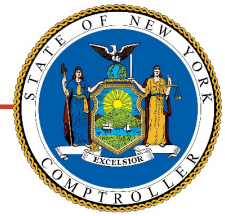


# OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller  
Robin Lois, Deputy Comptroller



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**To: Chief Fiscal Officers**  
**From: Division of Local Government and School Accountability**  
**Subject: Accounting and Financial Reporting for Compensated Absences as Required by GASB Statement 101**

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## **Purpose of Bulletin**

The purpose of this bulletin is to provide updated guidance on compensated absences for accounting and financial reporting purposes and to illustrate how local governments and school districts should account for and report compensated absences in the Annual Financial Report (AFR) or the ST-3. More specifically, this bulletin addresses the following:

- The new framework to categorize and analyze all types of leave;
- Measuring the compensated absences liability;
- Accounting requirements for compensated absences; and
- What may be included in the Employee Benefit Accrued Liability Reserve Fund.

This bulletin also contains an [Appendix](#) with narrative examples of how to apply the new recognition criteria with different types of leave time as well as examples of how to treat salary-related payments in accordance with the new guidance from GASB Statement No. 101.

## **Background**

The Governmental Accounting Standards Board (GASB) issued [Statement No. 101, Compensated Absences](#) (Statement 101) to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

In the past, GASB prescribed guidance for specific types of leave (e.g., vacation leave and sick leave) that would be recognized and measured as a liability differently. It is important to note that Statement 101 does not necessarily introduce a significant change to how the compensated absences liability is calculated, rather it establishes a unified recognition and measurement model that can be applied to any type of leave. This is intended to enhance consistency and comparability among governments that offer different types of leave and result in a liability for compensated absences that more appropriately reflect when a government incurs an obligation.

## **Applicability to Local Governments and School Districts in New York State**

Statement 101 applies to all local governments and school districts in New York State (NYS) and should be implemented for AFR/ST-3 reporting purposes.

## What are Compensated Absences?

Statement 101 defines a compensated absence as leave in which employees may be (1) paid when the leave is used, (2) paid for unused leave upon termination of employment,<sup>1</sup> or (3) receive a noncash settlement for unused leave time.<sup>2</sup> Some common examples of compensated absences include, but are not limited to, vacation (or annual) leave, sick leave, paid time off (PTO), personal leave, holiday leave, parental leave and bereavement leave.

## What Should be Included in the Compensated Absences Liability?

Because Statement 101 establishes a framework to analyze and categorize all types of leave, regardless of what it is referred to as, it is important for local government and school district officials to assess the attributes of all leave types offered and determine whether they meet the requirements to be reported as a liability. A liability for compensated absences should be recognized for leave that has not been used and for leave that has been used but not yet paid or settled.

### Leave That Has Not Been Used

The following represents the unified recognition model established by Statement 101 for leave that has not been used. Local governments and school districts should evaluate their leave in accordance with the following criteria and recognize a liability if **all** the following statements are true:

<b>The Unused Leave...</b>	<b>1. is attributable to services already rendered,</b>
	<b>2. accumulates,<sup>3</sup></b>
	<b>3. is <i>more likely than not</i><sup>4</sup> to be used for time off or otherwise paid in cash or settled through noncash means.</b>

Local government and school district officials (Officials) must use professional judgment to determine whether leave is more likely than not to be used. To help with this determination, Statement 101 provides the following relevant factors to consider:

- Employment policies, contracts and collective bargaining agreements related to leave.
- Whether earned leave is, or will become, eligible for use or payment in the future.
- Historical information about the use, payment, and forfeiture of leave.
- Any information that may indicate that historical information may not be representative of future trends or patterns.

Officials should maintain adequate documentation to support their decisions regarding whether leave is more likely than not to be used or paid in the future.

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<sup>1</sup> Paragraph 5 of Statement 101 defines “termination of employment” as the end of an employee’s active service, which can occur for a variety of reasons, including voluntary resignation or retirement.

<sup>2</sup> For example, unused sick leave may be used to pay for an employee’s share of post-employment health insurance premiums.

<sup>3</sup> Leave accumulates if it is earned in one fiscal year and may be carried forward and used or settled in a future fiscal year.

<sup>4</sup> Statement 101 defines “more likely than not” as more than 50 percent.

Certain types of leave affect a limited number of employees and are dependent on specific events occurring for employees to use it. Statement 101 gives examples such as parental leave, military leave, and jury duty. This type of leave should not be recognized as a liability until the leave commences. For example, a government with a 12/31 fiscal year end has an employee taking 3 months of parental leave beginning 12/1. At fiscal year end, the government would recognize the remaining two months of leave as a liability.

While the use of sick leave may be dependent upon a specific event (illness), Statement 101 explicitly states that it should be evaluated in accordance with the criteria at the beginning of this section and recognized as a liability if it meets it.

### Leave That Has Been Used

Statement 101 requires that any leave that has been used but not yet paid or settled be recognized as a liability. This includes any leave employees can take which has no specific limits (unlimited leave) and any holiday leave that is taken on a specific date not at the discretion of the employee.

### Salary-Related Payments

Local governments and school districts should include salary-related payments in the compensated absences liability if they are directly and incrementally associated with the leave. Statement 101 further clarifies that directly associated payments are a function of salary, meaning the amount of the payment depends on the amount of salary, whereas incrementally associated payments are made in addition to the payment of salary. Examples of salary-related payments may include the employer's share of Social Security and Medicare taxes.

Some salary-related payments may only be incrementally associated with a portion of recognized leave. Statement 101 gives the example of a government being required to make employer contributions to a defined contribution pension plan related to leave used for time off but not for leave paid upon termination of employment. In this case, the only amount that is incrementally associated with the recognized leave is the amount related to the leave that is more likely than not to be used for time off.

### **What Should Not be Included in the Compensated Absences Liability?**

Compensated absences are not retirement incentives, health insurance for retirees or other post-employment benefits (OPEB), defined benefit pension plan or defined benefit OPEB contributions, or most other employment-related contractual obligations (such as longevity bonuses).

### **Measuring the Compensated Absences Liability**

Any leave that meets the criteria and requirements discussed above should be recognized as part of the compensated absences liability using the employee's pay rate as of the date of the financial statements (i.e., fiscal year end).

If it is more likely than not that certain types of leave will be paid at a rate other than the employees pay rate, then the liability should be measured using the different rate as of the date of the financial statements. Statement 101 gives the example of a government with an employee leave policy that states sick leave will be paid at one-half the employees payrate upon termination of employment, in which case the government would use one-half the employees pay rate as of the date of the financial statements to measure the liability for sick leave that is more likely than not to be settled in this manner.

Statement 101 states that if leave is not attributable to a specific employee, for example, a donated leave pool, the liability should be measured using an estimated pay rate that is representative of the eligible employee population.

### Exceptions

Statement 101 allows for these two liabilities, leave that has not been used and leave that has been used but has not yet paid or settled, to be reported separately. Leave that has not been used will likely be a large majority of local governments' and school districts' liability and should be reported in account code 687 Compensated Absences. Leave that has been used but not yet paid or settled may be reported in other payroll liability account codes since the expense has already been incurred.

### Payments to Third Parties

Termination payments will usually be made directly to the employees. In some cases, however, a government may provide, in accordance with legal requirements, for the value of sick leave at termination to be satisfied by payments to a third party on behalf of the employee. For example, some governments allow the value of a sick leave termination payment to be used to pay a retiring employee's share of post-employment healthcare insurance premiums. Leave that has not been used, is attributable to services already rendered, accumulates, and is more likely than not to be paid in this manner, should be included in the local government or school district's calculation of the compensated absences liability. (However, the effect of termination payments on the local government or school district's defined benefit post-employment benefits liability should not be included in the compensated absences liability.)

### **Liability Calculation**

Statement 101 states that the compensated absences liability generally should be calculated based on the pay or salary rates as of the date of the financial statements. However, if the employer pays employees for their compensated absences at other than their pay or salary rates—for example, at a lower amount as established by contract or local enactment—those other rates as of the date of the financial statements should be used to calculate the liability.

### **Legal Authority for Compensated Absences**

In general, Section 92(1) of the General Municipal Law (GML) authorizes the governing boards of counties, cities, towns, villages, school districts and fire districts, by local law, ordinance or resolution, to provide for the cash payment of the monetary value of accumulated and unused vacation to officers and employees at the time of their separation from service. Conversion of vacation credit may also be provided pursuant to collective bargaining. While there is no comparable express statutory authority with respect to payment for accumulated and unused sick leave credit, the New York Office of the State Comptroller has expressed the view that such payment may be provided for in a collective bargaining agreement or by local law.

It is a well-established general principle that elected officials are entitled to salary as an incident of the office. Generally, an elected official may take as much or as little time off as he or she pleases and, therefore, does not accrue either vacation or sick leave credit for which a claim for payment may be made upon separation from service. Accordingly, there would be no compensated absences liability for them.

## Supporting Records

To record liabilities for compensated absences, ensure the proper use of time off and that employees are credited and paid for the proper amount of leave, adequate supporting leave time records showing amounts of leave time earned, used and balances remaining for each employee are essential.

## Accounting Requirements

In governmental funds as well as the Schedule of Non-Current Governmental Liabilities, liability account 687 "Compensated Absences" should be used. Expenditures may either be charged directly to the functional areas (using object of expenditure .1 personal services or .8 employee benefits), or be charged to undistributed employee benefits (account code 9089.8).

In proprietary funds, liability account 687 "Compensated Absences" should be used, and expenses should be charged using proprietary accounting procedures.

## Current versus Long-Term Liability

On the balance sheet of governmental funds, only the current portion of the liability should be reported. The current portion is the amount that normally would be liquidated with expendable available financial resources and should be applied using the modified accrual basis of accounting. This liability will include only payments for unused compensated absences for those employees who have obligated themselves to separate from service with the local government or school district by fiscal year end. The remainder of the liability is reported in the Schedule of Non-Current Governmental Liabilities.

These current and long-term liabilities should be displayed on the financial statements (AFR/ST-3) regardless of whether reserve funds have been set aside to offset the long-term portion of the liability. **Funding the long-term portion of the liability is NOT required.** The current portion is already considered funded because an expenditure has been recognized at the same time the current portion of the liability has been recognized.

## Employee Benefit Accrued Liability Reserve Fund (EBALR)

GML §6-p provides a mechanism for most local governments to set aside resources to satisfy their liability for future payments of the cash value of certain compensated absences. More particularly, the statute authorizes towns, villages, counties, cities, most school districts, BOCES, fire districts, other district corporations, and special improvement districts governed by a separate board of commissioners to establish a reserve fund to finance certain accrued "employee benefit" payments due an employee upon termination of the employee's service.

### What can be included in the EBALR?

The term "employee benefits" for purposes of an EBALR is defined to mean "the cash payment of the monetary value of accrued and accumulated but unused and unpaid sick leave, personal leave, holiday leave, vacation time, time allowances granted in lieu of overtime compensation and any other forms of payment for accrued but unliquidated time" earned by and payable to municipal employees upon termination of service, as authorized by certain local enactments or collective bargaining agreement. Therefore, liabilities for which resources can be accumulated in an EBALR include the liability for the cash value of compensated absences such as accrued and accumulated

but unused vacation, sick leave, and comparable types of compensated absences (such as personal leave, holiday leave) that are payable to employees upon separation from service.

#### What cannot be included in the EBALR?

Payments that are not based on accrued, unliquidated time, payable upon termination of service, cannot be made using EBALR monies. For example, lump sum retirement incentives, the local government's share of health insurance for retirees or OPEB, pension plan contributions and payments for accrued leave time that are not made under circumstances involving termination of service are not payable from an EBALR. In addition, an EBALR cannot be used to accumulate resources for those salary-related payments discussed above for payroll taxes and employer's contributions to pension plans.

Since an EBALR cannot be used to finance some expenditures that should be included in the liability for compensated absences, fiscal prudence dictates that the balance of an EBALR should not exceed the long-term portion of the liability for compensated absences.

#### **Budgeting for Compensated Absences**

A budget appropriation for compensated absences that will become due and payable should be included as part of the annual budget for those payments expected to be made to individuals terminating or retiring from service. If the compensated absences liabilities are going to be paid from resources accumulated in an EBALR, account code 511 - Appropriated Reserves, must be included in the budget.

#### **Additional Information**

If you have questions pertaining to the guidance described in this bulletin, please contact the State Comptroller's regional office that serves your local government. Contact information can be found at <https://www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf>

## Appendix – Examples of the Application of New Recognition Criteria and Salary-Related Payments

GASB Statement 101 includes several narrative examples of how to apply the new recognition criteria with different types of leave time as well as examples of how to treat salary-related payments in accordance with the new guidance. These examples have been pulled directly from GASB Statement 101. They are illustrative and are not intended to modify or limit the requirements of Statement 101.

### Recognition Criteria

*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 is attributable to services already rendered because employees earn a certain number of hours or days for each month that they are employed. The leave accumulates because it carries over at the end of the fiscal year. 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 used or paid. Accordingly, all PTO is recognized as a liability for compensated absences.

*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. Such leave is attributable to services already rendered because employees earn a certain number of hours or days for each month that they are employed. The leave accumulates because it carries over at the end of the fiscal year. The government estimates how much of the leave is more likely than not to be used as paid leave and recognizes that portion as a liability for compensated absences.

*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 the previous example, 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 at that time). Accordingly, such leave is not recognized as a liability for compensated absences in annual financial statements.

*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.*

Such leave is attributable to services already rendered because employees earn a certain number of hours or days for each month that they are employed. 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. The government estimates how much of the 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 recognizes that portion as a liability for compensated absences.

Vacation leave that is made available on the first day of the fiscal year (or at inception of employment) and added to the employee's time bank, but is earned throughout the fiscal year and the balance 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. 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 liability for compensated absences. 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 that leave carries over at the end of the fiscal year, it accumulates. Because there are no limits on carrying over unused leave and any unused leave is paid upon termination of employment, all the vacation leave is more likely than not to be used or paid. The vacation leave at the end of the year is recognized as a liability for compensated absences

Compensatory time that is earned as employees work overtime and carries over at the end of the fiscal year. 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. Such leave is attributable to services already rendered because it is earned as the employees work overtime or on holidays or weekends. The leave accumulates because it carries over at the end of the fiscal year. Because there are no limits on carrying over unused compensatory time and any unused compensatory time is paid upon termination of employment, all the compensatory time is more likely than not to be paid. Thus, all compensatory time is recognized as a liability for compensated absences.

### Parental leave

Many governments allow employees to take extended periods of paid leave due to the birth or adoption of a child. Parental leave is not subject to the recognition criteria. Instead, paragraph 14 states that parental leave is recognized when the leave commences. A liability for the entire leave is recognized at the time an employee goes on leave.

## **Salary-Related Payments**

### Medicare and Social Security payroll taxes

Employees 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 liability for compensated absences.



### Defined contribution pensions

A defined contribution pension plans terms require a government 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, the government 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.

There will be no incremental defined contribution pension for leave that is paid upon termination of employment. Therefore, it is not incrementally associated with 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 liability for compensated absences, the government separately estimates the amount of leave that is more likely than not to be used as paid leave rather than paid upon termination of employment.

### Medical Insurance for Active Employees

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 liability for compensated absences.

### Life Insurance for Active Employees

A government's 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 liability for compensated absences.