



## Statewide Accounting Policy & Procedure

**Accounting Manual Reference:**

Section: Employee Benefits  
Sub-section: Compensated Absences

**Effective Date:** 07/01/2010

**Revision Date:** 02/28/2011

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**Policy Summary:**

This policy establishes standards of accounting and reporting for the State's compensated absences obligations. Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. Under generally accepted accounting principles, liabilities for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee are accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee are accounted for in the period those services are rendered or those events take place.

The differences in the characteristics of the various types of compensated absences must be considered when assessing whether an accrual is required. For example, vacation leave and sick leave have different characteristics. In many cases, vacation leave that is not used for paid time off will result in full compensation at termination or retirement. In those cases, employees earned the right to be compensated for vacation leave based only on rendering past service and accrual is required. However, paid time off for earned sick leave is contingent on a specific event (illness) that is outside the control of the employer and employee, and therefore, accrual is not required, unless employees are compensated for a portion of their sick leave when they terminate or retire based only on rendering past service.

**Policy Requirements:*****Accounting Requirements***

Under the modified accrual and accrual bases of accounting, vacation leave (annual leave) and other compensated absences with similar characteristics are accrued as liabilities as the benefits are earned by employees if the leave is attributable to past service and it is probable that the employer will compensate employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. For modified accrual purposes, the accrual is based on the net amount that is currently due and expected to be liquidated with expendable available resources. For full accrual purposes, the accrual reflects the entire long-term obligation. Examples of leave with characteristics similar to vacation leave include holiday deferrals and Fair Labor Standards Act (FLSA) compensatory time.

Additional accruals may be required based on salary-related payments such as contributions to defined contribution, cost-sharing multiple-employer defined benefit pension, or other postemployment benefit (OPEB) plans. The additional accruals are required if the employer is liable for a contribution to the plans based on termination payments made to employees for vacation leave, sick leave, or other compensated absences. An additional accrual should not be made relating to contributions to single-employer or agent multiple-employer defined benefit plans.

Termination payments usually are made directly to the employees. In some cases, however, the value of the payments may be satisfied by payments to a third party on behalf of the employee. For example, some governments allow the value of a termination payment to be used to pay a retiring employee's share of postemployment healthcare insurance premiums. Those amounts, like cash payments made directly to employees, are considered termination payments for purposes of compensated absences accruals.

Termination payments, however, do *not* include balances for which employees receive only additional service time for pension benefit purposes. Similarly, when a terminating employee's unused leave credits are converted to provide or to enhance a defined benefit OPEB (for example, postemployment healthcare benefits), the resulting benefit or increase in benefit is accounted for as an OPEB rather than a compensated absence.

Compensated absences liabilities should not be accrued for vacation leave which is expected to lapse. Forfeited leave does not result in a termination payment, and therefore, no compensated absence accrual is required even if the leave may be converted to additional service time for pension purposes. Sick leave and other similar compensated absences are accrued only to the extent that it is probable that the employer will compensate employees for the benefits through cash payments conditioned on their termination or retirement or with on-behalf payments as described above. Accrual is also not required in advance of military leave because military leave is not earned based on past service.

Accounting for sabbatical leave depends on whether the compensation during the sabbatical is for service during the period of the leave or, instead, for past service. Some employers permit sabbatical leave from normal duties so that employees can perform research or public service or can obtain additional training to benefit the employer. In these cases, the sabbatical constitutes a change in assigned duties and the salary paid during the leave is compensation for service during the period of the leave. The sabbatical leave is restricted, and therefore, accounted for in the period the service is rendered; a compensated absences liability is not accrued in advance of the sabbatical. Sometimes, however, sabbatical leave is permitted to provide compensated unrestricted time off. In these cases, the salary paid during the leave is compensation for past service, and a liability is accrued during the period(s) the employees earn the right to the leave if it is probable that the employer will compensate eligible employees for sabbatical leave benefits through paid time off or some other means.

### ***Recognition and Measurement***

The compensated absences liability is accrued for the estimated value of leave payments (e.g., for vacation, holiday deferrals, FLSA compensatory time, etc.) using pay rates in effect at the balance sheet date. The liability must include an additional amount for salary-related payments associated with the payment of compensated absences. These additional salary-related payments also should be calculated using rates in effect at the balance sheet. Contact the SAO Reporting group for assistance if necessary.

For State financial reporting purposes, additional salary-related payments:

- Include the employer's share of social security and Medicare taxes.
- Include the employer's health insurance contribution related to termination payments when terminal leave pay is included in the compensation base for calculating employer contributions to the State health or OPEB plans.

- Do not include a portion of the employer contributions to the Employees' Retirement System because those pension contributions are not subject to termination payments for annual or personal leave or for unused or forfeited sick leave. Under certain circumstances, the ERS allows unused sick leave, combined with forfeited sick and forfeited annual leave, to extend service time for pension purposes; this extension of service time is not considered to be a termination payment for compensated absences purposes.
- Do not include a portion of the employer contributions to the Teachers Retirement System because those pension contributions are not subject to termination payments for annual or personal leave or for unused or forfeited sick leave.

State organizations making payments to other pension or OPEB plans must determine individually whether or not such contributions should be included in the compensated absences liability calculation (see GASB Codification §C60).

State organizations prescribing to leave policies established by the State Personnel Board should not accrue a liability for lapsed annual leave since payments are not made for lapsed annual leave upon termination (forty-five days of annual leave would therefore be the maximum accrued). Liabilities should not be recorded for sick leave since State employees are not paid for sick leave upon termination. Liabilities also should not be accrued for jury duty, military leave or other similar absences that are contingent on events that are outside the control of the employer and employee.

Authorities and other State organizations having leave policies which differ from those prescribed by the State Personnel Board should review GASB Codification §C60 to determine their compensated absences liabilities.

### ***Basis of Accounting***

Funds that operate on a statutory basis must convert their accounting activity to the modified accrual and/or accrual bases of accounting for the Comprehensive Annual Financial Report (CAFR). Proprietary and fiduciary funds that do not operate on a statutory basis use the accrual basis of accounting throughout the year.

- **Statutory Basis for Budgetary Compliance Reporting**  
Liabilities for compensated absences are not required on budgetary basis accounting records. In other words, for budgetary purposes, paid time off is recognized only through the normal payroll process, in the period that the absence occurs or in the period that an employee is paid for unused annual leave as a result of terminating employment with the State. A liability for earned but unpaid leave is not accrued.
- **Converting to Modified Accrual Basis for CAFR Reporting**  
Governmental funds should recognize a current liability for compensated absences only if:
  - The balance owed to the employee is "due and payable," and
  - The amount will be liquidated with expendable available financial resources.

In governmental funds, compensated absences are considered due and payable only when the employee terminates. Because the amount due and payable as of each June 30 is insignificant, an accrual for the compensated absences liability is not recorded under the modified accrual basis of accounting.

- **Converting to Accrual Basis for CAFR Reporting**  
Under the accrual basis of accounting at the entity-wide level, governmental activities must recognize the total liability for compensated absences and must record the current portion separately from the noncurrent portion. The noncurrent portion should be reported only in the government-wide statement of net assets and not within the governmental fund balance sheet.
- **Accrual Basis for Funds Not Reporting on a Statutory Basis**  
Proprietary funds, fiduciary funds and component units which are maintained on the accrual basis of accounting must recognize the total liability for compensated absences, recording the current portion separately from the noncurrent portion.

### ***Disclosure Requirements***

A liability for compensated absences, including appropriate salary-related payments, should be reported in the government-wide statements in the following detail, as required for all long-term liabilities, separately disclosing amounts for governmental activities, business-type activities, and component units:

- The beginning and end-of-year amounts of the compensated absences liability.
- Changes in this liability from the previous year, with additions and reductions separately disclosed.
- An estimate of the portion of the total liability which will be paid within one year.
- Identification of the governmental funds that are typically used to liquidate the liability.

As long-term liabilities, compensated absences should not be reported as liabilities in governmental funds but should be reported only in the governmental activities column in the government-wide statement of net assets. Compensated absences liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net assets and in the government-wide statement of net assets. Compensated absences liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net assets.

### **General Accounting Procedures:**

#### ***Identifying Transactions***

The following automated processes are included in the benefits module of the statewide Human Capital Management (HCM) system:

- Accrual process to update annual and sick leave balances with earned amounts.
- Forfeiture process to transfer annual and sick leave balances above legal limits into a forfeiture balance.
- Annual process to compute leave balances, using hourly rates by employee, for each agency as of the end of the fiscal year: The balances calculated within the HCM system do not include the additional salary-related payments (such as FICA, Medicare, or health insurance) which must be added to the HCM output to calculate the full liability, as demonstrated in the example below.

Users of other HCM systems should implement and maintain processes to account for similar activities.

#### ***Accounting Transactions and Journal Entries***

As stated above, no special journal entries for compensated absences are required under the statutory basis of accounting, and due to insignificance, no accrual is recorded under the modified accrual basis for the statewide CAFR. However, both current and noncurrent compensated absences liabilities must be separately recognized under the full accrual basis of accounting. For year-end reporting purposes, SAO prepares a consolidated compensated absences liability journal entry for governmental activities at the entity-wide reporting level. Separate journal entries are prepared for each organization operating in

proprietary funds, fiduciary funds or component units. The entries are based on the information described in the Year-End Accounting Procedures section below. An example calculation of the compensated absences liability follows. The “Compensated Absences Base” should be calculated for each individual employee. Factors for the additional salary-related items are then applied to the summation of the individual base calculations.

	<b>Prior Year Balance</b>	<b>Current Yr Additions</b>	<b>Current Yr Reductions</b>	<b>Current Yr Balance</b>
<b>Employee 1:</b>				
Annual Leave Hours (max=360 hours)	176	120	(96)	200
FLSA Compensatory Time Hours	0	8	(8)	0
Holiday Deferral Hours	0	16	(8)	8
Sub-total Hours	176	144	(112)	208
Hourly Rate	\$ 15	\$ 15	\$ 15	\$ 15
Compensated Absences Base	\$ 2,640	\$ 2,160	\$ (1,680)	\$ 3,120
<b>Employee 2:</b>				
Annual Leave Hours (max=360 hours)	120	80	(96)	104
FLSA Compensatory Time Hours	0	8	0	8
Holiday Deferral Hours	0	16	(8)	8
Sub-total Hours	120	104	(104)	120
Hourly Rate	\$ 12	\$ 12	\$ 12	\$ 12
Compensated Absences Base	\$ 1,440	\$ 1,248	\$ (1,248)	\$ 1,440
<b>(a) Sum of Base for All Employees</b>	<b>\$ 4,080</b>	<b>\$ 3,408</b>	<b>\$ (2,928)</b>	<b>\$ 4,560</b>
<b>Additional Salary-Related Items:</b>				
FICA Factor*	0.07650	0.07650	0.07650	0.07650
Health Insurance Factor*	0.22165	0.22165	0.22165	0.22165
<b>(b) Sum of Factors + 1.0</b>	<b>1.29815</b>	<b>1.29815</b>	<b>1.29815</b>	<b>1.29815</b>
<b>Compensated Absences Liability (a*b)</b>	<b>\$ 5,296</b>	<b>\$ 4,424</b>	<b>\$ (3,801)</b>	<b>\$ 5,919</b>
* The FICA and health insurance factors used above are for example purposes only. These may change periodically and need to be re-confirmed each year. See the policy guidance in the Recognition and Measurement section for instructions on selecting the rates.				

An example of the required entry to convert to the accrual basis of accounting follows, using accounts from the [State Chart of Accounts](#). A conversion entry is required for governmental funds to accrue the governmental activities amount for government-wide statements. A conversion entry is required for a proprietary or fiduciary fund only if the fund also operates on a statutory basis.

Debit \$5,296 Net Assets for prior year balance (Account 390000)  
 Debit\* \$ 623 Compensated Absences Expense (Account 502000)  
 Credit# \$2,515 Compensated Absences Payable – Current (Account 206000)  
 Credit# \$3,404 Compensated Absences Payable – Noncurrent (Account 280000)

\* Debit expense for the net change in the liability balance (\$5,919 – \$5,296) if the current year liability increased from the prior year liability, but credit expense if the liability decreased.

# The current portion is calculated by averaging liability reductions for the current year and the two previous years (a 3-year average); the remaining liability ending balance is recorded as noncurrent.

The entry for a proprietary or fiduciary fund that operates on the accrual basis throughout the year is:

Debit	\$ 623	Compensated Absences Expense for net current year increase (Account 502000)
Credit	\$ 623	Compensated Absences Payable – Current or Noncurrent as appropriate (Account 206000 or 280000)

Although the above example does not consider sabbatical leave, universities and other organizations that offer that benefit should accrue for sabbatical leave based on the guidance in the Accounting Requirements section above.

### ***Year-End Accounting Procedures***

Organizations must coordinate with the SAO financial reporting group to confirm that the appropriate compensated absences journal entries are recorded under the accrual basis of accounting at year-end. The SAO financial reporting group has access to compensated absences liability estimates for users of the statewide Human Capital Management system. Organizations using other HCM systems must provide the required liability accrual and disclosure information to SAO in accordance with the annual [year-end reporting calendar](#). These organizations may provide their information either by completing the "Long Term Liabilities" form for year-end reporting or by providing an independently audited financial statement with the required compensated absences disclosures. Organizations providing their own calculations of compensated absences should follow the policies and procedures provided above.

### **Authority:**

- GASB Statement No. 16, *Accounting for Compensated Absences*
- GASB Codification §C60, *Compensated Absences*
- GASB Codification §1500, *Reporting Liabilities*
- GASB Codification §2300, *Notes to Financial Statements*

### **Applicability:**

This policy applies to all organizations included in the State of Georgia reporting entity. Personnel with accounting and reporting responsibilities at these organizations must be knowledgeable of this policy.

### **Definitions:**

***Compensated Absences*** – Absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.

***Compensated Absences Payable – Current*** – The portion estimated to be due in 12 months or less for amounts owed to employees for unpaid annual leave and similar absences attributable to service already rendered and not contingent on a specific event outside the control of the employer and employee.

***Compensated Absences Payable – Noncurrent*** – The portion due in more than 12 months for amounts owed to employees for unpaid annual leave and similar absences attributable to service already rendered and not contingent on a specific event outside the control of the employer and employee.

***Salary-related Payments*** – Payments by an employer that are directly and incrementally associated with payments made for compensated absences on termination. Such salary-related payments include the employer's share of social security and Medicare taxes and also might include, for example, the employer's contributions to pension plans or health insurance plans.

***Termination Payment*** – Cash (or on-behalf) payments that compensate employees for certain benefits conditioned on the employees' termination of employment or retirement.