



ACCOUNTING

GASB 101. Literally.

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GASB entered the era of the three-digit statement numbers on June 1, 2022 with the approval of GASB Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100). At that same meeting, the Board also approved the issuance of GASB Statement No. 101, *Compensated Absences* (GASB 101). Here’s an overview of the most significant changes to generally accepted accounting principles (GAAP) made by the statements, both of which will first become effective for most governments’ fiscal years ending in 2024, with earlier adoption encouraged.

GASB 100

Effective for fiscal years beginning after June 15, 2023, and for all reporting periods thereafter, GASB 100 removes *prior period adjustments* from the generally accepted accounting principles (GAAP) lexicon; clarifies, expands, and distinguishes among three classifications of accounting changes (principles, estimates, and reporting entity) and error corrections; and provides guidance on the presentation of historical information in required supplementary information (RSI) including management’s discussion

and analysis (MD&A) and in (other) supplementary information (SI), including data in a statistical section when changes or corrections are made. The scope of the guidance excludes the first-time adoption of GAAP financial reporting by a government, which should not be accounted for as either an accounting change or a correction of an error. Highlights of changes that GASB 100 makes to GAAP include the following.

No more prior period adjustments. Restatements of amounts previously published are necessitated by either accounting changes or error corrections, so GASB concluded there

is no need for this redundant and potentially confusing category in GAAP.

Display of the total amount of all restatements. For each reporting unit (excluding total columns) included in basic financial statements, the aggregate amount of all restatements for accounting changes and error corrections on a year's beginning net position, beginning fund balance, or beginning fund net position (collectively, "beginning position") must be displayed on the face of the financial statements.¹

Disclosure table to crosswalk previously published to restated beginning positions. In addition to individual disclosures for each change and correction, which will be required to include the details of each individual accounting change and error correction that affected the beginning position, and an identification of which financial statement line items are affected, governments will need to provide details in a table in their note disclosures summarizing each changed amount that is part of the aggregated amount displayed on the face of the statements (discussed above).²

Clarifications to distinguish among accounting principle changes, accounting estimate changes, and error corrections. GASB has included language to make clear the differences among the various types of accounting changes and corrections to previously reported amounts, including that:

- "A change in accounting principle [method] is the application of an accounting principle to transactions or other events of a similar type that is different from the accounting principle previously applied to those [types of] transactions or other events."³
- The application of a new accounting principle that is generally accepted to transactions and other events that were previously both (1) significant and (2) reported by applying a principle that was *not* generally accepted, is the correction of an error.⁴

If both (1) the prior and the new accounting principles are (or were when used) *generally accepted* and (2) the new principle is *preferable* (as discussed below) or required for implementation of a new GAAP pronouncement,⁵ and (3) the change is not a change in an accounting estimate (as discussed below).

If the amount was previously *insignificant*, there was neither an accounting principle change nor an error correction, as GAAP standards only apply to significant amounts.

- A change *made* to inputs (data, assumptions, and methodologies) used to measure amounts that are subject to uncertainty (i.e., estimates, which are outputs) because *there has been a change in circumstances, new information, or more experience*, should be reported as a change in an accounting estimate.⁶

Distinction between changes made to inputs (e.g., different items have been included in the "market basket" comprising the consumer price index) which are changes in accounting estimate, versus changes in the inputs (e.g., higher prices are being charged and paid for the same items), which are not changes in accounting estimate.

Restatements of all prior periods presented for changes in accounting principle. Current GAAP requires only that the cumulative effect on prior periods be a restatement of beginning position for the year in which the change is made, but now governments that prepare comparative financial statements will need to restate all prior years presented, if practicable, and make that beginning cumulative effect restatement to the earliest year presented, unless other GAAP requires different reporting of that kind of change.^{7,8}

Default transition guidance for implementations of new pronouncements. Unless GASB provides specific transition guidance on a new

pronouncement, all implementations will be treated as changes in accounting principle; however, the requirement to justify a change as being preferable is not applicable to implementations of new pronouncements.⁹

Preferability justification for certain changes. Both changes to accounting principle and changes in accounting estimation methodologies (one kind of change in accounting estimate) may be made only when the new practices are preferable to the previous treatment because they result in financial statements that are more understandable, reliable, relevant, timely, or comparable.¹⁰ Because these changes, by definition, reduce consistency, the justification is required in note disclosures, except when the changes are required by the implementation of a new GASB pronouncement.

Changes "to" become changes "to or within" the financial reporting entity. In addition to reporting entity changes resulting when the legally separate entities are added to or removed from a financial reporting entity, governments will need to meet display and disclosure requirements for accounting changes when (1) component units are reclassified between blended and discretely presented, (2) when funds are reclassified between major and non-major, and (3) when funds are added or removed because the reporting of continuing operations are moved. However, no explanation is needed in note disclosures when fund presentations are changed solely as a result of meeting or not meeting the quantitative threshold for a fund to be reported as a major fund. Additionally, changes in fund reporting that result from acquisitions, mergers, transfers of operations, and the acquisition or disposition of a majority equity interest in a legally separate entity that is not an investment.¹¹

Restatements of required and other supplementary information (RSI and SI, respectively). RSI, including

management's discussion and analysis (MD&A), and SI, including the statistical section tables, need to be restated to conform to information in the basic financial statements. For those fiscal years included in the basic financial statements, RSI and SI should be reported at amounts consistent with the basic financial statements. Earlier periods also included in RSI and SI should (a) not be restated for accounting changes, or (b) be restated for all prior years, if practicable, for error corrections.¹²

GASB 101

This statement, which is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter, changes the way governments will recognize and measure liabilities for leave time earned by employees, including recognition of liabilities for leave that is expected to be paid as salaries for periods during which employees use leave, as well as for leave that will be paid in cash or settled in some other manner during or at the end of an employee's active service, for reporting on an economic resources measurement focus (i.e., other than for reporting in governmental funds, for which no change is made by GASB 101). Highlights of changes to GAAP made by GASB 101 include the following.

Distinguish among liabilities for leave that have not been used and for leave that has been taken but for which employees have not yet been paid. Governments have traditionally included liabilities for leave that has already been taken together with liabilities for time worked, such as salaries payable and payroll taxes payable, rather than combining them with liabilities for leave earned but not yet taken.¹³ The statement explicitly provides that this practice can continue, and clarifies that the liabilities reported should include those related to salary and salary-related payments for all leave that has been taken.¹⁴ The majority of the statement applies only to liabilities for leave that have not been taken.

GASB 101 changes the way governments will recognize and measure liabilities for leave time earned by employees.

Recognize compensated absence liability for leave that accumulates, is compensation for services already rendered, and is more likely than not to be used or settled. With certain exceptions (see below), governments must assess the probability that leave that has been earned and that may be carried from one fiscal year into on other (accumulates) will be used for time off or otherwise paid in cash or settled by noncash means.¹⁵ If the probability is greater than 50 percent, a liability should be recognized.¹⁶ There is only very general guidance as to how that probability should be assessed, with GASB stating that employment policies, eligibility for payment or settlement, history (of amounts used, settled, or forfeited), and information indicating that history may not be representative.¹⁷ This general guidance will apply to vacation/annual leave, sick leave, paid time off, and sabbatical leave during which the employee is not required to perform any duties for the employer; and any other leave not included in the exceptions, below. Under existing GAAP, sick leave is accrued only to the extent that it is probable that unused leave balances will be paid to employees upon separation, as the leave is considered contingent upon illness.¹⁸

Recognize leave that is dependent on the occurrence of an event that affects only a small proportion of employees during a reporting period when the leave has begun. Family and military leave are prime examples of this type of leave, for

which employer governments should not recognize a liability for unused leave time unless the leave had begun as of the end of the reporting period. For example, if parental leave of three months is more likely than not to be paid, and a qualifying employee begins parental leave on June 1, a government with a June 30 fiscal year end would report a liability for the remaining two months of leave in financial statements dated June 30, *because the leave had already begun*, but would include no liability for other employees who are entitled to and may take such leave in the future. While professional judgment can be used to identify such leave, GASB has *specifically excluded sick leave and unrestricted sabbatical leave from this treatment*.¹⁹

Recognize unlimited leave and holiday leave that must be used on a specific date once it has been used.²⁰ For example, if employees become eligible to take January 1 as a holiday by being in active pay status as of close of business on December 31, a government with a December 31 fiscal year end would *not* report a liability for the holiday leave *because it had not yet been taken*.

Recognize salary-related payments as part of compensated absence liabilities when they are directly and incrementally associated with leave for which a liability is recognized. Salary-related payments are those whose amounts are a function of ("directly associated with") the salary for leave that will be paid and that are in addition to that salary ("incrementally associated with")—the employer's share of payroll taxes, for example.²¹ They should be recognized as part of the compensated absence liability at the same time as the liability for the associated leave is recognized (see above). Salary-related payments for defined contribution (DC) public employee benefits (PEB) associated with unused leave should be recognized as pension or other postretirement employee benefits

LEAVE TYPE	RECOGNITION OF UNUSED LEAVE AND ASSOCIATED SALARY-RELATED PAYMENTS AS COMPENSATED ABSENCES
GENERAL	
All earned, accumulating leave that is more likely than not to be paid or settled other than as DB PEB and that is not included in any of the below exceptions (e.g., vacation/annual leave, sick leave, paid time off, and sabbatical leave during which the employee is not required to perform any duties for the employer)	When leave is earned
EXCEPTIONS	
Earned, accumulating leave that is more likely than not to be settled through <i>conversion to defined benefit</i> pension or other postemployment benefits	Not recognized*
Earned, accumulating leave that is more likely than not to be paid or settled (other than as DB PEB) that is <i>dependent upon the occurrence of a sporadic event that affects a small proportion of employees in a particular reporting period</i> (e.g., military leave, parental leave, jury duty) is recognized as a liability as soon as the leave has begun. <ul style="list-style-type: none"> Neither sick leave nor unrestricted sabbatical leave may be recognized in this manner 	When leave <i>commences</i> **
Unlimited leave and holiday leave taken on a specific date	When leave <i>is taken</i> †

* See footnote 3.

** For example, if parental leave of three months is more likely than not to be paid, and a qualifying employee begins parental leave on June 1, a government with a June 30 fiscal year end would report a liability for the remaining two months of leave in financial statements dated June 30 because the leave had already begun.

† For example, if an employee becomes eligible to take January 1 off as a holiday by being an active employee as of close of business on December 31, a government with a December 31 fiscal year end would not report a liability for the holiday leave because it has not yet been taken.

(OPEB) expense and included in the compensated absence liability when the liability for the associated leave is recognized.²²

Measure compensated absence liabilities for leave and for associated salary-related payments using applicable rates in effect at the end of the reporting period. Use employees' pay rates as of the financial statement date for leave attributable to individual employees, and a measure of the liability for pooled leave time using an estimated pay rate for the eligible participants in the pool.²³ Similarly, governments should use the applicable rates for salary-related payments (such as payroll tax and DC pension contribution rates) in effect at period end.²⁴ If it is more likely than not that payment will be made at a rate other than the rate in effect when leave is taken, use that rate.²⁵ Measure the liability for leave that is more likely than not to be settled through noncash means (other than defined benefit PEB) based on the amount at which it is likely to be settled.²⁶ The effects of a rate change should be recognized as

an expense in the year the change occurs.²⁷

Exclude all defined benefit postemployment benefit costs from compensated absence liability. Neither leave that is more likely than not to be settled through conversion to, nor salary-related payments for, defined benefit (DB) PEB should be included in a compensated absence liability.²⁸ Actuarially calculated liabilities for DB PEB include provision for such benefits, so inclusion in a compensated absence liability would result in double counting.

The number 101 is often used as a shorthand to connote that information provided is at a basic or introductory level, based on the collegiate course catalogue convention of using the first digit of a three-digit class number to indicate the level of the class. Founded in 1984, GASB reached statement number 100 in 38 years of operations. Our familiarity with GASB 101 notwithstanding, we are in no rush to advance to "200-level" statements. ❌

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¹ GASB 100, paragraph 31.
² GASB 100, paragraph 32.
³ GASB 100, paragraph 6.
⁴ GASB 100, paragraph 6.
⁵ GASB 100 essentially assumes preferability whenever a new approach is required by a new GASB pronouncement.
⁶ GASB 100, paragraph 7.
⁷ Practicable should be read as essentially meaning possible and having virtually nothing in common with convenient. In all cases where restatement of prior periods is required if practicable, disclosure explaining why it is not practicable must be added in cases where restatement is not made.
⁸ GASB 100, paragraphs 15-16.
⁹ GASB 100, paragraphs 17.b.
¹⁰ GASB has identified understandability, reliability, relevance, timeliness, comparability, and consistency as the qualitative characteristics of financial reporting (GASB Concepts Statement No. 1, as amended, paragraphs 62-68), and GASB 100 indicates that preferability should be judged on these criteria.
¹¹ GASB 100 paragraphs 9-10.
¹² GASB 100 paragraphs 35-39.
¹³ GASB 101 paragraph 8.
¹⁴ GASB 101 paragraph 21.
¹⁵ If leave is more likely than not to be settled through conversion to defined benefit (DB) pensions or other postemployment benefits (OPEB and, together with pensions, PEB), no compensated absence liability is reported for that leave. Actuarially calculated liabilities for DB PEB include provision for such benefits, so inclusion in a compensated absence liability would result in double counting (GASB 101, paragraph 13).
¹⁶ GASB 101 paragraphs 9-11.
¹⁷ GASB 101 paragraph 12.
¹⁸ GASB Codification Section C60, "Compensated Absences," paragraph .105, based on GASB Statement No. 16, paragraph 8.
¹⁹ GASB 101 paragraph 14.
²⁰ GASB 101, paragraph 15.
²¹ GASB 101 paragraphs 22-24.
²² GASB 101 paragraph 25.
²³ GASB 101 paragraphs 17-18.
²⁴ GASB 101 paragraph 23.
²⁵ GASB 100 paragraph 17.
²⁶ GASB 101 paragraph 19.
²⁷ GASB 101 paragraphs 10 and 23.
²⁸ GASB 101 paragraphs and 26.