

This document reflects the result of analyses, discussions and review by UCOP staff to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

## **University of California**

### **Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*.**

#### **Issues Resolution Memo No. 16-1**

### **Determining the Appropriate Categories of Compensated Absences to be Included in the Compensated Absences Liability at Year-End**

#### **Background**

GASB Statement No. 16 provides guidance for the measurement of accrued compensated absences liabilities by the University. Compensated absence categories to be evaluated are absences for which employees will be paid, such as vacation, sick leave and sabbatical leave.

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").

Sabbatical leave should be accrued as a liability if the nature of the leave period is unrestricted. If the nature of the leave period is restricted, the benefit is not earned until taken, therefore there is no liability to be accrued.

The 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 (see IRM 16-2).

## **Define Issues**

The University must consider whether vacation, sick leave and sabbatical leave must be accrued in accordance with the requirements of GASB Statement No. 16.

## **Authoritative Guidance**

### *For Vacation Leave*

Paragraph 7 in GASB Statement No. 16 states:

“Vacation leave and other compensated absences with similar characteristics 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.
- 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. 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.”

Footnote 3 in GASB Statement No. 16 states:

“Other 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.”

Footnote 4 in GASB Statement No. 16 states:

“Some 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.”

*For Sick Leave*

Paragraph 8 in GASB Statement No. 16 states:

“A liability for sick leave and other compensated absences with similar characteristics (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’ termination or retirement (“termination payments”). 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.
- 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.”

Footnote 5 in GASB Statement No. 16 states:

“Other 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.”

Footnote 6 in GASB Statement No. 16 states:

“Termination 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.”

#### *For Sabbatical Leave*

Paragraph 9 in GASB Statement No. 16 states:

“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 service 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.”

### **Discussion and Recommended Approach**

#### *For Vacation Leave*

The University’s personnel Policies for Staff Members states that an employee shall be paid for accrued vacation through the last day on pay status upon resignation, termination, retirement, etc. It is a vested right, therefore employee vacation liabilities should be considered in the compensated absence accrual.

#### *For Sick Leave*

The University’s personnel Policies for Staff Members states that sick leave shall not be used beyond a predetermined date of separation, retirement or indefinite layoff. An employee is generally not paid for accrued sick leave upon resignation, termination, retirement, etc. It is generally not a vested right, therefore employee sick leave should generally not be considered in the compensated absence accrual. The fact that sick leave can be used as service credit in the UCRP does not change this conclusion.

However, if in certain locations sick leave is included as part of a Paid Time Off program (PTO) that is a vested right and payable to the employee upon resignation, termination or retirement, it should be included in the compensated absence accrual.

*For Sabbatical Leave*

Academic policy Manual 740-94 and 740-97 make it clear that sabbatical leaves are:

- Not granted as a matter of individual right, but must be applied for and approved;
- They may be accorded to individuals in good standing to enable them to further their research or other creative activities and, in doing so, to enhance their service to the University;
- They are not unrestricted; and
- There is a requirement to report on the results of the sabbatical.

Sabbatical payments at the University are not for past service. They are compensation for service during the leave. Therefore, they should not be considered in the compensated absence accrual.

**Next Steps—Required Actions**

<b>Responsibility</b>	<b>Required Completion Date</b>	<b>Action Item/Task</b>
OP/Campuses	Jun 06	Review current procedures to determine compliance with GASB Statement No. 16.