typically have been used to liquidate other long-term liabilities (such as pension liabilities) in prior years, except for compensated absences.

[GASBS 34, ¶119, as amended by GASBS 88, ¶4 and GASBS XX, ¶25 and ¶26]

* * *

**COMPENSATED ABSENCES** **SECTION C60**

Sources: [Remove all sources other than GASBI 6, GASBIG 2015-1, and GASBIG 2017-3; add GASBS XX.]

[Replace .101–.111, including headings and footnotes, with the following:]

.101–.104 [GASBS XX, ¶2–¶5, including heading]

.105–.121 [GASBS XX, ¶7–¶23, including headings and footnote]

.122 [GASBS XX, ¶24; insert the following at the end of the paragraph:] The accumulation of earmarked net assets in a governmental fund for eventual payment of unmatured general long-term indebtedness does not constitute an outflow of current financial resources and should not result in the recognition of an additional governmental fund liability or expenditure. [GASBS XX, ¶24; GASBI 6, ¶14 and ¶16]

.123–.124 [GASBS XX, ¶25–¶26]

.707-1 [In the question, replace *paragraph .108* with *paragraphs .115–.119*.] [GASBIG 2015-1, Q5.255.1, as amended by GASBS XX, ¶17–¶21; GASBIG 2017-3, Q4.496, as amended by GASBS XX, ¶17–¶21]

[Delete Question .707-2.]

.708-1 [In the question, replace *Paragraph .109 of this section* with *Paragraph .116 of Section 2200, "Comprehensive Annual Financial Report"*; in the second sentence of the

answer, replace *cannot be known reliably in advance* with *do not have a set payment schedule.*] [GASBIG 2015-1, Q7.22.4, as amended by GASBS XX, ¶3]

[Delete Question .710-1.]

* * *

**PENSION ACTIVITIES—REPORTING FOR BENEFITS PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT** **SECTION P20**

See also: [Add the following:] Section C60, "Compensated Absences"

.106 [Revise the sentences after the lettered list as follows and renumber subsequent footnotes:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences. However, the effects of a termination benefit[4] or compensated absence[5] on liabilities for defined benefit pensions that are within the scope of this section should be accounted for in accordance with this section. [GASBS 68, ¶8, as amended by GASBS XX, ¶3; GASBS XX, ¶7]

[4][Insert original footnote 4.]

[5]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

.536 [Revise the second sentence of the definition as follows:] OPEB does not include termination benefits or compensated absences.[27] [GASBS 68, ¶139, as amended by GASBS XX, ¶3]

[27]The effects of a termination benefit or compensated absence on an employer's defined benefit obligations for other postemployment benefits should be accounted for and reported in conformity with the requirements for defined benefit other postemployment benefits. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS 68, fn31; GASBS XX, ¶7 and ¶20]

.538 [Revise the second sentence of the definition as follows:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences.[28] [GASBS 68, ¶139, as amended by GASBS XX, ¶3; GASBS 78, ¶14, as amended by GASBS XX, ¶3]

[28]The effects of a termination benefit or compensated absence on an employer's or governmental nonemployer contributing entity's defined benefit obligations for pensions should be accounted for and reported in conformity with the requirements for defined benefit pensions. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS 68, fn32; GASBS XX, ¶7 and ¶20]

.701-15 [In the question, replace *paragraph .108* with *paragraphs .115–.119*.] [GASBIG 2015-1, Q5.255.1, as amended by GASBS XX, ¶17–¶21]

* * *

**PENSION ACTIVITIES—REPORTING FOR BENEFITS PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION** **SECTION P21**

See also: [Add the following:] Section C60, "Compensated Absences"

.105 [Revise the sentence after the lettered list as follows and renumber subsequent footnotes:] Pensions do not include postemployment healthcare benefits, termination benefits,[5] or compensated absences.[6] [GASBS 68, ¶8, as amended by GASBS XX, ¶3]

[5][Insert original footnote 5.]

[6]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

.109 [Replace subparagraph (a) with the following:] Pension expense equal to (1) the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in pension expense in prior periods in accordance with paragraph .118 of Section C60 and (2) amounts recognized in accordance with paragraph .118 of Section C60 as pension expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 68, ¶123, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

.110 [Replace the first sentence with the following:] In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, pension expenditures should be recognized equal to the total of (a) amounts paid by the employer (and by nonemployer contributing entities, if any) to the pension plan and (b) the change between the employer's (and nonemployer contributing entities', if any) beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources, including amounts recognized as salary-related payments due and payable in accordance with Section C60. [GASBS 68, ¶124, as amended by GASBS XX, ¶20; GASBS 85, ¶9]

.113 [Replace subparagraph (a) with the following:] Pension expense equal to (1) the employer's share of the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in pension expense in prior periods in accordance with paragraph .118 of Section C60 and (2) amounts recognized in accordance with paragraph .118 of Section

C60 as pension expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 68, ¶127, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

* * *

**PENSION ACTIVITIES—REPORTING FOR BENEFITS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT** **SECTION P22**

See also: [Add the following:] Section C60, "Compensated Absences"

.105 [Revise the sentences after the lettered list as follows and renumber subsequent footnotes:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences. However, the effects of a termination benefit[4] or compensated absence[5] on liabilities for defined benefit pensions that are within the scope of this section should be accounted for in accordance with this section. [GASBS 73, ¶11, as amended by GASBS XX, ¶3; GASBS XX, ¶7]

[4][Insert original footnote 4.]

[5]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

.530 [Revise the second sentence of the definition as follows:] Other postemployment benefits do not include termination benefits or compensated absences.[26] [GASBS 73, ¶128, as amended by GASBS XX, ¶3]

[26]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS XX, ¶20]

.532 [Revise the second sentence of the definition as follows and renumber subsequent footnotes:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences.[27] [GASBS 73, ¶128, as amended by GASBS XX, ¶3]

[27]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

* * *

**REPORTING ASSETS ACCUMULATED FOR DEFINED BENEFIT PENSIONS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA** **SECTION P23**

.103 [Revise the sentence after the lettered list as follows:] Pensions do not include postemployment healthcare benefits, termination benefits,[2] or compensated absences. [GASBS 73, ¶11, as amended by GASBS XX, ¶3]

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[2][Insert original footnote 2.]

.508 [Revise the second sentence of the definition as follows:] Other postemployment benefits do not include termination benefits or compensated absences. [GASBS 73, ¶128, as amended by GASBS XX, ¶3]

.510 [Revise the second sentence of the definition as follows:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences. [GASBS 73, ¶128, as amended by GASBS XX, ¶3]

* * *

**PENSION ACTIVITIES—REPORTING FOR BENEFITS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION** **SECTION P24**

See also: [Add the following:] Section C60, "Compensated Absences"

.104 [Revise the sentence after the lettered list as follows and renumber subsequent footnotes:] Pensions do not include postemployment healthcare benefits, termination benefits,[5] or compensated absences.[6] [GASBS 73, ¶11, as amended by GASBS XX, ¶3]

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[5][Insert original footnote 5.]

[6]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

.108 [Replace subparagraph (a) with the following:] Pension expense equal to (1) the amount of credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in pension expense in prior periods in accordance with paragraph .118 of Section C60, "Compensated Absences," and (2) amounts recognized in accordance with paragraph .118 of Section C60 as pension expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 73, ¶102, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

.109 [Replace the first sentence with the following:] In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, pension expenditures should be recognized equal to the total of (a) amounts paid by the employer (and by nonemployer contributing entities, if any) for pensions as the benefits come due and (b) the change between the employer's (and nonemployer contributing entities', if any) beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources, including amounts recognized as salary-related payments due and payable in accordance with Section C60. [GASBS 73, ¶103, as amended by GASBS XX, ¶20; GASBS 85, ¶9]

.112 [Replace subparagraph (a) with the following:] Pension expense equal to (1) the employer's share of the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in pension expense in prior periods in accordance with paragraph .118 of Section C60 and (2) amounts recognized in accordance with paragraph .118 of Section C60 as pension expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 73, ¶106, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

* * *

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—REPORTING FOR BENEFITS PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT** **SECTION P50**

See also: [Add the following:] Section C60, "Compensated Absences"

.104 [Revise the sentences after the lettered list as follows and renumber subsequent footnotes:] OPEB does not include termination benefits or compensated absences.[4] However, the effects of a termination benefit[5] or compensated absence[6] on liabilities for defined benefit OPEB should be accounted for in conformity with this section or Section P52, as applicable. [GASBS 75, ¶8, as amended by GASBS XX, ¶3; GASBS XX, ¶7]

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[4]Compensated absences are addressed in Section C60, "Compensated Absences," and include conversion of a terminating employee's unused sick leave credits to an individual account to be used for payment of the employee's share of future healthcare premiums. [GASBS 75, fn5, as amended by GASBS XX, ¶16]

[5][Insert original footnote 5.]

[6]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS XX, ¶20]

.539 [Revise the second sentence of the definition as follows:] OPEB does not include termination benefits or compensated absences.[25] [GASBS 75, ¶246, as amended by GASBS XX, ¶3]

[25]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS XX, ¶20]

.542 [Revise the second sentence of the definition as follows and renumber subsequent footnotes:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences.[26] [GASBS 75, ¶246, as amended by GASBS XX, ¶3]

[26]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

.701-18 [In the question, replace *individual healthcare accounts* with *individual accounts* and replace *postemployment healthcare premiums or claims costs* with *the employee's share of future healthcare premiums* and delete *or benefits.* In the answer, replace the third sentence as follows:] Conversion of unused sick leave to an individual account is part of the compensated absences liability, as discussed in paragraph .114 of Section C60. [GASBIG 2017-3, Q4.18, as amended by GASBS XX, ¶16]

.701-23 [In the question, replace *paragraph .108* with *paragraphs .115–.119*.] [GASBIG 2017-3, Q4.496, as amended by GASBS XX, ¶17–¶21]

* * *

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—REPORTING FOR BENEFITS PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION** **SECTION P51**

See also: [Add the following:] Section C60, "Compensated Absences"

.103 [Revise the sentences after the lettered list as follows:] OPEB does not include termination benefits[5] or compensated absences.[6] When a terminating employee's unused compensated absences are converted to provide or enhance defined benefit OPEB, the resulting benefit or increase in benefit should be accounted for in conformity with Section P50 or Section P52, as applicable. [GASBS 75, ¶8, as amended by GASBS XX, ¶3; GASBS XX, ¶7]

[5][Insert original footnote 5.]

[6]Compensated absences are addressed in Section C60 and include conversion of a terminating employee's unused sick leave credits to an individual account to be used for payment of the employee's share of future healthcare premiums. Salary-related payments (described in paragraphs .115–.119 of Section C60) related

to defined contribution OPEB are OPEB rather than compensated absences. [GASBS 75, fn5, as amended by GASBS XX, ¶16; GASBS XX, ¶20]

.107 [Replace subparagraph (a) with the following:] OPEB expense equal to (1) the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in OPEB expense in prior periods in accordance with paragraph .118 of Section C60, "Compensated Absences," and (2) amounts recognized in accordance with paragraph .118 of Section C60 as OPEB expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 75, ¶230, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

.108 [Replace the first sentence with the following:] In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, OPEB expenditures should be recognized equal to the total of (a) amounts paid by the employer (and by nonemployer contributing entities, if any) to the OPEB plan and (b) the change between the employer's (and nonemployer contributing entities', if any) beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources, including amounts recognized as salary-related payments due and payable in accordance with Section C60. [GASBS 75, ¶231, as amended by GASBS XX, ¶20; GASBS 85, ¶9]

.111 [Replace subparagraph (a) with the following:] OPEB expense equal to (1) the employer's share of the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in OPEB expense in prior periods in accordance with paragraph .118 of Section C60 and (2) amounts recognized in accordance with paragraph .118 of Section C60 as OPEB expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 75, ¶234, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

* * *

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—REPORTING FOR BENEFITS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT** **SECTION P52**

.104 [Revise the sentences after the lettered list as follows:] OPEB does not include termination benefits or compensated absences.[4] However, the effects of a termination benefit[5] or compensated absence on liabilities for defined benefit OPEB should be

accounted for in conformity with this section. [GASBS 75, ¶8, as amended by GASBS XX, ¶3; GASBS XX, ¶7]

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[4]Compensated absences are addressed in Section C60, "Compensated Absences," and include conversion of a terminating employee's unused sick leave credits to an individual account to be used for payment of the employee's share of future healthcare premiums. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS 75, fn5, as amended by GASBS XX, ¶16; GASBS XX, ¶20]
[5][Insert original footnote 5.]

.701-10 [In the question, replace *individual healthcare accounts* with *individual accounts* and replace *postemployment healthcare premiums or claims costs* with *the employee's share of future healthcare premiums* and delete *or benefits.* In the answer, replace the third sentence as follows:] Conversion of unused sick leave to an individual account is part of the compensated absences liability, as discussed in paragraph .114 of Section C60. [GASBIG 2017-3, Q4.18, as amended by GASBS XX, ¶16]

* * *

**REPORTING ASSETS ACCUMULATED FOR DEFINED BENEFIT POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA** **SECTION P53**

.105 [Revise the sentence after the lettered list as follows:] OPEB does not include termination benefits[2] or compensated absences.[3] [GASBS 74, ¶10, as amended by GASBS XX, ¶3]

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[2][Insert original footnote 2.]
[3]Compensated absences are addressed in Section C60, "Compensated Absences." [GASBS 74, fn6, as amended by GASBS XX, ¶3]

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**POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—REPORTING FOR BENEFITS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION** **SECTION P54**

See also: [Add the following:] Section C60, "Compensated Absences"

.103 [Revise the sentences after the lettered list as follows:] OPEB does not include termination benefits[5] or compensated absences.[6] When a terminating employee's unused compensated absences are converted to provide or enhance defined benefit OPEB, the

resulting benefit or increase in benefit should be accounted for in conformity with Section P50 or Section P52, as applicable. [GASBS 75, ¶8, as amended by GASBS XX, ¶3; GASBS XX, ¶7]

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[5][Insert original footnote 5.]

[6]Compensated absences are addressed in Section C60 and include conversion of a terminating employee's unused sick leave credits to an individual account to be used for payment of the employee's share of future healthcare premiums. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS 75, fn5, as amended by GASBS XX, ¶16; GASBS XX, ¶20]

.107 [Replace subparagraph (a) with the following:] OPEB expense equal to (1) the amount of credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in OPEB expense in prior periods in accordance with paragraph .118 of Section C60, "Compensated Absences," and (2) amounts recognized in accordance with paragraph .118 of Section C60 as OPEB expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 75, ¶230, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

.108 [Replace the first sentence with the following:] In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, OPEB expenditures should be recognized equal to the total of (a) amounts paid by the employer (and by nonemployer contributing entities, if any) for OPEB as the benefits come due and (b) the change between the employer's (and nonemployer contributing entities', if any) beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources, including amounts recognized as salary-related payments due and payable in accordance with Section C60. [GASBS 75, ¶231, as amended by GASBS XX, ¶20; GASBS 85, ¶9]

.111 [Replace subparagraph (a) with the following:] OPEB expense equal to (1) the employer's share of the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts, less any amounts that were included in OPEB expense in prior periods in accordance with paragraph .118 of Section C60 and (2) amounts recognized in accordance with paragraph .118 of Section C60 as OPEB expense for the reporting period. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.

[GASBS 75, ¶234, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

* * *

See also: [Add the following:] Section C60, "Compensated Absences"

.105 [Revise the sentences after the lettered list as follows:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences.[4] [GASBS 67, ¶6, as amended by GASBS XX, ¶3]

[4]Termination benefits primarily are addressed in Section T25, and compensated absences are addressed in Section C60. However, the effects of a termination benefit or compensated absence on the defined benefit pension liabilities of an employer or governmental nonemployer contributing entity should be included in measures of those pension liabilities that are required by this section. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS 67, fn5; GASBS XX, ¶7 and ¶20]

.526 [Revise the second sentence of the definition as follows:] OPEB does not include termination benefits or compensated absences.[13] [GASBS 67, ¶51, as amended by GASBS XX, ¶3]

[13]The effects of a termination benefit or compensated absence on an employer's defined benefit obligations for OPEB should be accounted for and reported in conformity with the requirements for defined benefit OPEB. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS 67, fn18; GASBS XX, ¶7 and ¶20]

.528 [Revise the second sentence of the definition as follows:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences.[14] [GASBS 67, ¶51, as amended by GASBS XX, ¶3]

[14]The effects of a termination benefit or compensated absence on an employer's or governmental nonemployer contributing entity's defined benefit obligations for pensions should be accounted for and reported in conformity with the requirements for defined benefit pensions. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS 67, fn19; GASBS XX, ¶7 and ¶20]

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**PENSION PLANS ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION** **SECTION Pe6**

See also: [Add the following:] Section C60, "Compensated Absences"

.104 [Revise the sentences after the lettered list as follows and renumber subsequent footnotes:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences.[5] [GASBS 67, ¶6, as amended by GASBS XX, ¶3]

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[5]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

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**POSTEMPLOYMENT BENEFIT PLANS (OTHER THAN PENSION PLANS) ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT** **SECTION Po50**

.105 [Revise the sentences after the lettered list as follows:] OPEB does not include termination benefits[4] or compensated absences.[5] [GASBS 74, ¶10, as amended by GASBS XX, ¶3]

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[4][Insert original footnote 4.]

[5]Compensated absences are addressed in Section C60, "Compensated Absences," and include the conversion of a terminating employee's unused sick leave credits to an individual account to be used for payment of the employee's share of future healthcare premiums. However, when a terminating employee's unused sick leave credits are converted to provide or enhance defined benefit OPEB, the resulting benefit or increase in benefit should be included in measures of OPEB liabilities that are required by this section. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS 74, fn6, as amended by GASBS XX, ¶15 and ¶16; GASBS XX, ¶20]

.529 [Revise the second sentence of the definition as follows:] OPEB does not include termination benefits or compensated absences.[14] [GASBS 74, ¶63, as amended by GASBS XX, ¶3]

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[14]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS XX, ¶20]

.532 [Revise the second sentence of the definition as follows:] Pensions do not include postemployment healthcare benefits, termination benefits, or compensated absences.[15] [GASBS 74, ¶63, as amended by GASBS XX, ¶3]

[15]Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution pensions are pensions rather than compensated absences. [GASBS XX, ¶20]

.701-20 [In the question, replace *individual healthcare accounts* with *individual accounts* and replace *postemployment healthcare premiums or claims costs* with *the employee's share of future healthcare premiums* and delete *or benefits.* In the answer, replace the third sentence as follows:] Conversion of unused sick leave to an individual account is part of the compensated absences liability, as discussed in paragraph .114 of Section C60. [GASBIG 2017-2, Q4.20, as amended by GASBS XX, ¶16]

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**POSTEMPLOYMENT BENEFIT PLANS (OTHER THAN PENSION PLANS) ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION** **SECTION Po51**

.103 [Revise the sentence after the lettered list as follows:] OPEB does not include termination benefits[5] or compensated absences.[6] [GASBS 74, ¶10, as amended by GASBS XX, ¶3]

[5][Insert original footnote 5.]
[6]Compensated absences are addressed in Section C60, "Compensated Absences," and include conversion of a terminating employee's unused sick leave credits to an individual account to be used for payment of the employee's share of future healthcare premiums. Salary-related payments (described in paragraphs .115–.119 of Section C60) related to defined contribution OPEB are OPEB rather than compensated absences. [GASBS 74, fn6, as amended by GASBS XX, ¶16; GASBS XX, ¶20]

.701-5 [In the question, replace *individual healthcare accounts* with *individual accounts* and replace *postemployment healthcare premiums or claims costs* with *the employee's share of future healthcare premiums* and delete *or benefits.* In the answer, replace the third sentence as follows:] Conversion of unused sick leave to an individual account is part of the compensated absences liability, as discussed in paragraph .114 of Section C60, "Compensated Absences." [GASBIG 2017-2, Q4.20, as amended by GASBS XX, ¶16]

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## *Comprehensive Implementation Guide*—December 2022 Update

D2. The instructions that follow update the December 31, 2020 *Comprehensive Implementation Guide* for the provisions of this Statement.

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5.255.1. [In the question, replace *Statement No. 16, Accounting for Compensated Absences, paragraph 11* with *paragraphs 17–21 of Statement No. XX, Compensated Absences*. In the answer, replace *Statement 16* with *Statement XX*.] [GASBIG 2015-1, Q5.255.1, as amended by GASBS XX, ¶17–¶21]

7.22.4. [In the second sentence of the answer, replace *cannot be known reliably in advance* with *do not have a set payment schedule.*] [GASBIG 2015-1, Q7.22.4, as amended by GASBS XX, ¶3]

8.99.1. [In the question, replace *individual healthcare accounts* with *individual accounts* and replace *postemployment healthcare premiums or claims costs* with *the employee's share of future healthcare premiums* and delete *or benefits.* In the answer, replace the third sentence as follows:] Conversion of unused sick leave to an individual account is part of the compensated absences liability, as discussed in paragraph 16 of Statement XX. [GASBIG 2017-2, Q4.20, as amended by GASBS XX, ¶16]

8.183.1. [In the question, replace *individual healthcare accounts* with *individual accounts* and replace *postemployment healthcare premiums or claims costs* with *the employee's share of future healthcare premiums* and delete *or benefits.* In the answer, replace the third sentence as follows:] Conversion of unused sick leave to an individual account is part of the compensated absences liability, as discussed in paragraph 16 of Statement XX. [GASBIG 2017-3, Q4.18, as amended by GASBS XX, ¶16]

8.451.1. [In the question, replace *paragraph 11 of Statement 16* with *paragraphs 17–21 of Statement XX*. In the answer, replace *Statement 16* with *Statement XX*.] [GASBIG 2017-3, Q4.496, as amended by GASBS XX, ¶17–¶21]

[Delete Questions Z.16.1 and Z.16.2 and associated heading.]