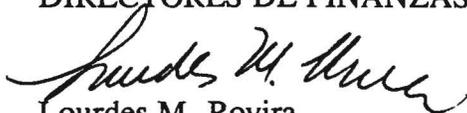


20 de septiembre de 1994

Circular Número 95-08

DIRECTORES DE FINANZAS Y CONTABILIDAD



Lourdes M. Rovira
Directora

ACUMULACION DE LICENCIA POR ENFERMEDAD Y BENEFICIOS MARGINALES

Oficina de
Finanzas



Les incluyo copia del Pronunciamiento número 16 emitido por el *Governmental Accounting Standard Board* en el mes de noviembre de 1992. Dicho pronunciamiento dispone que debe registrarse como cuentas por pagar la totalidad de las licencias acumuladas las cuales podrían liquidarse mediante pagos en efectivo a los empleados en caso de renuncia o retiro. Dispone además, que deberán acumularse los beneficios de Seguro Social y "Medicare" correspondientes a esas licencias. Este pronunciamiento entró en vigor el 15 de junio de 1993.

A los efectos de aplicar dichas disposiciones, solicito preparen y envíen a la División Central de Contabilidad las entradas de jornal ajustando los balances acumulados de la licencia por enfermedad al 30 de junio de 1994. Deberán ajustar también, las acumulaciones de los beneficios de Seguro Social y "Medicare" correspondientes a la licencia ordinaria y de enfermedad.

Hemos creado el código de mayor general 5608 **Beneficios Acumulados de Seguro Social y "Medicare"** (Accrued Social Security and Medicare Benefits), para registrar la disminución en el balance del fondo por concepto de la acumulación de los beneficios del Seguro Social y "Medicare" correspondientes a dichas licencias.

Deberán enmendar además el anejo **K-1 Detalle Licencia Por Enfermedad** de los documentos a someterse para la auditoría externa.

Cualquier duda o información adicional que necesiten sobre la aplicabilidad de este pronunciamiento, favor de comunicarse con el Sr. Rafael Walker, quién estará a cargo de la implantación de este cambio.

RWC/esr

Anejo



Summary

This Statement provides guidance for the measurement of accrued compensated absences liabilities by state and local governmental entities, regardless of the reporting model or fund type used to report the transactions. Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.

The standards in this Statement give consideration to the different characteristics of various types of compensated absences. For example, employees usually receive full compensation for vacation leave—either as paid time off or as compensation at termination or retirement. Thus, employees earn the right to be compensated for vacation leave based only on rendering past service. On the other hand, paid time off for earned sick leave is contingent on an illness—a specific event that is outside the control of the employer and employee. In some cases, however, employees may be compensated for a portion of their sick leave when they terminate or retire. In those cases, employees earn the right to be compensated for sick leave at termination based only on rendering past service.

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement ("termination payments"). Alternatively, the liability should be measured based on the sick leave and other compensated absences with similar characteristics accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. When the liability is calculated, these accumulations should be reduced to the maximum amount allowed as a termination payment.

This Statement requires the compensated absences liability generally to be measured using the pay or salary rates in effect at the balance sheet date. It also requires additional amounts to be accrued for certain salary-related payments associated with the payment of compensated absences, for example, the employer's share of social security and medicare taxes.



For additional copies of this Statement and information on applicable prices and discount rates, contact:

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GOVERNMENTAL ACCOUNTING STANDARDS SERIES (ISSN 0886-2885) is published monthly by the Financial Accounting Foundation, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116. Second-class postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is \$105 per year. POSTMASTER: Send address changes to Governmental Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1993. However, for governmental and similar trust funds, only the current portion of the liability should be reported in the funds; the remainder of the liability should be reported in the General Long-Term Debt Account Group (GLTDAG) and compensated absences expenditures should be recognized using a modified accrual basis of accounting. The provisions of this Statement are effective for recognizing governmental and similar trust fund expenditures using an accrual basis of accounting when GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, becomes effective.

Statement No. 16 of the
Governmental Accounting
Standards Board

Accounting for Compensated Absences

November 1992

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. Paragraph 5 discusses the applicability of this Statement.



Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116

Statement No. 16 of the Governmental Accounting Standards Board

Accounting for Compensated Absences

November 1992

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Statement No. 16 of the Governmental Accounting Standards Board

Accounting for Compensated Absences

November 1992

INTRODUCTION AND BACKGROUND INFORMATION

Scope of This Statement

1. This Statement establishes standards of accounting and reporting for compensated absences by state and local governmental entities, regardless of the reporting model or fund type used to report the transactions. Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.

Background

2. Current standards of accounting and financial reporting for compensated absences by state and local governmental entities were established in National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, and are contained in Codification Section C60, "Compensated Absences."¹ Cod. Sec. C60 requires governmental entities to report a liability for compensated absences using the criteria of Financial Accounting Standards Board (FASB) Statement No. 43, *Accounting for Compensated Absences*. Although the criteria for measuring the liability are the same for all fund types, differences between the measurement focuses of governmental and proprietary fund types result in differences in the amounts recognized in a period's operations and in how the accrued liability is displayed. FASB Statement 43 also applies to governmental colleges and universities

¹GASB *Codification of Governmental Accounting and Financial Reporting Standards* (Norwalk, CT: GASB, 1992). Further references to the Codification are short-titled (for example, Cod. Sec. C60).

that use the AICPA College Guide model.² That model is discussed in GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*.

3. When it becomes effective, GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, will require transactions reported in governmental and expendable trust fund operating statements to be recognized using the flow of financial resources measurement focus and an accrual basis of accounting. The GASB addressed expenditure recognition and measurement for compensated absences in Statement 11 and made certain changes from the FASB Statement 43 criteria. The GASB took this action with the understanding that it would reexamine compensated absences issues within the context of an accrual basis of accounting before Statement 11 became effective. Because all governmental entities are required to report accrual-based compensated absences liabilities, the GASB expanded the scope of this project to establish accrual-based compensated absences standards for all entities, regardless of the reporting model or fund type used for financial reporting.

4. The standards that follow give consideration to differences in the characteristics of various types of compensated absences in the governmental environment. For example, vacation leave and sick leave have different characteristics. Many governmental entities provide their employees with vacation leave that, if not used for paid time off, results in full compensation at termination or retirement. Thus, employees earn the right to be compensated for vacation leave based only on rendering past service. On the other hand, paid time off for earned sick leave is contingent on a specific event (illness) that is outside the control of the employer and employee. In some cases, however, employees may be compensated for a portion of their sick leave (often subject to length of service or other conditions) when they terminate or retire. In those cases, employees earn the right to be compensated for sick leave at termination based only on rendering past service.

²GASB Technical Bulletin No. 92-1, *Display of Governmental College and University Compensated Absences Liabilities*, issued in October 1992, provides display guidance for entities that use the AICPA College Guide model.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Applicability of This Statement

5. The provisions of this Statement apply to all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. The requirements apply regardless of the reporting model or fund type used to report the compensated absences transactions. This Statement supersedes portions of Cod. Sec. C60 as outlined in Appendix D of this Statement. It also supersedes paragraphs 77 through 80 of GASB Statement 11.

Recognition and Measurement Criteria

6. Using the criteria in the following paragraphs, a liability 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 should be 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 should be accounted for in the period those services are rendered or those events take place.

Vacation Leave and Other Compensated Absences with Similar Characteristics

7. Vacation leave and other compensated absences with similar characteristics³ should be accrued as a liability as the benefits are earned by the employees if *both* of these conditions are met:

- a. The employees' rights to receive compensation are attributable to services already rendered.

³Other compensated absences have characteristics similar to vacation leave if paid time off is not contingent on a specific event outside the control of the employer and employee. These types of leave include leave whose use is conditioned only on length of service—an event that essentially is controllable by the employer or employee, rather than arising from an unforeseen and uncontrollable event such as illness.

- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An employer usually would accrue a liability for vacation leave and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period.⁴ Benefits that have been earned but that are not yet available for use as paid time off or as some other form of compensation because employees have not met certain conditions (for example, a minimum service period for new employees) should be accrued to the extent it is probable that the employees will meet the conditions for compensation in the future. However, benefits that have been earned but that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability. (See examples in Appendix B.)

Sick Leave and Other Compensated Absences with Similar Characteristics

8. A liability for sick leave and other compensated absences with similar characteristics⁵ (hereinafter referred to as "sick leave") should be accrued using one of the following termination approaches:

- a. A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees'

⁴Some governmental entities provide their employees with military leave. Accrual in advance of such leave is not appropriate because an employee's right to compensation for military leave is not earned based on past service. Instead, compensation is based on the future military service. See also paragraph 9 concerning sabbatical leave.

⁵Other compensated absences have characteristics similar to sick leave if paid time off is contingent on a specific event that is outside the control of the employer and employee, for example, jury duty.

termination or retirement ("termination payments").⁶ Therefore, an accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. The sick leave liability generally would be an estimate based on a governmental entity's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination payment policy and other current factors. (This method is referred to in this Statement as the *termination payment method*. See Example 4 in Appendix C.)

- b. Alternatively, a governmental entity should estimate its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments. (This method is referred to in this Statement as the *vesting method*. See Example 5 in Appendix C.)

Sabbatical Leave

9. The 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 enhance the reputation of or otherwise benefit the employer. In this situation, the sabbatical constitutes a change in assigned duties and the salary paid during the leave is compensation for serv-

⁶Termination payments usually will be made directly to the employees. In some cases, however, a government's sick leave policy may provide 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 postemployment healthcare insurance premiums. These amounts, like cash payments made directly to employees, are termination payments for purposes of applying this Statement. Termination payments do not include sick leave balances for which employees receive only additional service time for pension benefit purposes.

ice during the period of the leave. Therefore, the nature of the sabbatical leave is restricted. Accordingly, the sabbatical should be accounted for in the period the service is rendered; a liability should not be reported in advance of the sabbatical. Sometimes, however, sabbatical leave is permitted to provide compensated unrestricted time off. In this situation, the salary paid during the leave is compensation for past service. A liability should be accrued during the period(s) the employees earn the right to the leave if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Liability Calculation

10. The compensated absences liability should be calculated based on the pay or salary rates in effect at the balance sheet date. 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, regulation, or policy—that other rate as of the balance sheet date should be used to calculate the liability.

11. An additional amount should be accrued as a liability for salary-related payments associated with the payment of compensated absences, using the rates in effect at the balance sheet date. The salary-related payments subject to this accrual are those items for which an employer is liable to make a payment *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.⁷ The accrual should be made based on the entire liability for each type of compensated absence to which the salary-related payments apply. (That is, payments directly and incrementally associated with the payment of sick leave termination payments should be accrued for the entire sick leave liability; salary-related payments associated with termination payments of vacation leave should be accrued for the entire vacation leave liability, including leave that might be taken as paid time off rather than paid as termination payments.)

⁷An accrual for the required contribution to a defined contribution or a cost-sharing multiple-employer defined benefit pension plan should be made if the employer is liable for a contribution to the plan 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 single-employer or agent multiple-employer defined benefit plans.

EFFECTIVE DATE AND TRANSITION

12. For proprietary and similar trust funds, entities that use proprietary fund accounting and reporting, and governmental colleges and universities that follow the AICPA College Guide model, the provisions of this Statement are effective for financial statements for periods beginning after June 15, 1993. Earlier application is encouraged.

13. For governmental and similar trust funds, account groups, and entities that use governmental fund accounting and reporting, the provisions of this Statement are effective for financial statements for periods beginning after June 15, 1993. Earlier application is encouraged. Because the balance sheets of these funds report current liabilities, only the current portion of the liability should be reported in the fund. The current portion is the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources. The remainder of the liability should be reported in the General Long-Term Debt Account Group (GLTDAG). The provisions of this Statement should be applied in governmental and similar trust funds using the modified accrual basis of accounting. That is, the amount of the compensated absences recognized as expenditures in these funds should be the net amount accrued during the year that normally would be liquidated with expendable available financial resources. The provisions of this Statement become effective for recognizing governmental and similar trust fund expenditures using an accrual basis of accounting when GASB Statement 11 becomes effective. A future GASB Statement on financial reporting will provide standards for the display of compensated absences liabilities related to governmental and similar trust funds when GASB Statement 11 becomes effective.

14. Adjustments resulting from a change to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of financial statements for prior periods presented is not practicable, the cumulative effect of applying this Statement, if any, should be

reported as a restatement of beginning fund balance or retained earnings, as appropriate, for the earliest period restated. In the period that this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

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

This Statement was adopted by unanimous vote of the five members of the Governmental Accounting Standards Board:

James F. Antonio, *Chairman*
Martin Ives, *Vice-Chairman*
Robert J. Freeman
Barbara A. Henderson
Edward M. Klasny

Appendix A

BASIS FOR CONCLUSIONS

Introduction

15. 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 gave greater weight to some factors than to others.

History of the Project

16. The Board began researching compensated absences issues in its measurement focus and basis of accounting (MFBA) project—one of the Board's original 1984 agenda projects. The MFBA Exposure Draft (ED), issued in 1987, proposed that compensated absences expenditures in governmental funds be recognized using the FASB Statement 43 criteria. The 1987 ED also proposed that the resulting liability as well as all other accrued operating liabilities be reported as fund liabilities. Although many constituents took exception to that proposal, the primary concern was with the liability's effect on the funds, specifically its effect on the fund balances, rather than with how the transactions were recognized and measured.

17. After the 1987 ED, the Board conducted a survey of the compensated absences benefits, funding, and financial reporting of more than seventy state and local governmental entities. The results of that survey led the Board to believe there was a need for more research on how to recognize and measure compensated absences using an accrual basis of accounting. Rather than delay the reexposure and issuance of Statement 11 for that research, the Board decided to adopt a modified version of FASB Statement 43 in GASB Statement 11, with the understanding that the issues would be reexamined before the Statement became effective.

18. After issuing Statement 11, the Board researched various methods for measuring vacation and sick leave on an accrual basis. The methods were subjected to limited field tests by the GASB staff. The results of those tests provided the Board with additional evidence that the standards established by this Statement will be practical to implement.

19. On December 30, 1991, the Board issued an ED of a proposed Statement, *Accounting for Compensated Absences*. The Board received seventy-nine comment letters on the ED, a large majority of which supported its provisions. Respondents generally believe that using the provisions of this Statement will provide a cost-beneficial and practical measure of the accrued compensated absences liability. However, certain changes have been made to this Statement as a result of respondents' recommendations.

Applicability

20. Even though this project arose out of the Board's MFBA project—a project that applies only to the governmental reporting model's governmental and similar trust funds—this Statement applies to the compensated absences transactions of *all* state and local governmental entities, regardless of the reporting model or fund type used to report the transactions. Thus, this Statement also specifically applies to governmental colleges and universities (whether they use the AICPA College Guide model or the Governmental model), governmental entities that use proprietary fund accounting, and activities reported in proprietary and similar trust funds.

21. All governmental entities previously were subject to the compensated absences criteria set forth in FASB Statement 43. As the Board deliberated compensated absences standards for governmental funds, it observed that many of the standards in this Statement are not significantly different in effect from Statement 43. It also observed in its limited field tests that the compensated absences accounting system was the same for all employees at each governmental entity, regardless of the fund from which individual employees were paid. Further, current generally accepted accounting principles (GAAP) require all governmental entities to report accrual-based compensated absences liabilities on the balance sheet. As a result of these conditions, the Board believes it is more efficient to establish a single compensated absences measurement standard for all governmental entities. Respondents to the ED generally agree with applying the Statement to all governmental entities.

An Accrual-Based Standard

22. This Statement requires a liability to be reported for certain compensated absences as the benefits are earned by employees; that is, reporting should not be delayed until employees are paid. The Board continues to

believe that an accrual-based standard is appropriate for reporting results of operations and financial position. The accrual-basis criteria in this Statement arise from and somewhat modify the previous governmental accounting standard for compensated absences (FASB Statement 43).

23. This Statement distinguishes those compensated absences that are the result only of employees' rendering past service from those that relate to future services or that are contingent on the occurrence of a specific event outside the control of the employer and employee. Those that result from past service and that are not contingent on the occurrence of a specific event outside the control of the employer and employee are subject to accrual; the others are not. FASB Statement 43 distinguishes only between those compensated absences that relate to past service and those that relate to future service. Therefore, the fundamental difference between this Statement and FASB Statement 43 relates to those absences that are contingent on the occurrence of a specific uncontrollable event, primarily sick leave but also other compensated absences with similar characteristics. Even though this Statement differs in theory from FASB Statement 43 concerning sick leave, the liabilities developed using the two Statements may not differ significantly. This is because FASB Statement 43, based on cost-benefit considerations and measurement difficulties, does not require accrual for accumulated sick leave if it is payable *only* for absences due to illness, although such accrual is not prohibited. This Statement's criteria for vacation leave and other compensated absences with similar characteristics provide the same measure of the liability as does FASB Statement 43.

24. Respondents to the ED generally agree with the distinction made between the different types of leave. Some believe the theory is sound, and others find the requirements cost-beneficial and practical. Some respondents, however, disagree with the distinction between different types of leave and believe that the measure of a liability for all compensated absences should be based on the same criteria. However, those respondents differ on which criteria should be applied. Some support an accrual for all compensated absences when earned based on past service, including for sick leave that is expected to be used for absences due to illness. Others support applying a termination approach to all compensated absences, including vacation leave. Still others believe that compensated absences should not be reported as liabilities until the employees have met all conditions for vesting, even though certain leave such as sick leave may have stringent length-of-service conditions for vesting. The

Board considered these positions and the reasons for them, and continues to believe that the distinction between the different types of leave contained in this Statement results in an appropriate measure of the accrued liability. The Board believes that the distinction helps to provide clear, cost-beneficial, and practical standards.

25. Some respondents to the ED questioned the accounting for certain types of leave other than vacation and sick leave. For example, questions were raised about the accounting for jury duty, military leave, and sick leave available to use for medical appointments, family illness, and funerals. Changes were made to the Statement to specifically address these types of leave and to better distinguish leave with characteristics similar to vacation leave from leave with characteristics similar to sick leave. Although some may contend that appointments for medical and dental wellness visits are not specific events that are outside the control of the employee, the Board does not believe that such use is significant enough from a cost-benefit standpoint to suggest that the use of sick leave for those purposes should be accounted for as vacation leave rather than as sick leave.

Vacation Leave and Other Compensated Absences with Similar Characteristics

26. Paragraph 7 of this Statement requires a liability to be accrued for vacation leave and other compensated absences with similar characteristics if employees' rights to leave are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The Board believes these criteria will result in a proper measure of an accrual-based liability, and respondents to the ED generally agree. These criteria provide the same measure of a liability for these compensated absences as does FASB Statement 43. The basic criteria of FASB Statement 43, which addresses all compensated absences including sick leave, require additional consideration of whether the compensated absences accumulate or vest. However, those conditions do not need to be evaluated to properly measure an accrual-based liability for those compensated absences that are not contingent on the occurrence of specific events outside the control of the employer and employee. Therefore, this Statement uses different language than FASB Statement 43 to achieve the same accrual-based standard for vacation leave and other compensated absences with similar characteristics.

Sick Leave and Other Compensated Absences with Similar Characteristics

27. Most governmental entities allow employees to accumulate sick leave balances, and some provide a cash payment for some or all of those balances conditioned on employees' termination or retirement ("termination payments"). These termination payments allow employees to obtain a payment that is in excess of their normal salaries for their services. The Board believes it is appropriate accrual-based recognition to report sick leave liabilities based on these termination payments.

28. A termination payment approach was suggested in comments made by a few respondents to the 1987 MFBA ED. Some of those respondents stated that the Board should consider using a "budgetary approach" to measure vacation and sick leave liabilities, requiring an accrual only to the extent that those benefits "cost" governmental entities more than the amount normally budgeted for salaries. Another respondent stated that governmental employees accumulate and maintain unused vacation and sick leave during their period of employment to the maximum payable at retirement. That respondent believed that such accumulations have the characteristics of deferred compensation and should be accounted for under the provisions of APB Opinion No. 12, *Omnibus Opinion—1967*. Opinion 12 required the estimated amounts that were to be paid under certain deferred compensation contracts to be "accrued in a systematic and rational manner over the period of active employment from the time the contract is entered into." The Board found these comments about the nature of compensated absences to be persuasive for sick leave. The Board's survey of compensated absences indicated that most sick leave in the public sector tends to be accumulating but nonvesting⁸ or only partially vesting. Further, the conditions for vesting sick leave usually involve a long period of service, or retirement from service.

⁸FASB Statement 43 defines *vested* rights as those for which an employer has an obligation to make a payment even if an employee terminates. *Nonvesting* rights, then, are those that cannot or will not vest. *Vesting* rights are both vested rights and those rights that *will eventually vest* but have not yet vested (for example, because the employee has not yet completed a required length of service).

29. The Board also considered the position that nonvesting sick leave is not a liability, even though employees accumulate balances that are available for use as paid time off, because the primary event that results in the liability for the use of sick leave is in the future—the illness. The Board found that this position provided an additional perspective on the appropriateness of a termination payment approach. That is, it helped to develop the Board's position that a governmental entity's liability for sick leave and other compensated absences with similar characteristics should be based only on what employees would be entitled to or expected to receive as compensation at termination or retirement.

30. This Statement provides governmental entities an option for measuring the sick leave liability, although both measurements are based on the concept that nonvesting sick leave does not result in reporting a liability. The measurement method provided in paragraph 8a is the termination payment method. This method provides for the accrual of *expected* termination payments over the period of active employment. The termination payment method was applied in the GASB's limited field tests by using historical data about leave provisions, termination payments made, and length of service for former employees. That particular approach is illustrated in the nonauthoritative Example 4 in Appendix C of this Statement. Governmental entities may develop other appropriate approaches for calculating a termination payment liability, for example, by developing a ratio based on historical data of sick leave paid at termination compared with sick leave accumulated and by applying that ratio to the sick leave accumulated by current employees as of the balance sheet date. In applying the termination payment method, the historical information that a governmental entity uses should be adjusted for the effect of changes in the entity's termination payment policy and other current factors.

31. Some respondents to the ED were concerned whether the termination payment approach illustrated in the appendix is a required methodology. As noted in paragraph 30, governmental entities may develop other appropriate approaches for calculating a termination payment liability, provided those methods meet the objectives of paragraph 8a.

32. Regardless of the particular calculation approach a governmental entity uses, the measure of a sick leave liability using the termination payment method requires applying historical information or trends to the current employee population. Some governmental entities may not have access to such historical data. Also, using historical trends may not be

reliable or practical in certain situations, for example, if the employee group is small. Because of these reasons, the Board considered another method of measuring the sick leave liability using a termination approach. Therefore, this Statement provides an alternative in paragraph 8b for measuring the sick leave liability.

33. The alternative provided in paragraph 8b for measuring sick leave accrues a liability for *vesting* sick leave. This measure is similar to an application of previous standards, provided for in paragraphs 6 and 7 of FASB Statement 43. This vesting method can differ from the termination payment method in two ways. First, the vesting method measures *vesting* sick leave balances for which a payment is probable, regardless of whether the obligation results in termination payments or, instead, as paid time off for illness. (Note that amounts in excess of the maximum for which payment is allowed at termination are excluded because those balances are available *only* for use as paid time off for illness. Also, the accrued liability is valued at its termination value, for example, if sick leave balances are paid at termination at 50 percent of pay. These reductions to termination value are what make the vesting method a termination approach.) Second, the vesting method liability is calculated based on accumulated balances as of the balance sheet date, whereas the termination payment method accrues the anticipated termination payments over the expected periods of service. Nevertheless, the Board believes the vesting method also provides a reasonable estimate of anticipated termination payments.

34. The vesting method does not include in the sick leave liability any accumulated *nonvesting* balances that probably will be used for paid time off for illness. Although the Board understands that the liability measured using the vesting method *may* include some balances that could be satisfied through sick leave rather than termination payments, this Statement allows this treatment because of concerns about the cost–benefit of trying to estimate the extent to which such use might occur.

35. The vesting method permitted by this Statement for sick leave requires a preparer to determine the current balances (reduced by any payment caps or payment rates) of those employees who presently meet, or in the future probably will meet, the conditions to receive termination payments. If they have not previously done so, governmental entities will need to establish policies for determining when it is probable that employees who do not cur-

rently meet those conditions will meet them in the future. (A policy of this type is illustrated in Example 5 in Appendix C.) These policies for sick leave accrual could be based on past history of employee vesting.

36. Those ED respondents who agree with the termination approach for sick leave generally agree with allowing the measurement options. They believe that the options allow governments to consider individual circumstances in applying the termination approach.

37. This Statement defines sick leave termination payments as cash payments conditioned on the employees' termination or retirement. These payments usually will be made directly to the employees. In some cases, however, a governmental entity's sick leave policy may provide 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 governmental entities allow the value of a sick leave termination payment to be used to pay a retiring employee's share of postemployment healthcare insurance premiums. These amounts, like cash payments made directly to employees, are termination payments for purposes of applying this Statement.

38. Some respondents to the ED asked that the guidance relating to termination payments made to third parties be included in the Standards section of the Statement. As a result, guidance is included as footnote 6. Other respondents questioned whether sick leave balances for which employees receive only additional service credit for pension benefit purposes (rather than being paid to terminating employees) also should be considered termination payments for purposes of this Statement. Such benefits are not sick leave termination payments; instead, they are considered in calculating the actuarial valuation of pension obligations.

Probability

39. This Statement requires compensated absences liabilities to be reported based on the *probability* of use or payment of certain balances. (*Probable* means that the future event is likely to take place.) The liability in many cases, therefore, will include amounts other than those compensated absences balances for which employees have met all conditions for payment as of the balance sheet date. The Board requires the assessment of probability because it believes liabilities should be reported based on

reasonable expectations of the eventuality of payment, not just what an entity would have to pay if it were to cease operations as of the end of the fiscal year.

40. Some may believe that because employees have to meet conditions to use vacation leave or to receive termination payments for vacation or sick leave, those conditions represent specific events that are contingencies. Thus, they would contend that, like sick leave that is payable only for absences due to illness, such leave should not be accrued until the conditions are satisfied. However, the use of sick leave requires the occurrence of a specific event that is *outside the control of the employer and employee*, whereas the conditions for vacation leave and for sick leave termination payments are not. The conditions for payment of this leave relate to length of service—an event that essentially is controllable by the employer or the employee, rather than arising from an unforeseen and uncontrollable event such as illness.

41. To apply the probability criterion to vacation leave and other compensated absences with similar characteristics, governmental entities will need to evaluate whether any balances recorded in the leave records will be forfeited without use or payment as well as whether any leave has been earned but has not yet been recorded in the leave records. In many cases, the vacation leave liability will be equal to the value of the recorded vacation leave balances. In these cases, the presence of the probability criterion will have little effect on the calculation. Governmental entities generally impose few restrictions on employees' rights to take vacation or receive termination payments for accumulated vacation. As a result, in most cases it is either certain or highly probable that accumulated balances will be used or paid.

42. Because of its nature, the termination payment method for sick leave inherently applies a probability factor. However, preparers also will have to use judgment to apply the probability criterion to sick leave when using the vesting method. Many governmental entities require employees to work several years or to retire from service to be eligible to receive termination payments. Therefore, in most cases the liability will not be based solely on the value of all accumulated balances. Preparers will have to determine not only whether employees currently meet the conditions to receive termination payments, but also whether it is probable that current employees will meet the conditions in the future. For this assessment,

preparers might use historical information about the extent to which past employees have met the conditions and might examine patterns of service in the current population.

43. Some respondents to the ED disagree with or are concerned about the imprecision that may result from evaluating the probability that compensated absences will be paid. Some stated that such an evaluation represents a prediction rather than an actuality. Some of them would prefer that only vested balances be reported as liabilities; others asked the Board to provide guidelines for applying the probability criterion. The Board considered these comments and continues to believe that a probability criterion is appropriate in an accrual context. It also believes that the probability evaluation for compensated absences is a matter of judgment in individual circumstances.

Reasonable Measurements

44. In those cases in which compensated absences liabilities were not reasonably estimable, previous standards and GASB Statement 11 provided for disclosure of that fact. This Statement does not include such a provision. The Board believes that governmental entities should be able to make reasonable estimates of compensated absences liabilities using the criteria of this Statement. One respondent questioned the removal of this provision, noting that some governments do not have adequate records to measure a liability and that, in those cases, those governmental entities should disclose that fact. The Board does not disagree that it would be appropriate for a governmental entity that cannot measure its compensated absences liability to disclose that omission. However, the Board believes that the standard should require that a compensated absences liability be reported, if material, and that the failure to do so constitutes a departure from the standard.

Other Recognition and Measurement Issues

Sabbatical Leave

45. Because of the frequency of the use of sabbatical leave in the governmental environment, the Board decided that this Statement should provide specific criteria for when to accrue for that leave. Sabbatical leave was discussed in the Basis for Conclusions of FASB Statement 43—and the provi-

sions in this Statement are consistent with that discussion. Specifically, sabbatical leave should be accrued if the employees receive unrestricted time off as compensation for past service; it should not be accrued if there is only a change in the types of services the employees provide to or for the benefit of the employer. Therefore, accrual depends on the purpose of the leave. This Statement recognizes as service during sabbatical not only those situations that were discussed in FASB Statement 43, but also leave for additional training, which often takes place in elementary and secondary educational systems. A few respondents to the MFBA EDs had disagreed with this proposal, stating that liability reporting should not depend on the purpose of the leave. Instead, they believe that a liability should be accrued through the employment period necessary to “earn” the right to take sabbatical leave. However, the Board believes such reporting would be inappropriate in those cases in which salary paid during the leave represents compensation for service during the period of the leave. No respondents to the ED stated disagreement with these provisions.

Pay Rates

46. Previous governmental accounting standards required compensated absences liabilities to be valued at current cost. The Board believes this valuation is objective, easily measurable, and not affected by the timing of pay increases. Accordingly, this Statement continues to require compensated absences liabilities to be valued at the personal service rates in effect as of the balance sheet date—unless a rate other than pay or salary rates is used to pay the compensated absences. Some governmental entities pay employees for compensated absences at other than their pay or salary rates, for example, at a lower amount established by contract, regulation, or policy. In these cases, that lower amount as of the balance sheet date should be used to value the liability. Respondents to the ED generally agree with these provisions.

Additional Salary-Related Payments

47. This Statement requires an additional amount to be accrued for salary-related payments directly and incrementally associated with the payment of compensated absences. The Board believes a governmental entity's liability for these payments arises at the same time that the employee earns the right to the associated compensated absence. To clarify the additional accrual standard, the payments subject to this accrual are only those items for which an employer is liable to make a payment *directly and incremen-*

tally associated with payments made for compensated absences on termination. Even though the benchmark for making an additional accrual for salary-related payments is those items that attach to termination payments, the accrual for those items should be made for all related leave, including the amount of vacation leave and other compensated absences with similar characteristics that is expected to be used as paid time off. The Board believes that this standard is cost-beneficial to implement.

48. The additional accrual for salary-related payments should include the employer's share of social security and medicare taxes because all salary payments (within the applicable wage bases for the taxes) are subject to those taxes. Some governments also may need to accrue amounts for the employer's contribution to defined contribution or cost-sharing multiple-employer defined benefit pension plans, using the criteria provided in footnote 7 to paragraph 11. Contributions to single-employer and agent multiple-employer defined benefit plans would not meet the criterion of "direct and incremental salary-related payments" and thus should not be accrued under this standard. (The language of the footnote was revised from the ED to clarify the guidance.) Preparers should consider whether other fringe benefits also meet the criterion for an additional accrual.

49. The additional accrual is required for contributions to defined contribution and cost-sharing multiple-employer defined benefit pension plans when termination payments for compensated absences are part of covered payroll, that is, when those amounts are included in the salary base on which contributions are made to the plan. When this condition is met, the fact that an employer makes a payment to the plan based on termination payments for the compensated absences means, for the purposes of this Statement, that the pension payment is directly and incrementally related to the payment of salaries at termination. Contributions to single-employer and agent multiple-employer defined benefit plans do not meet the criterion of direct and incremental salary-related payments. In practice, actuaries consider the fact that employees may receive service or pay credit from the pension plan for termination payments for compensated absences in establishing contribution requirements throughout the employees' service.

50. Generally, respondents to the ED agree with the additional accrual for salary-related payments. However, some questioned whether the additional accrual should be made for employee benefits for healthcare and life insurance. To be subject to accrual, a payment has to meet two criteria. First, the amount of the payment has to be a function of the salary

amount. A payment that is fixed in amount or is a function of other factors would not be direct and incremental. Second, even though a payment may be a function of the salary amount, if it would not be payable for salary payments made at termination for compensated absences balances, it is not subject to the additional accrual. Those payments that are not directly and incrementally associated with the payment of termination payments for compensated absences, then, would be considered period costs for the purposes of this Statement.

51. The amount a governmental entity pays for healthcare insurance premiums generally is a function of claims experience, the composition of the employee group, market prices, and so forth. These premiums are not based on the salaries paid to individual employees in a particular period, and do not vary by individual employee if the employee receives a termination payment for compensated absences balances. This type of healthcare insurance premium would not be subject to the additional accrual.

52. The life insurance benefit for individual employees may be a fixed amount for either all employees or all employees of a group or type, or it may be a function of salary (for example, two times salary). If the benefit is a fixed amount, the premiums generally would not be a function of individual salaries. Instead, they would either be a function of personal factors (such as age and health) by individual or, like group healthcare insurance, be a function of claims experience and the composition of the employee group. This type of life insurance premium is not subject to the additional accrual.

53. If life insurance benefits are a function of salary and thus are salary-related, it is possible the premiums also may be salary-related. For example, the premium may be equal to 25 cents per month per \$1,000 of coverage. However, the payment also would have to meet the second test: Would it be payable on the exact amount of salary paid at termination, or instead on "normal salary"? Generally, the premium would be based on a normal month's salary because the employee would be covered for the entire month in which he or she terminates. Thus, this type of premium is not a function of the actual salary paid in the final month and would not be subject to the additional accrual.

54. This Statement requires that the additional accrual for salary-related payments be measured using the rates in effect at the balance sheet date. The Board believes that using this valuation is objective and is not affected by the timing of rate changes. Preparers should establish a policy

for selecting the salary-related payment rate to use. Preparers may wish to use a rate, for example, that is less than the full social security and medicare tax rates if employees earn more than the applicable wage bases for those taxes.

Other Issues

55. The standards in this Statement apply to all types of compensated absences. However, this Statement does not provide detailed accounting guidance for all possible types of compensated absences or for all measurement issues that governmental entities may encounter in accruing compensated absences. If preparers encounter compensated absences benefits or issues not directly addressed by this Statement, they should apply the general guidance provided in recognizing and measuring those transactions on an accrual basis.

Effective Date

56. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 1993. The Board believes this effective date will give preparers adequate time to make any changes that may be needed to comply with the requirements of this Statement.

57. Although the majority of ED respondents with a position agree with the effective date, others believe that implementation should be delayed until Statement 11 becomes effective. Some of the respondents who favor delay believe that implementation before Statement 11 becomes effective would be overly complex and that simultaneous implementation would be the least confusing for financial statement users. Others believe that it is better to wait until the liability display issues are resolved or until Statement 11 requires governmental entities to adopt an accrual basis of accounting. After considering these comments, the Board continues to believe that simultaneous implementation of this Statement with Statement 11 is not necessary. This Statement does not affect the display of the compensated absences liability or the current requirement that a compensated absences liability be accrued. Instead, this Statement affects only the manner in which the accrued liability is measured. The Board believes that implementing this Statement as soon as practical will improve compliance with and application of accounting standards for compensated absences liabilities. The Board also believes that implementation of

this Statement before Statement 11 is implemented will lessen the burden of systems and measurement changes that may be needed at the time Statement 11 is implemented.

58. This Statement requires compensated absences liabilities to be measured using the same criteria regardless of whether they are reported in the funds or in the GLTDAG. However, until GASB Statement 11 becomes effective, this Statement requires no change from previous standards in the amount recognized as expenditures in governmental and similar trust funds. When Statement 11 becomes effective, the accrual-based standards in this Statement should be used to recognize compensated absences expenditures in governmental and similar trust funds. The Board believes it is necessary to provide for implementation based on the current modified accrual basis of accounting because entities will need to apply this Statement before Statement 11 becomes effective.

Appendix B

ILLUSTRATION OF CALCULATIONS OF VACATION LEAVE LIABILITIES

59. This appendix illustrates some approaches to calculating the vacation leave liability required by this Statement. The examples use small populations of employees to illustrate basic calculations. In a large population, statistical samples of leave balances and averages of pay rates might be the basis for the calculations. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Statement or to indicate the Board's endorsement of the situations or specific methods illustrated.

Example 1

Benefit provisions:

- All employees receive twelve days of vacation a year. Vacation is posted to leave records as it is earned—one day a month.
- New employees are required to work six months before they can take any leave.
- Accumulated vacation balances are paid at current salary rates to all terminating employees, even those with less than six months of service.

Leave records:

- The following are leave records for three employees as of year-end:

<u>Employee</u>	<u>Length of Service</u>	<u>Vacation Balance (In days)</u>	<u>Daily Pay</u>
1	4 years, 11 months	20	\$70
2	7 years, 2 months	22	60
3	0 years, 2 months	<u>2</u>	50
		<u>44</u>	

Liability calculation:

To calculate the liability, the preparer should compute the value of all accumulated vacation leave. This is a matter of multiplying leave balances by appropriate pay rates.

The liability calculated below includes the employer's share of social security and medicare taxes. A full calendar-year tax rate is used in this example because no employees earn more than the taxable wage bases. No other salary-related payments apply in this example.

<u>Employee</u>	<u>Vacation Balance</u>	<u>Daily Pay</u>	<u>Vacation Liability</u>
1	20	\$70	\$1,400
2	22	60	1,320
3	2	50	100
Vacation liability			2,820
Additional salary-related payments (7.65 percent)			216
Total liability			<u>\$3,036</u>

Example 2

Benefit provisions:

The benefit provisions are the same as in Example 1 except that employees are required to have one year's service before they can take vacation leave or be paid for it at termination.

Leave records:

The leave records are the same as in Example 1.

Liability calculation:

To calculate the liability, the preparer should consider whether any vacation accumulated as of year-end will never be paid in either time off or termination payments because an employee will fail to meet the condition requiring one year of service. Often, group averages or patterns of terminations would be the basis for making such a determination. In this example, it is the preparer's judgment, based on past employee behavior, that it is not probable that employee 3 will attain one year's service.

The liability calculated below includes the employer's share of social security and medicare taxes.

<u>Employee</u>	<u>Vacation Balance</u>	<u>Probable Payment</u>	<u>Daily Pay</u>	<u>Vacation Liability</u>
1	20	20	\$70	\$1,400
2	22	22	60	1,320
3	2	0	50	0
Vacation liability				2,720
Additional salary-related payments (7.65 percent)				208
Total liability				<u>\$2,928</u>

Example 3

Benefit provisions:

The benefit provisions are the same as in Example 1 except that employees cannot carry more than twelve vacation days forward past December 31. Any excess days are forfeited without payment. However, if employees terminate before December 31, they receive termination payments for all accumulated vacation. The governmental entity has a September 30 fiscal year-end.

Leave records:

The following are leave records for the three employees as of September 30:

<u>Employee</u>	<u>Length of Service</u>	<u>Vacation Balance (In days)</u>	<u>Daily Pay</u>
1	5 years, 6 months	15	\$75
2	8 years, 8 months	16	65
3	1 year, 10 months	12	55
		<u>43</u>	

Liability calculation:

To calculate the liability, the preparer should consider whether any vacation accumulated as of September 30 will be forfeited because an employee's accumulated balance at December 31 will exceed twelve days. In some cases, the leave forfeiture date will take place before financial statements are issued, thus allowing the preparer to determine the amounts actually forfeited. In other cases, history of forfeitures could be the basis for determining the leave that will be forfeited.

In this example, it is the preparer's judgment, based on past employee behavior and current conditions, that no employees are expected to take any vacation during the remainder of the calendar year, and all employees therefore are subject to forfeiture at December 31. Employee 1 is expected to terminate in November and to receive a termination payment for all days accumulated at that time. The amounts expected to be forfeited at December 31 are seven days for employee 2 and three days for employee 3.

To calculate the liability, the compensated absences policy should establish, or the preparer should determine, whether the last days earned or the first days earned are the ones forfeited at December 31. In this example, any days forfeited are assumed to be the last days earned. Therefore, for employees 2 and 3, three of the days expected to be forfeited at December 31 would have been earned after September 30.

The liability calculated below includes the employer's share of social security and medicare taxes.

Employee	Vacation Balance	Expected Forfeiture of 9/30 Balance	Probable Payment of 9/30 Balance	Daily Pay	Vacation Liability
1	15	0	15	\$75	\$1,125
2	16	4	12	65	780
3	12	0	12	55	660
Vacation liability					2,565
Additional salary-related payments (7.65 percent)					196
Total liability					<u>\$2,761</u>

Appendix C

ILLUSTRATION OF CALCULATIONS OF SICK LEAVE LIABILITIES

60. This appendix illustrates some approaches to calculating the sick leave liability required by this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Statement or to indicate the Board's endorsement of the situations or specific approaches illustrated. In a large population, statistical samples of termination payments and leave balances and averages of pay rates might be the basis for the calculations. Other approaches to applying the sick leave methods may be more appropriate for individual governments. This appendix uses the same benefit provisions to illustrate the termination payment method in Example 4 and the vesting method in Example 5.

Benefit provisions:

- All employees receive one day of sick leave a month. Sick leave is posted to leave records as it is earned—one day a month.
- Sick leave can only be used for paid time off for the illness of the employee or a dependent. Sick leave taken in time off is paid at the employee's normal pay rate.
- There is no limit on the accumulation of sick leave balances.
- If an employee terminates with at least ten years of service, he or she will be paid in cash for sick leave balances up to thirty days, at one-half his or her final pay rate.

Example 4: Termination Payment Method

One possible approach to calculating the termination payment method liability would include the following steps. (Governmental entities may develop other appropriate approaches for calculating termination payment liabilities, for example, by developing a ratio based on historical data of sick leave paid at termination compared with sick leave accumulated and by applying that ratio to the sick leave accumulated by the current employee population as of the balance sheet date.)

1. Obtain the following information for all employees (or a representative sample) who have separated from service with the governmental entity over a reasonable period of time, for example, three to five years:

- a. Total number of sick leave days paid to those employees OR total dollar amount of sick leave termination payments made to those employees.
 - b. Total number of years those employees worked.
2. Determine the sick leave termination cost for each year worked. This can be done by dividing a by b.
 - If the total number of sick days paid is used for the numerator, convert that number to the sick leave termination cost by multiplying it by a factor that considers both the current average daily pay rate for all employees on the payroll and the sick leave termination payment arrangements.
 - If the total dollar amount of sick leave termination payments is used for the numerator, increase the amount of each termination payment included by the average increase in pay from the year of payment to the current year. After this calculation, adjust the result by a factor that converts the retiree pay rate to the average active employee pay rate.
 3. Determine the year-end sick leave liability by multiplying the result in step 2 by the number of years all active employees have worked. The number of years all active employees have worked can be determined by means of statistical sampling. Also, increase the liability for salary-related payments.

Liability calculation:

1. Obtain information about termination payments and length of service for employees who have terminated service during the past five years.

Employee	Year Terminated	(a)		(b) Number of Years Worked
		Sick Days Paid	Sick Leave Termination Payment	
1	19X2	10	\$ 400	25
2	19X3	0	0	5
3	19X4	30	1,350	30
4	19X5	5	250	25
5	19X6	5	250	15
		<u>50</u>		<u>100</u>

2. Determine the sick leave termination cost for each year worked.

- If the total number of sick days paid is used, convert to termination payment per year worked.

$$\begin{array}{r}
 \text{Sick days paid (50)} \\
 \times \text{ Current average daily pay rate for active employees (\$72)} \\
 \times \text{ Sick leave termination payment rate (50\%)} \\
 \hline
 = \underline{\underline{\$1,800}}
 \end{array}$$

$$\frac{\text{Adjusted sick leave payments}}{\text{Years worked}} = \frac{\$1,800}{100} = \$18 \text{ per year worked*}$$

- If the total dollar amount of sick leave termination payments is used, increase the amount of each termination payment by the average increase in pay from the year of payment to the current year. Next, adjust the result by a factor that converts the retiree pay rate to the average active employee pay rate.

Year	Payment	Adjusted Payment
19X2	\$ 400	\$ 500
19X3	0	0
19X4	1,350	1,500
19X5	250	250
19X6	250	250
		<u>2,500</u>

$$\begin{array}{r}
 \text{Factor to convert the retiree pay rate to} \\
 \text{the average active employee pay rate} \\
 \text{Adjusted sick leave payments}
 \end{array}
 \quad
 \begin{array}{r}
 \underline{\underline{72\%}}^\dagger \\
 \underline{\underline{\$1,800}}
 \end{array}$$

$$\frac{\text{Adjusted sick leave payments}}{\text{Years worked}} = \frac{\$1,800}{100} = \$18 \text{ per year worked*}$$

*Because the procedures used will necessarily result in an estimate, it is probable that in actual practice the result using these two methods will be somewhat different.

†This factor is a comparison of the retiree pay rate and the average active pay rate in the current employee group. This factor is needed when retirees are paid at a rate that differs from that of the average employee. In this example, the last retiree receiving a termination payment had a daily pay rate of \$100. The average daily pay rate of the current employee group is \$72.

3. Calculate the year-end liability: There are ten employees on the payroll, five of whom have been employed for ten years and five of whom have been employed for six years. This means that active employees have eighty person-years of service [(5 × 10) + (5 × 6)]. The liability calculated below includes the employer's share of social security and medicare taxes.

	Total person-years worked by active employees	80
×	Sick leave termination payment per year worked	\$ 18
=	Sick leave termination payment liability	1,440
+	Additional salary-related payments (7.65 percent)	110
=	<u>Total liability</u>	<u>\$1,550</u>

Example 5: Vesting Method

Leave records:

The following are leave records for the three employees as of year-end:

Employee	Length of Service	Sick Leave Balance (in days)	Daily Pay
1	4 years, 11 months	42	\$70
2	7 years, 2 months	53	60
3	0 years, 2 months	2	50

Liability calculation:

To calculate the vesting method liability, the preparer should determine whether it is probable that employees with less than ten years of service will in the future meet that condition to receive a cash payment at termination for their sick leave balances. Often, group averages or patterns of attaining the condition would be the basis for making the determination.

In this example, it is the preparer's judgment that based on past employee behavior, it is probable that (a) all administrative employees who attain seven years of service also eventually attain ten years of service and (b) all police officers attain ten years of service. Employees 2 and 3 are administrative employees. Only employee 2 has attained seven years of service; therefore, employee 3's balances are not included in the calculation. Employee 1 is a police officer and, thus, his sick leave balance is included in the liability calculation.

The preparer also should apply any benefit maximums (for example, the thirty-day maximum) and reduced payment rates (for example, one-half final pay rate) to leave balances to calculate the liability.

The liability calculated below includes the employer's share of social security and medicare taxes.

Employee	Sick Leave Days		Pay Rate	Pay Rate Reduction	Sick Leave Liability
	Accumulated	Accrued			
1	42	30	\$70/day	50 percent	\$1,050
2	53	30	60/day	50 percent	900
Sick leave vesting liability					1,950
Additional salary-related payments (7.65 percent)					149
Total liability					<u>\$2,099</u>

Appendix D

CODIFICATION INSTRUCTIONS

61. The sections that follow update the *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of this Statement is listed if the paragraph will be cited in full in the Codification.

. . .

COMPENSATED ABSENCES

SECTION C60

Sources: [Add the following:] GASB Statement 16

[Revise the Note as follows:] [Note: The requirements of paragraphs .103 through .108 of this section (concerning measurement of the liability) are based on GASB Statement No. 16, *Accounting for Compensated Absences*, and are effective for financial statements for periods beginning after June 15, 1993. Earlier application is encouraged. The measurements required by those paragraphs will become effective for expenditure recognition in governmental and similar trust funds when GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, becomes effective. Statement 11 is reproduced in this Codification in Appendix A.]

[Insert the following:]

Applicability and Scope

.101 This section establishes standards of accounting and reporting for compensated absences by state and local governmental entities, regardless of the reporting model or fund type used to report the transactions. It applies to all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. [GASBS 16, ¶1 and ¶5]

Background

.102 [GASBS 16, ¶4]

Recognition and Measurement Criteria

.103–.108 [GASBS 16, ¶6–¶11] [Change footnote numbers and references as appropriate.]

Financial Reporting

.109 [Insert current Codification paragraph .102.]

.110 [Insert current Codification paragraph .103.] [Add the following at the end of the paragraph:] Further, expendable trust funds should follow the standards that apply to governmental funds, and nonexpendable trust and pension trust funds should follow the standards that apply to proprietary funds. [NCGAS 4, ¶6 and ¶28]

.111 [Insert current Codification paragraph .104.]

Proprietary and Similar Trust Funds

.112 Entities that report compensated absences in proprietary and similar trust funds should report the compensated absences liability calculated using the measurement criteria in paragraphs .103 through .108 as a fund liability. [NCGAS 1, ¶42, as amended by NCGAS 4 and GASBS 16]

Governmental and Similar Trust Funds

.113 Entities that report compensated absences in governmental and similar trust funds should recognize compensated absences expenditures each period using the modified accrual basis of accounting. That is, the amount of the compensated absences recognized as expenditures in these funds should be the net amount accrued during the year that normally would be liquidated with expendable available financial resources. The remainder of the compensated absences liability calculated using the measurement criteria in paragraphs .103 through .108 should be reported in the GLTDAG. When GASB Statement 11 becomes effective, governmental and similar trust funds are required to recognize compensated absences accrued during the period as expenditures. [GASBS 16, ¶13]

NONAUTHORITATIVE DISCUSSION

Illustrative Examples

.901–.902 [GASBS 16, ¶59 and ¶60] [Change “appendix” to “paragraph” and “Statement” to “section” as appropriate.]

Governmental and Proprietary Fund Models

.903–.908 [Insert current Codification paragraphs .901–.906.]

Alternate Considerations

.909 The NCGA considered three alternatives for its compensated absences standard for the financial flow measurement focus of governmental funds. [NCGAS 4, ¶38, as modified by GASBS 16]

.910–.911 [Insert current Codification paragraphs .908 and .909.]

.912 [Insert current Codification paragraph .910. Revise last sentence as follows:] The amount recorded in the GLTDAG would be the amount determined using the criteria of paragraphs .103 through .108 of this section that are payable from future resources. [NCGAS 4, ¶41 and ¶42, as modified by GASBS 16]

* * *

COLLEGES AND UNIVERSITIES

SECTION Co5

Sources: [Add the following:] GASB Statement 16

.101 [Add the following to the list at the end of the paragraph:]

C60, “Compensated Absences” [GASBS 2–9; GASBS 12–13; GASBS 16; GASBI 1]

* * *

HOSPITALS

SECTION Ho5

Sources: [Add the following:] GASB Statement 16

.103 [Add the following to the list at the end of the paragraph:]

C60, "Compensated Absences" [GASBS 2-7; GASBS 9; GASBS 12-13; GASBS 16; GASBI 1]

. . .

PENSION FUNDS—ACCOUNTING

SECTION Pe5

Sources: [Add the following:] GASB Statement 16

[Add the following to the list in the **Note:**]

C60, "Compensated Absences" [GASBS 2-7; GASBS 9; GASBS 12-13; GASBS 16; GASBI 1]

. . .

PUBLIC BENEFIT CORPORATIONS AND AUTHORITIES **SECTION Pu5**

Sources: [Add the following:] GASB Statement 16

.101 [Add the following to the list in footnote 1:]

C60, "Compensated Absences" [GASBS 2-10; GASBS 12-13; GASBS 16; GASBI 1]

. . .

UTILITIES

SECTION Ui5

Sources: [Add the following:] GASB Statement 16

.102 [Add the following to the list at the end of the paragraph:]

C60, "Compensated Absences" [GASBS 2-7; GASBS 9; GASBS 12-13; GASBS 16; GASBI 1]

Background

In November 1992 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 16 *Accounting for Compensated Absences* which provides guidance on how this leave liability should be calculated. This new pronouncement requires employers to report a liability for vacation leave earned by employees whenever the following two criteria have been met :

the vacation relates to past employee service; and

eventual payment to the employee is considered probable.

The amount of vacation leave liability should be valued using current salary costs and should also reflect any salary-related payments that are directly and incrementally connected with leave payments to employees. The leave liability should reflect any nonvested leave earned by the employees that the employer considers likely to vest, but should not include leave balances that are expected to lapse.

Governments that compensate employees upon retirement or termination for unused sick leave balances are required by GASB Statement No. 16 to include such termination payments for unused sick leave in the calculation of their total liability for compensated balances. There are two basic methods that can be used to calculate the liability for termination payments related to unused sick leave. One method is to calculate future termination payments for unused sick leave based on government's past experience ("termination payment method"). The other method is to calculate the liability based on the amount of sick leave that is expected to become eligible for payout upon termination ("vesting method"). Using either method, the liability would need to include salary-related payments connected with termination payouts for unused sick leave. Also, both methods would require the use of current salary rates.

Applicability to

The employees of the _____ accrue vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid

vacation time accumulated is fully vested to the employees from the first day of work. Also accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, if the employee has at least 10 years of services with the

To determine the vacation leave liability as of June 30, 1994, we obtained from the a detail of vacation leave accrued by employee with subtotals by department. This detail include vacations days up the a maximum of 60 days. Then we segregated department 46 from all other departments to separate the vacation leave corresponding to the enterprise fund's employees from those corresponding to the governmental funds. To finally obtain the vacation leave liability we added % representing salary related payments. The % of salary related payments is composed of 7.65% of Social Security

The calculation of sick leave liability as of June 30, 1994 was made using the "vesting method". We obtained from the a detail of sick leave accrued by employee segregated by department and years of services. This detail include sick leave days up the a maximum of 90 days. We applied a 10% rate to all employees with 1 year of service, 20% to employees with 2 years of service and so on, until reach a 100% rate for employees with 10 or more years of service. Then we added the % of salary related payments to obtain the sick leave liability as of June 30, 1994. The liability was also segregated between the amount corresponding to the enterprise fund and the one corresponding to the governmental funds.

Liability Recognition

Governmental funds- Statement No. 16 (paragraph 13) states:

"Because the balance sheets of these funds(governmental and similar trust funds) report current liabilities, only the current portion of the liability should be reported in the fund. The current portion is the amount left unpaid at the end of the

reporting period that normally would be liquidated with expendable available financial resources. The remainder of the liability should be reported in General Long-Term Debt Account Group."

Based on the guidance provided in paragraph 13 of the Statement the . . . will report the liability in the general long-term debt account group, because will not be funded with available expendable financial resources at June 30, 1994.

Enterprise fund- the . . . will report the liability corresponding to the enterprise fund in the balance sheet of this fund and will recognized a due from the general long-term debt account group for the same amount based on the rationale that the enterprise fund's operations is subsidized by the general fund and eventually this liability will be paid by the general fund through its transfers to the enterprise fund.

**Vacations Summary
6/30/94**

	Enterprise Fund (Dept 46)	Governmental Funds (All others Dept)	Accrued Vacations 6/30/94
30 Days or less	2,956,962.28	5,637,940.06	8,594,902
Over 30 days up to 60	<u>1,017,889.92</u>	<u>2,268,681.80</u>	<u>3,286,571.</u>
Vacation liability	3,974,852.20	7,906,621.86	11,881,474.
Salary related payments percentage 1	<u>16.925%</u>	<u>16.925%</u>	<u>16.925</u>
Salary related payments amount	672,743.73	1,338,195.75	2,010,939.4
Total vacation liability	<u><u>4,647,595.93</u></u>	<u><u>9,244,817.61</u></u>	<u><u>13,892,413.5</u></u>

1 Salary related payments percentage is composed of :

Employer contribution to the Social Security Plan	7.650%
Employer contribution to the Employees' Retirement Pla	<u> %</u>
	<u><u> %</u></u>

	Enterprise Fund (Dept 46)	Governmental Funds (All others Dept)	Accrued Vacations 6/30/93
Vacation liability 1993	<u><u>3,625,426.00</u></u>	<u><u>7,242,255.00</u></u>	<u><u>10,867,681.00</u></u>
Variance	<u><u>1,022,169.93</u></u>	<u><u>2,002,562.61</u></u>	<u><u>3,024,732.54</u></u>

Sick Leave Liability Determination
Vesting Method
6/30/94

Enterprise Fund

Years of Services	Enterprise Fund (Dept 46)	Percentage To be Accrued	Vesting Liability	Salary Related Payments	Total Liability
Less than 1	17,314.99	0%	0.00	1.16925	0.00
1	94,172.57	10%	9,417.26	1.16925	11,011.13
2	126,568.18	20%	25,313.64	1.16925	29,597.97
3	184,149.73	30%	55,244.92	1.16925	64,595.12
4	136,653.45	40%	54,661.38	1.16925	63,912.82
5	171,993.88	50%	85,996.84	1.16925	100,551.81
6	234,566.46	60%	140,739.88	1.16925	164,560.10
7	179,117.82	70%	125,382.47	1.16925	146,603.46
8	182,042.36	80%	145,633.89	1.16925	170,282.42
9	188,663.34	90%	169,797.01	1.16925	198,535.15
10	<u>3,881,694.29</u>	100%	<u>3,881,694.29</u>	1.16925	<u>4,538,671.05</u>
	<u>5,396,936.87</u>		<u>4,693,881.57</u>		<u>5,488,321.02</u>

Governmental Funds

Years of Services	Governmental Fund (All others Dept)	Percentage To be Accrued	Vesting Liability	Salary Related Payments	Total Liability
Less than 1	45,506.66	0%	0.00	1.16925	0.00
1	252,492.00	10%	25,249.20	1.16925	29,522.63
2	304,704.72	20%	60,940.94	1.16925	71,255.20
3	348,321.41	30%	104,496.42	1.16925	122,182.44
4	388,132.32	40%	155,252.93	1.16925	181,529.49
5	460,467.47	50%	230,233.74	1.16925	269,200.79
6	242,069.76	60%	145,241.86	1.16925	169,824.04
7	370,089.09	70%	259,062.36	1.16925	302,908.67
8	269,326.21	80%	215,460.97	1.16925	251,927.74
9	387,833.28	90%	349,049.95	1.16925	408,126.66
10	<u>5,633,969.53</u>	100%	<u>5,633,969.53</u>	1.16925	<u>6,587,518.87</u>
	<u>8,702,912.45</u>		<u>7,178,957.90</u>		<u>8,393,996.52</u>

	Enterprise Fund	Government Fund
Sick leave liability 1994	<u>5,488,321</u>	<u>8,393,997</u>
Sick leave liability 1993	<u>3,606,815</u>	<u>5,016,246</u>
Variance	<u>1,881,506</u>	<u>3,377,751</u>