Compensated Absences Policy

Authority:
GASB Statement No.34
GASB Codification Section C60
State of North Carolina *Personnel Manual*

Effective Date:
7/1/95; revised 7/1/01; revised 6/30/03 (bonus leave calculations); revised 4/20/04; revised 3/01/07; revised 6/01/09

Policy:
The maximum amount of vacation leave that may be carried by an employee from one year to another is 30 days. Any excess at year-end is converted to sick leave and does not appear as a liability. For accounting purposes, leave earned in the current period should be considered used before unused leave from prior years (LIFO). The current portion should be estimated by applying a percentage to the end of the year compensated absences liability. The percentage should be calculated by dividing the beginning leave balance that was liquidated during the year (using LIFO) by the beginning leave balance. The resulting product will be an estimate of the beginning leave balance that is expected to be liquidated during the next fiscal year (see recommended procedure below).

Accounting Guidance:
A liability is accrued for vacation leave that has been earned and vested, but unused at year-end. Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employee only to the extent it is probable that the employee will be compensated for the benefits through cash payments conditioned on the employees termination or retirement. The State does not make cash payments to employees for sick leave at termination or retirement; instead, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement. Since the State does not make cash payments for sick leave, there is no liability accrued for sick leave.

The compensated absence liability should be calculated based on the pay or salary rate in effect at balance sheet date. The compensated absence liability should also include salary related payments. Such salary related payments would include the employer's share of social security, Medicare taxes, and the employer's contribution to the pension plan. The social security, Medicare and pension contribution amounts should be calculated using the rate in effect at balance sheet date.

<u>Governmental Funds</u>
For governmental funds, compensated absences expenditures should be recognized 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. Compensated absences liabilities are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The accumulation of earmarked equity in a governmental fund for eventual payment of unmatured general long-term indebtedness, including compensated absences, does not constitute an outflow of current financial resources and should not result in the recognition of an additional governmental fund liability or expenditure.

<u>Proprietary Funds and Government-wide Financial Statements</u>
In the government-wide financial statements and the proprietary fund financial statements, the vacation leave liability should be classified into two components - amounts due with one year (current portion) and amounts due in more than one year (noncurrent portion). The expense for the vacation leave is recorded when the leave is earned and the sick leave is recorded when it is taken.

Year-end Compensated Absences Liability Disclosure (CAFR)

Based on GASB Statement No. 34, the State Controller requires that each agency and institution report beginning leave liability, additions (earnings), deductions (leave taken), and ending leave liability. Also at June 30, each agency and institution must report an estimate of its current leave liability.

Flexible Furlough Leave

The Governor's Executive Order No. 11 established a flexible furlough plan for the 2008-09 fiscal year. Pursuant to the Order, full-time employees receive 10 hours of flexible furlough leave and part-time employees receive a pro-rated portion of this leave. Employees must take their flexible furlough leave between June 1, 2009 and December 31, 2009.

Because the flexible furlough leave is unpaid and the balances lapse after December 31, 2009, the flexible furlough leave should be excluded from the compensated absences liability.

Bonus Leave

For fiscal year 2003 and in the future, the CAFR presentation of the accrued vacation leave liability balance will include bonus vacation leave granted by the General Assembly. However, the bonus vacation leave must be segregated from regular earned vacation leave in order to calculate the percentage used for estimating the current accrued vacation leave liability.

The calculations made to arrive at the percent of beginning balance liquidated do not include bonus leave earnings. The estimated current liability at June 30 is determined by applying the percent of beginning balance liquidated to the total accrued vacation liability at June 30 (including bonus leave). The current accrued vacation liability is the amount of leave at June 30 that is estimated to be exhausted in the next fiscal year.

Please refer to the Compensated Absences Recommended Procedure below:

[**Click for recommended procedure**]