

**BARS GAAP – Draft BARS pages for Compensated Absences,  
effective for 2024 reporting.  
DRAFT PAGES FOR REVIEW – DO NOT USE AS IMPLEMENTATION GUIDANCE**

**GAAP Basis BARS Manual – pending December 2024 update**

**ACCOUNTING**

**3.4.23 Compensated Absences**

3.4.23.10 Compensated Absences are defined as leave for which employees may receive cash payments when the leave is used for time off, other cash payments like unused leave paid upon termination of employment and non-cash settlements like conversion to defined benefit post-employment benefits.

Termination of employment refers to the end of an employee's active service no matter the reason. This category would include estimated leave paid at separation, retirement, or death.

3.4.23.20 There are two types of leave that are included in the liability calculation:

- Leave that has not been used
- Leave that has been used, but not paid
  - *Note:* GASB Codification C60.119 only requires that a liability is recorded, governments may choose to record in Salaries and Wages Accrued or Compensated Absences.

3.4.23.30 Leave that has not been used should be included in the liability calculation if the following criteria is met:

- The leave is attributable to services already rendered (the employee earned the hours over the course of employment)
- The leave accumulates (carries over from one fiscal year to another)
- There is a greater than 50 percent likelihood that the leave will be used for time off or otherwise paid in cash or settled through noncash means.

3.4.23.35 To determine if leave is more likely than not to be paid governments should review their compensated absence policy and historical information on leave usage.

3.4.23.40 Additionally, governments should verify if they have specific criteria for paying unused leave balances for specific events at the end of employment (for example: the government only pays at retirement or there are additional benefits due to death in the line of duty, etc.). When this scenario has been identified then the government would only calculate the unused balance based on the likelihood of that payment.

3.4.23.50 Leave that is dependent upon occurrence of a sporadic event that affects a relatively small proportion of employees should not be estimated or recognized until that leave commences, including any scheduled leave that carries over the fiscal year-end. Some examples would be:

- Military leave
- Bereavement leave
- Jury duty
- Parental leave

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3.4.23.60 Unlimited leave policies would not result in any compensated absence liability, other than for leave used but not yet paid.

3.4.23.70 Governments should calculate each leave type separately (sick, vacation, PTO, etc.) and may further separate leave types based on other factors such as employee type, length of employment, bargaining agreements, scaled payout agreements, etc. These groupings must be maintained throughout the calculation of the compensated absence liability and should be applied consistently over reporting years.

3.4.23.80 The calculated compensated absence liability should include any salary-related payments related to the leave balances included in the calculation. Salary related payments are additional costs incurred by the employer that are directly and incrementally associated with the payment. Directly associated is defined as amounts of the payment that depend on the amount of salary being paid. Incrementally associated with is defined as payments that the government will make in addition to the payment of the salary. Examples of salary related payments include:

- Payroll taxes
- Health savings accounts (HSAs), flexible spending accounts (FSAs), etc.
- Nonsponsored defined contribution retirement plans

3.4.23.90 Department of Retirement Systems plan contributions would **not** be included in salary related payments.

**3.4.23.100 Components of the Calculation of the Compensated Absence Liability -**

3.4.23.110 Leave that has been used, but not paid should be calculated at exact hours taken and the pay rate in which those hours will be settled plus any salary related payments.

3.4.23.120 Leave that has not been used should be calculated based on the government's compensated absence policy. *Note: This calculation should not exceed the year-end accrued leave balances.*

**3.4.23.130 Common leave policies - examples**

3.4.23.131 *If the government's compensated absence policy is to payout 100% of leave balances.*

1. Take the accrued leave balance and calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

3.4.23.132 *If the government's compensated absence policy is to not payout any leave balances at termination of employment.*

1. Estimate the leave usage that will be used in a future period by the employee or group of employees.
2. Verify that the estimated usage is not over the accrued leave balance.
3. Using the hours calculated in Step 1, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

3.4.23.133 *If the government's compensated absence policy includes payment due to termination of employment at current pay rate and less than 100% of the accrued hours.*

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1. Estimate the leave usage that will be used in a future period by the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. *Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.*
3. Use the remaining balance in Step 2 to calculate the termination amount per policy. Include any reductions in hours in this calculation (for example, policy states that 25% of the leave balance is paid).
4. Using the hours calculated in Step 1 and Step 3, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.
5. Add the amounts calculated in Step 4 together.

*3.4.23.134 If the government's compensated absence policy includes payout of 100% of the hours at termination of employment, but at a different pay rate.*

1. Estimate the leave usage that will be used in a future period by the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. *Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.*
3. Use the remaining balance in Step 2 to calculate the termination hours per policy.
4. Using the hours calculated in Step 1 and Step 3 calculate the liability amount using the pay rate that the hours will be settled at, including salary related payments:
  - a. Termination pay: policy states that the balance will be paid at 25% of the current pay rate,
  - b. Usage pay: the current pay rate for leave expected to be used in a future period.
5. Add the amounts calculated in Step 4 together.

*3.4.23.135 If the government's compensated absence policy includes payment due to termination of employment paid at current pay rate with a cap of hours paid.*

1. Estimate the leave usage that will be used in a future period by the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. *Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 5.*
3. Use the remaining balance in Step 2 to calculate the termination amount per policy.
4. Review the termination amount and any amount over the cap should be adjusted to the cap.
5. Using the hours calculated in Step 1 and Step 3, with any adjustment from Step 4, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.
6. Add the amounts calculated in Step 5 together.

3.4.23.140 These calculations must be done for each leave type. The amounts calculated should be added together and reported on the Schedule of Liabilities (Schedule 09) under liability code 259.12 and disclosed at Note X – Changes in Long-Term Liabilities.