

UNIVERSITY OF CALIFORNIA

GASB STATEMENT NO. 47

ACCOUNTING FOR TERMINATION BENEFITS

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1. INTRODUCTION

GASB Statement No. 47, issued in June 2005, addresses the accounting and financial reporting requirements for termination benefits, regardless of whether they are provided as a result of a voluntary or involuntary termination of employment.

The University may provide a number of termination benefits to employees both in connection with voluntary and involuntary terminations. Termination benefits are different in nature from salaries and benefits, including pension and annuitant health benefits, the University provides to employees in exchange for their services. They may include early-retirement incentives, severance benefits, and other termination-related benefits. The definition excludes unemployment compensation.

These requirements do not apply if the termination benefit results in an obligation of either a defined benefit pension plan (UCRP) or a defined benefit other postemployment benefit (OPEB) plan. The UCRP and the OPEB Trust—once established on July 1, 2007—are separate legal entities and these types of liabilities are developed and included in the University’s financial statements through the application of the requirements in GASB Statement No. 27 (Accounting for Pension Costs—UCRP) and GASB Statement No. 45 (Accounting for OPEB Costs—Annuitant Health).

Under GASB Statement No. 47, the University is required to:

- Segregate voluntary and involuntary, health care and non-health care related, termination benefits expense and liabilities from all other salaries and benefits expense and liabilities.
- Record a liability and expense for termination benefits under voluntary terminations (for example, early-retirement incentives) when the offer is accepted;
- Record a liability and expense for termination benefits under involuntary terminations when a plan of termination has been approved by those with the authority to commit the University to the plan, and that plan has been communicated to the employees;
- Exclude from these considerations any obligations that would be satisfied through either the UCRP or OPEB Trusts;
- Disclose a description of the termination benefit arrangement and the cost of the termination benefits for the year the liability and expense are recognized; and
- Disclose the change in actuarial accrued liability that is attributable to the termination benefits for the UCRP or OPEB Plan, if any.

GASB Statement No. 47:

- Generally prescribes new reporting requirements, rather than amending previous guidance, although there was previous guidance in NCGA Interpretation 8 for “special termination benefits,” defined as those “offered for a short period of time”.
- Is effective for FY 2005–2006. Depending on materiality, the cumulative effect of applying this Statement should be reported as a restatement of beginning net assets for the liability at June 30, 2005 associated with termination plans or benefits that are in effect as of June 30, 2005.

- Does not apply to the separately audited UCRP financial statements since they have no employees. However, in the future, to the extent that the UCRP becomes obligated for termination benefits authorized by the University, the effect on the University's financial statements is reported by UCOP through the application of GASB Statement No. 27.
- Does not apply to the separately audited UC Retirement Savings Plans, including the UCRP, 403(b), 457(b) and PERS–VERIP plans since they have no employees.
- Does not apply to the separately audited OPEB financial statements (once the OPEB Trust is established on July 1, 2007) since they have no employees. However, in the future, to the extent that the OPEB Trust becomes obligated for termination benefits authorized by the University, the effect on the University's financial statements will be reported by UCOP through the application of GASB Statement No. 45.
- Does not apply to the campus foundations since they have no employees.
- Applies to the separately audited Medical Center, UC Press and CEB financial statements.
- Does not apply to the separately audited Health and Welfare Plan financial statements since they have no employees.

This document is prepared in order to outline the University's approach to the application of GASB Statement No. 47 to the University's financial statements. Decision trees for financial reporting at fiscal year-end are provided in Exhibit 1 for *Voluntary Termination Benefits* and Exhibit 2 *Involuntary Termination Benefits*.

GASB Statement No. 47 may be ordered from the GASB's website at www.gasb.org. There is no Implementation Guide from the GASB for this Statement.

2. WHAT TYPES OF BENEFITS DO NOT APPLY UNDER GASB STATEMENT NO. 47 (AS THEY RELATE TO CAMPUS ACCOUNTING AND REPORTING)?

Certain benefit situations at the University a) do not fit the definition of a termination benefit as used in GASB Statement No. 47 or b) are addressed through the UCRP or OPEB Plan. These situations include:

- **Health Coverage**—An eligible employee who voluntarily resigns from University employment normally receives healthcare benefits (for purposes of this document, healthcare benefits include medical, dental and vision coverage) for the entire month in which he or she terminated employment and for an additional month after the month of termination. This benefit is provided in part because the University pays benefits premiums on an advance basis.

University employees do not view this arrangement as a termination benefit, therefore it does *not* meet the definition of a termination benefit. The benefit relates to a) the billing arrangement the University has with its carriers as part of its ongoing benefit program for employees providing services to the University and b) is related to their active service.

- **COBRA**—COBRA/continuation health coverage is provided to employees as a result of either a voluntary or involuntary termination of employment or layoff. The University, however, does not contribute toward the cost of group health coverage under COBRA. The employee must pay the full monthly COBRA premium.

This benefit does *not* meet the definition of a termination benefit since the University has no liability in connection with the continued coverage.

- **Senior Management Severance Pay Plan (SMSPP)**—Senior Managers who voluntarily separate from the University receive their accumulated SMSPP accruals, plus interest. However, the nature of the plan is more related to a deferred benefit compensation arrangement that provides a benefit in exchange for employee services, rather than to provide a benefit in exchange for the early termination of services. Therefore, the SMSPP is *not* a termination benefit as defined in GASB Statement No. 47.

While the SMSPP benefit is not a termination benefit, under University policy these SMSPP costs are accrued on an ongoing basis and the appropriate liability currently exists. Therefore, other than determining there is an adequate accrual for the SMSPP under existing University policy, there are no additional adjustments that need to be considered as a result of GASB Statement No. 47.

- **Enhancements to the Pension Benefits Provided by the UCRP**—If enhancements to the UCRP benefits, such as additional credit for years of service, an increase in the benefit calculation multiplier, etc., are provided to an employee who voluntarily terminates their services, they are being provided as part of the defined benefit pension plan through the UCRP, therefore they are obligations of the UCRP and do not qualify as a termination benefit that campuses would record under GASB Statement No. 47. This situation is recognized as a liability and expense of the University by UCOP through the application of GASB Statement No. 27.

- ***Expanded Annuitant Health Care Coverage Provided by the OPEB Plan***—If enhancements to the annuitant health benefits provided under the OPEB Plan are provided to an employee who voluntarily terminates their services, they are being provided as part of the defined benefit OPEB plan through the OPEB Trust (anticipated to be effective July 1, 2007), therefore they are obligations of the OPEB plan and do not qualify as a termination benefit under GASB Statement No. 47 that campuses would record. This situation is recognized as a liability and expense to the University by UCOP through the application of GASB Statement No. 45.

3. VOLUNTARY TERMINATION BENEFITS

Voluntary termination benefits are those provided to employees as a) an inducement to hasten the termination of services or b) as a result of a voluntary early termination plan. These include early-retirement incentives. As stated in GASB Statement No. 47, Paragraph 49: An employer's obligation to provide benefits for some forms of voluntary terminations arises as a result of a bilateral agreement in which the employer agrees to provide benefits in exchange for which the employee agrees to leave service earlier than he or she otherwise would.

When does the liability associated with voluntary terminations become recognized?

For voluntary termination benefits, a liability and expense is recognized when both of the following have been completed:

- The employee(s) accepts the offer, and
- The amount of the liability can be estimated.

What situations should be reviewed at year-end by the Controller?

In general, the provisions of Statement 47 may not apply to typical, normal and routine voluntary terminations and the resulting benefit arrangements between the employee and the University.

The Controller should make inquiries of the Academic and Staff Human Resources Department (or other departments, as necessary) in conjunction with closing the accounts at year-end to determine whether there are non-routine voluntary termination arrangements on the campus that may involve a substantial number of individual employees, or group of employees, meeting the criteria for liability recognition that collectively result in material amounts. Situations involving individual employees may not result in material amounts unless the non-routine termination benefits meeting the criteria for liability recognition are so substantial that the resulting liability is material to the campus financial statements.

In the event the University adopted a large-scale, age-related, University-wide VERIP, the provisions of GASB Statement No. 47 would apply, although the effect may be reported by UCOP through the application of GASB Statement No. 27 for pensions or GASB Statement No. 45 for OPEB. In this situation, working with Controllers, specific guidance will be provided by UCOP–Financial Management that may incorporate some of the more detailed provisions of GASB Statement No. 47 such as using age-adjusted premiums, healthcare cost trend ratios, discount rates, etc.

What types of benefits upon voluntary termination DO apply under GASB Statement No. 47?

In general, the applicable benefits discussed in GASB Statement No. 47 are those over and above the normal benefits provided upon termination that are not provided through the UCRP or the OPEB Trust and are effectively an inducement for the employee to terminate their services. For example, they may include:

- ***Expanded Health Care Coverage***—If a terminated employee receives health care coverage beyond the health care coverage described above, and the cost of the expanded coverage is paid by the University, it would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location. However, if this benefit is being provided to an annuitant as part of the defined benefit OPEB plan through the OPEB Trust, it does not qualify as a termination benefit under GASB Statement No. 47. That situation is recognized as a liability and expense at UCOP through the application of GASB Statement No. 45.
- ***COBRA Benefits Paid By The University***—If a terminated employee receives COBRA coverage beyond what is offered under University policy, and the cost is paid by the University, it would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location. However, if this benefit is being provided to an annuitant as part of the defined benefit OPEB plan through the OPEB Trust, it does not qualify as a termination benefit under GASB Statement No. 47. That situation is recognized as a liability and expense at UCOP through the application of GASB Statement No. 45.
- ***Expanded Annuitant Health Care Coverage Not Provided by the OPEB Plan***—If the University provides and pays for enhancements to the annuitant health benefits for an employee who voluntarily terminates service, and for some reason (including occurrences prior to the implementation of GASB Statement No. 45 in 2007–2008) the **enhancements** are not being provided as part of the defined benefit OPEB plan through the OPEB Trust, it would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location.
- ***Career Counseling or Job Placement Services***—Managers and senior professionals may be assisted with outplacement services and career counseling, at the discretion of the department. If a terminated employee receives career counseling or job placement services paid by the University, it would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location.
- ***Cash Payouts at or Following Termination***—If a terminated employee receives cash payouts associated with an inducement to voluntarily terminate, either a lump-sum or over a period of time, including payments made in lieu of notice, they would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location. These payments must be distinguished from payments that may be made for employee services already provided, such as cash out for the SMSPP, accrued vacation, etc.

4. INVOLUNTARY TERMINATION BENEFITS

Involuntary termination benefits are those provided as a consequence of the involuntary termination of services. As stated in GASB Statement No. 47, Paragraph 50: In contrast to voluntary terminations, *involuntary terminations result from a unilateral decision by the employer.*

When does the liability associated with involuntary terminations become recognized?

For involuntary termination benefits, a liability and expense is recognized when *all* of the following have been completed:

- A plan of termination has been approved by those with the authority to commit the University to the plan, *and*
- That plan has been communicated to the employees, *and*
- The amounts can be estimated (reference FASB Statement No. 5).

Recognition of those in a position to approve a plan requires the judgment of the Controller. For University-wide plans, the President or The Regents may be recognized as the appropriate authority. For plans that involve a few individuals or departments, the **Academic and Staff** Human Resource Department (or other departments depending on the situation) may be recognized as the appropriate authority.

A “plan” of involuntary termination is one that:

- Identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and the **dates that** terminations are expected to occur, *and*
- Establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

However, if a plan of involuntary termination requires the employee to render future service in order to receive termination benefits, the University must recognize a liability and expense for the portion of involuntary termination benefits that will be provided after completion of the future service ratably over the future service period, beginning when the plan otherwise meets the recognition criteria discussed above.

What situations should be reviewed at year-end by the Controller?

In general, the provisions of GASB Statement No. 47 may not apply to routine involuntary terminations and the normal benefit arrangements between the employee and the University.

The Controller should make inquiries of the **Academic and Staff** Human Resources Department (or other departments as necessary) in conjunction with closing the accounts at year-end to determine whether there are non-routine involuntary termination arrangements on the campus

that may involve a substantial number of individual employees, or group of employees, meeting the criteria for liability recognition that collectively result in material amounts. Situations involving individual employees may not result in material amounts unless the non-routine involuntary termination benefits meeting the criteria for liability recognition are so substantial that the resulting liability is material to the campus financial statements.

As mentioned above, in the event the University adopts a large-scale, University-wide involuntary termination program, the provisions of GASB Statement No. 47 would apply, although the effect may be reported at UCOP through the application of GASB Statement No. 27 for pensions or GASB Statement No. 45 for OPEB. In this situation, working with Controllers, specific guidance will be provided by UCOP–Financial Management that may incorporate some of the more detailed provisions of GASB Statement No. 47 such as using age-adjusted premiums, healthcare cost trend ratios, discount rates, etc.

What types of benefits upon involuntary termination DO apply under GASB Statement No. 47 and how should they be evaluated?

- ***Health Coverage***—An employee separated through temporary lay-off may continue to participate in the University’s group health plan by paying his or her health premiums for up to four (4) months beginning on the first day of the employee’s temporary layoff. The University will pay up to three (3) months of premiums.

For an employee terminated through temporary lay-off and not rehired, the three months of coverage would be subject to the requirements of Statement No. 47. However, if the employee is rehired before the end of the three month period, then the benefits would be treated as benefits provided to an employee while on leave without salary.

- ***Expanded Health Care Coverage***—If a terminated employee receives health care coverage beyond what is offered under University policy, and the cost of the expanded coverage is paid by the University, it would qualify as a termination benefit as defined in Statement No. 47 for which a liability and expense should be recognized at each individual location. However, if this benefit is being provided to an annuitant as part of the defined benefit OPEB plan through the OPEB Trust, it does not qualify as a termination benefit under GASB Statement No. 47. That situation is recognized as a liability and expense at UCOP through the application of GASB Statement No. 45.
- ***Expanded Annuitant Health Care Coverage Not Provided by the OPEB Plan***—If the University provides and pays for enhancements to the annuitant health benefits for an employee who involuntarily terminates service, and for some reason (including occurrences prior to the implementation of GASB Statement No. 45 in 2007–2008) they are not being provided as part of the defined benefit OPEB plan through the OPEB Trust, it would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location.

- ***COBRA Benefits Paid By The University***—If a terminated employee receives COBRA coverage beyond what is offered under University policy, and the cost is paid by the University, it would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location. However, if this benefit is being provided to an annuitant as part of the defined benefit OPEB plan through the OPEB Trust, it does not qualify as a termination benefit under GASB Statement No. 47. That situation is recognized as a liability and expense at UCOP through the application of GASB Statement No. 45.

- ***Severance Pay***—Managers, senior professionals or others may receive severance pay, at the discretion of the Chancellor, in the amount of one month of pay, or less, for each completed year of continuous University service up to a maximum of six months of severance pay. Senior Managers who have been terminated may receive financial assistance, subject to approval by the Chancellor, the President, or The Regents as required. Severance compensation may also be approved in the case of a faculty member with tenure or security of employment whose resignation is deemed to be in the interest of the University; the authority in such cases rests with the President following consultation with the respective Chancellor, who must consult with the appropriate advisory committee(s) of the Academic Senate. Severance payments in this regard does not include payments under the SMSPP

- ***Cash Payouts at or Following Termination***—If a terminated employee receives cash payouts associated with an inducement to terminate, either a lump-sum or over a period of time, including payments made in lieu of notice, they would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location. These payments must be distinguished from payments that may be made for employee services already provided, such as cash out for the SMSPP, accrued vacation, etc.

- ***Career Counseling or Job Placement Services***—Managers and senior professionals may be assisted with outplacement services and career counseling, at the discretion of the department. If a terminated employee receives career counseling or job placement services paid by the University, it would qualify as a termination benefit as defined in GASB Statement No. 47 for which a liability and expense should be recognized at each individual location.

5. HOW SHOULD THE LIABILITY BE MEASURED AND RECORDED?

The University will measure and report the cost of termination-related benefits by calculating the value of expected future benefit payments, in accordance with the following requirements.

Health Care-Related Termination Benefits

All health care-related termination benefits that qualify under the definitions contained in this document must be recorded during the year, segregated between those associated with voluntary terminations and those associated with involuntary terminations.

In addition, at year-end the outstanding liability associated all health care-related termination benefits that qualify under the definitions contained in this document must be recorded, segregated between those associated with voluntary terminations and those associated with involuntary terminations.

The University's liability for health care-related benefits associated with terminated employees, excluding health care costs for annuitants paid out of the OPEB Trust, who continue to participate in the University's group health plan will be calculated and discounted (if the payments extend beyond one year) using the University's STIP rate in effect at the end of the year for purposes of recording the liability and expense.

Note: For terminated employees under large-scale, age-related programs that are allowed to continue to participate in the same health care plan as active employees, GASB Statement No. 47 requires the University to segregate the cost of providing the benefit to the terminated employee by calculating the age-adjusted premiums approximating claims costs as opposed to using the overall group rate. In addition, the Statement requires the projection of future benefits to include an assumption regarding the health care cost trend rate. However, unless the University's termination plan involves such a significant number of employees that this difference is considered to be substantial, the University will use the group rate in the calculation of liability and expense. If there are a significant number of employees that are terminated under a large-scale, age-related program, specific guidance will be provided by UCOP Financial Management.

Non-Health Care-Related Termination Benefits

All non-health care related termination benefits that qualify under the definitions contained in this document must be recorded during the year, segregated between those associated with voluntary terminations and those associated with involuntary terminations.

In addition, at year-end the outstanding liability associated all non-health care-related termination benefits that qualify under the definitions contained in this document must be recorded, segregated between those associated with voluntary terminations and those associated with involuntary terminations.

If the University has agreed to pay specific amounts on fixed or determinable dates for non-health care-related benefits in the future, excluding non-health care costs for retirees paid out of the UCRP, the amounts recorded will be discounted (if the payments extend beyond one year and including an assumption regarding any changes in future benefit payments), using the University's STIP rate in effect at the end of the year for purposes of recording the liability and expense.

If the University has agreed to pay non-health care-related benefits in the future, excluding non-health care costs for retirees paid out of the UCRP, for which the amount or timing of benefit payments is *not* fixed or determinable, the amounts must be estimated and will then also be discounted (if the payments extend beyond one year and including an assumption regarding any changes in future benefit payments) using the University’s STIP rate in effect at the end of the year for purposes of recording the liability and expense. If the amounts cannot be estimated, there is no liability or expense recognized, although disclosure of these circumstances is required.

Accounting and Reporting

Object Codes

Object codes need to be established that roll up into Termination Benefits contained in both the Salaries and Wages and Other Employee Benefits lines in the statement of revenues, expenses and changes in net assets. They are:

- In the Salaries and Wages line (generally through Payroll):

| | |
|----------------------------------|------------------|
| Termination Benefits-Voluntary | Object Code 1610 |
| Termination Benefits-Involuntary | Object Code 1620 |

These object codes will automatically be assigned to payroll payments through the Payroll system when used with the DOS codes outlined in the table below.

- In the Other Employee Benefits line (may include Accounts Payable payments):

| | |
|----------------------------------|------------------|
| Termination Benefits-Voluntary | Object Code 8770 |
| Termination Benefits-Involuntary | Object Code 8775 |

These object codes will be used to record all termination benefit expenses. There are three ways for a campus to record termination benefits:

1. Through the Payroll System

Campuses should use the appropriate DOS code (shown in the table below) so that the system will automatically assign the correct object code for the salary and wages portion of the payment. As per footnote 3 in the table below, there will be a manual reclassification required on certain benefit expenditures recorded through the payroll system.

2. Outside the Payroll System

For payments made throughout the year outside the payroll system (e.g., Accounts Payable), object codes 8770 and 8775 should be used to record non-salary and wage payments (e.g., settlement payments).

3. Year-End Accrual

For manually accruing end-of-year expenses, campuses should determine the appropriate distribution of expenses to the above codes.

Account Group Codes

In addition to object codes, balance sheet accounts need to be established that roll up into Account Group Codes contained in both the Other Employee Benefits and Other Noncurrent Liabilities lines in the statement of net assets. They are:

- In the Other Employee Benefits (Current Liability) line:

| | |
|--|------------|
| CL-Termination Ben Liab.-Salaries & Wages-Voluntary | AGC 164221 |
| CL-Termination Ben Liab.-Salaries & Wages-Involuntary | AGC 164222 |
| CL-Termination Ben Liab.-Other Employee Benefits-Voluntary | AGC 164223 |
| CL Termination Ben Liab.-Other Employee Benefits-Involuntary | AGC 164224 |

- In the Other Noncurrent Liability (Noncurrent Liability) line:

| | |
|--|------------|
| NL-Termination Ben Liab.-Salaries & Wages-Voluntary | AGC 165561 |
| NL-Termination Ben Liab.-Salaries & Wages-Involuntary | AGC 165562 |
| NL-Termination Ben Liab.-Other Employee Benefits-Voluntary | AGC 165563 |
| NL Termination Ben Liab.-Other Employee Benefits-Involuntary | AGC 165564 |

Description of Service Codes

New DOS Codes will be established in the payroll system.

The following table outlines the appropriate DOS Codes, Transaction Codes and Account/Group Codes to be used for the different types of termination benefits expense categories.

| Operating Statement | Balance Sheet | | | |
|--|------------------------|-----------------------|-------------------------|-------------------------|
| | Current Liability | | Noncurrent Liability | |
| | Voluntary | Involuntary | Voluntary | Involuntary |
| Salaries & Wages | | | | |
| <i>Termination Benefits:</i> | OC 1610, AGC 164221 | OC 1620, AGC164222 | AGC 165561 ¹ | AGC 165562 ² |
| Cash Payouts: | | | | |
| Lump Sum | DOS Code VTL | DOS Code ITC | – | – |
| Monthly | DOS Code VTR | DOS Code ITR | – | – |
| Severance | DOS Code VTS | DOS Code ITS | – | – |
| Pay in lieu of notice | – | DOS Code ITP | – | – |
| Other Benefits Expense | | | | |
| <i>Termination Benefits³:</i> | OC 8770, AGC 164223 | OC 8775, AGC164224 | AGC 165563 ¹ | AGC 165564 ² |
| Temporary Layoff Health Care | X | X | – | – |
| Expanded Health Care Coverage | | | | |
| Employer portion | X | X | – | – |
| Employee portion | X | X | – | – |
| Expanded Health Care Coverage–Annuitant | | | | |
| Employer portion | 2 | 2 | – | – |
| Employee portion | X | X | – | – |
| COBRA–Paid by UC | X | X | – | – |
| Career counseling | X | X | – | – |
| Job placement services | X | X | – | – |

¹ At year-end, reclassify any amounts that will not be paid within the next fiscal year to a noncurrent liability.

² Only applicable through June 30, 2006. All OPEB costs are anticipated to be paid through the OPEB Trust beginning July 1, 2007, therefore any termination benefit liabilities will be recorded in accordance with GASB Statement No. 45.

³ The payroll system cannot directly charge benefits to Object Code 8770 or 8775. During month-end processing, a report will be produced from the payroll system detailing the benefit costs related to the DOS codes for Termination Benefits. Campuses will be required to prepare manual reclassifications in their general ledgers to the correct object codes.

6. DISCLOSURES

If material, the University must disclose in the notes to financial statements:

- A description of the termination benefit arrangements (for example, information about the types of benefits provided, the number of employees affected, the period of time over which the benefits are expected to be provided, etc.), and
- The cost of termination benefits in the period that it becomes obligated if that information is not otherwise evident from information in the primary statements. The methods and assumptions used to determine the liabilities must also be disclosed (for example, the discount rate, the healthcare trend rate, etc.).

For benefits provided through the UCRP or OPEB Trust, the change in actuarial accrued liability attributable to the termination benefits must be disclosed.

7. IMPLEMENTATION/TRANSITION REQUIREMENT

For the initial year of implementation, in order to determine the cumulative effect on beginning net assets, campuses will need to analyze the commitments of termination benefits that were unpaid as of June 30, 2005, and presumably paid subsequent to year end.

Campuses will also need to analyze and reclassify expense that occurs through the payroll system before the new DOS Codes and Object Codes are implemented.

This information must be reported to Amal Smith in UCOP Financial Management by **March** 15, 2006 using the format shown in Exhibit 4.

8. NEXT STEPS / REQUIRED ACTIONS

| Responsibility (C, OP) | Required Completion Date | Action Item/Task |
|---------------------------|--------------------------------|---|
| OP | August 2005 | Assign new accounting codes —Assign new accounting codes to record termination benefits (Exhibit 3). |
| OP | October 2005 | Add accounting codes to CFR driver tables —Add new termination benefit accounting codes to CFR driver tables. |
| OP | October 2005 | Develop footnote reports —Develop CFR footnote report to accumulate termination benefit cost information (see Exhibit 5). |
| C | November 2005 | Establish new accounting codes in campus ledger —Establish new termination benefit accounting codes in campus ledger. |
| OP | March 2006 | Complete payroll modifications —Establish new DOS codes and object codes, modify distribution of payroll expense to accept the new object codes and develop an extract file of termination benefits from distribution of payroll expense file. |
| C | March 2006 | Implement new DOS codes and associated new object codes —Implement changes to the distribution of payroll expense to accept and record object codes, implement new extract report from expense report for April 2006 earnings. |
| C | March 2006 | Reclassify 7/1/2005–03/31/06 termination benefits paid into the new accounting codes established in the campus ledgers. |
| C | March 2006 | Identify historical termination benefit liabilities —Identify any potential termination benefit liabilities as of June 30, 2005 and send to UCOP Financial Management by March 15, 2006 (see exhibit 4). |
| C/OP | June 2006 | Fiscal Closing Calendar —Add a step to the fiscal closing calendar to review voluntary and/or involuntary termination benefits for potential accrual. |

ADDENDUM 1: JOURNAL ENTRIES TO RECORD VOLUNTARY & INVOLUNTARY TERMINATION BENEFITS

OVERVIEW

For the initial year of implementation (i.e., 2005-2006), certain entries will need to be made to account for the liability as of June 30, 2005 and to make certain reclassifications for transactions that have been recorded in 2005-2006 that are necessary because the payroll system was not able to separate the termination benefits expense from salaries and wages expense. These entries are to:

1. Record the cumulative effect to the beginning net assets balance for the June 30, 2005 liability for Termination Benefits.
2. Record the reversal of the prior year's Termination Benefits Liability Accrual, so the current year expense will correctly reflect only 2005-2006 expense.
3. Record the expense for those payments made during 2005-2006 before the new DOS codes for termination benefits were implemented at your campus.

The following entries will be made annually to reclassify the benefit portion of termination benefits, which cannot be correctly coded through the payroll system and to record the year-end accrual of the Termination Benefits Liability.

4. Record the the benefits portion of termination benefits based on reports from the payroll system.
5. Record the accrual at year-end for any unpaid liability as of June 30, 2006.

Details for the entries necessary for the above transactions are provided below. Included in this addendum is a schedule which summarizes the information collected from campuses regarding the Termination Benefit liability at June 30, 2005, and the payments made for fiscal year 2005–2006, through December 31, 2005. It should be noted that the amounts shown as 2005–2006 expense may not accurately reflect the total expenses that need to be reclassified. The payroll system will not assign the correct object codes for Termination Benefits-Salaries and Wages until the new DOS codes are implemented, therefore, each campus will have to manually reclassify expenses for that portion of the fiscal year before implementation of these new DOS codes.

TERMINATION BENEFITS ENTRIES

The following are the journal entries for Termination Benefits. “Line X” refers to the line in accompanying schedule in this addendum, “Termination Benefits By Campus.”

1. *Cumulative effect of a change in accounting principle.*

According to GASB 47, paragraph 23, “The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate). Financial statements for prior periods are not required to be restated.”

The entry to record prior year's Termination Benefits Liability (the 6/30/05 liability) is:

Dr. Unexpended Balance TC 0991 (Line E)

Cr. CL-Termination Benefits Liability-Salaries & Wages-Voluntary (AGC 164221)

Cr. CL-Termination Benefits Liability-Salaries & Wages-Involuntary (AGC 164222)

Cr. CL-Termination Benefits Liability-Other Employee Benefits-Voluntary (AGC 164223)

Cr. CL-Termination Benefits Liability-Other Employee Benefits-Involuntary (AGC 164224)

Cr. NL-Termination Benefits Liability-Salaries & Wages-Voluntary (AGC 165561)

Cr. NL-Termination Benefits Liability-Salaries & Wages-Involuntary (AGC 165562)

Cr. NL-Termination Benefits Liability-Other Employee Benefits-Voluntary (AGC 165563)

Cr. NL-Termination Benefits Liability-Other Employee Benefits-Involuntary (AGC 165564)

2. *To record the reversal of prior year's Termination Benefits Liability accrual in the current year:*

If the University had made the accrual entry at June 30, 2005, the entry would have been made as a reversing journal at year-end. Then, in 2005-2006, the entry would have reversed, zeroing out the liability and crediting expense. This entry makes that adjustment.

Dr. CL-Termination Benefits Liability-Salaries & Wages-Voluntary (AGC 164221)

Dr. CL-Termination Benefits Liability-Salaries & Wages-Involuntary (AGC 164222)

Dr. CL-Termination Benefits Liability-Other Employee Benefits-Voluntary (AGC 164223)

Dr. CL-Termination Benefits Liability-Other Employee Benefits-Involuntary (AGC 164224)

Dr. NL-Termination Benefits Liability-Salaries & Wages-Voluntary (AGC 165561)

Dr. NL-Termination Benefits Liability-Salaries & Wages-Involuntary (AGC 165562)

Dr. NL-Termination Benefits Liability-Other Employee Benefits-Voluntary (AGC 165563)

Dr. NL-Termination Benefits Liability-Other Employee Benefits-Involuntary (AGC 165564)

Cr. Expense OC 1610 Termination Benefits-Salaries & Wages-Voluntary (Line A)

Cr. Expense OC 1620 Termination Benefits-Salaries & Wages-Involuntary (Line C)

Cr. Expense OC 8770 Termination Benefits-Other Employee Benefits-Voluntary (Line B)

Cr. Expense OC 8775 Termination Benefits-Other Employee Benefits-Involuntary (Line D)

Note: *Entries 1 and 2 may be combined.*

3. *To record termination benefits payments made prior to implementation of new DOS codes in the payroll system:*

The new DOS codes will correctly assign OC 1610 and 1620 to salary and wages costs for Termination Benefits, but before the new codes are implemented, the expense will be coded as a normal salaries and wages expense. Campuses will have to manually reclassify this expense to the correct object code.

Dr. Expense OC 1610 Termination Benefits-Salaries & Wages-Voluntary (Line F)
Dr. Expense OC 1620 Termination Benefits-Salaries & Wages-Involuntary (Line H)
Dr. Expense OC 8770 Termination Benefits-Other Employee Benefits-Voluntary (Line G)
Dr. Expense OC 8775 Termination Benefits-Other Employee Benefits-Involuntary (Line I)

Cr. Expense OC 1XXX Salaries & Wages
Cr. Expense OC 8XXX Employee Benefits

Note: These amounts may not be the same as the accompanying worksheet depending on when the new payroll codes are implemented at your campus.

4. *To record the benefits portion of termination benefits based on reports from the payroll system*

The payroll system cannot directly charge benefits to Object Code 8770 or 8775. During month-end processing, a report will be produced from the payroll system detailing the benefit costs related to the DOS codes for Termination Benefits. Campuses will have to manually reclassify this expense to the correct object code.

Dr. Expense OC 8770 Termination Benefits-Other Employee Benefits-Voluntary
Dr. Expense OC 8775 Termination Benefits-Other Employee Benefits-Involuntary

Cr. Expense OC 8XXX Employee Benefits

5. *To record the year end accrual of Termination Benefits:*

This entry should be recorded as a reversing entry at fiscal year-end.

Dr. Expense OC 1610 Termination Benefits-Salaries & Wages-Voluntary
Dr. Expense OC 1620 Termination Benefits-Salaries & Wages-Involuntary
Dr. Expense OC 8770 Termination Benefits-Other Employee Benefits-Voluntary
Dr. Expense OC 8775 Termination Benefits-Other Employee Benefits-Involuntary

Cr. NL-Termination Benefits Liability-Salaries & Wages-Voluntary (AGC 165561)
Cr. NL-Termination Benefits Liability-Salaries & Wages-Involuntary (AGC 165562)
Cr. NL-Termination Benefits Liability-Other Employee Benefits-Voluntary (AGC 165563)
Cr. NL-Termination Benefits Liability-Other Employee Benefits-Involuntary (AGC 165564)

Reclassify any amounts that will be paid within the next fiscal year to a current liability.

Dr. NL-Termination Benefits Liability-Salaries & Wages-Voluntary (AGC 165561)

Dr. NL-Termination Benefits Liability-Salaries & Wages-Involuntary (AGC 165562)

Dr. NL-Termination Benefits Liability-Other Employee Benefits-Voluntary (AGC 165563)

Dr. NL-Termination Benefits Liability-Other Employee Benefits-Involuntary (AGC 165564)

Cr. CL-Termination Benefits Liability-Salaries & Wages-Voluntary (AGC 164221)

Cr. CL-Termination Benefits Liability-Salaries & Wages-Involuntary (AGC 164222)

Cr. CL-Termination Benefits Liability-Other Employee Benefits-Voluntary (AGC 164223)

Cr. CL-Termination Benefits Liability-Other Employee Benefits-Involuntary (AGC 164224)

Termination Benefits By Campus

1. Termination Benefit Liabilities Existing at June 30, 2005

| | BK | SF | DV | LA | RV | SD | SC | SB | IR | MD | OP | Total |
|--|------------|----------|------------|--------------|------|------|-----------|------|-----------|------|------|--------------|
| <i>Voluntary Terminations:</i> | | | | | | | | | | | | |
| A Salaries and wages | 233,000 | - | 7,933 | 480,562 | - | - | - | - | - | - | - | 721,495 |
| B Other benefits | 56,000 | - | - | - | - | - | - | - | - | - | - | 56,000 |
| Subtotal voluntary terminations benefit liabilities | 289,000 | - | 7,933 | 480,562 | - | - | - | - | - | - | - | 777,495 |
| <i>Involuntary Terminations:</i> | | | | | | | | | | | | |
| C Salaries and wages | - | 1,731 | 464,383 | 1,159,924 | - | - | 79,052 | - | 39,323 | - | - | 1,744,413 |
| D Other benefits | - | - | 5,491 | - | - | - | 6,047 | - | - | - | - | 11,538 |
| Subtotal involuntary terminations benefit liabilities | - | 1,731 | 469,874 | 1,159,924 | - | - | 85,099 | - | 39,323 | - | - | 1,755,951 |
| E Total termination benefits and liability at June 30, 2005 | \$ 289,000 | \$ 1,731 | \$ 477,807 | \$ 1,640,486 | \$ - | \$ - | \$ 85,099 | \$ - | \$ 39,323 | \$ - | \$ - | \$ 2,533,446 |

2. Termination Benefits Expense Incurred Between July 1, 2005 and the Date the Payroll System Modifications are Implemented to Properly Segregate Termination Benefits Expense

| | | | | | | | | | | | | |
|--|-----------|------------|------------|--------------|------------|-----------|-----------|------------|------------|------|-----------|--------------|
| <i>Voluntary Termination Benefits Expense:</i> | | | | | | | | | | | | |
| F Salaries and wages | 32,000 | - | 46,298 | 692,399 | - | - | - | 161,685 | - | - | - | 932,382 |
| G Other benefits | 8,000 | - | - | - | - | - | - | - | - | - | - | 8,000 |
| Subtotal voluntary terminations benefit liabilities | 40,000 | - | 46,298 | 692,399 | - | - | - | 161,685 | - | - | - | 940,382 |
| <i>Involuntary Termination Benefits Expense:</i> | | | | | | | | | | | | |
| H Salaries and wages | - | 191,550 | 65,493 | 1,398,202 | 144,923 | 48,114 | 83,427 | 47,170 | 147,936 | - | 58,438 | 2,185,253 |
| I Other benefits | - | 4,331 | - | 17,500 | 10,512 | - | 6,382 | - | 484 | - | 4,470 | 43,679 |
| Subtotal involuntary terminations benefit liabilities | - | 195,881 | 65,493 | 1,415,702 | 155,435 | 48,114 | 89,809 | 47,170 | 148,420 | - | 62,908 | 2,228,932 |
| Termination benefits and liability for the period July 1, 2005 through December 31, 2005 | \$ 40,000 | \$ 195,881 | \$ 111,791 | \$ 2,108,101 | \$ 155,435 | \$ 48,114 | \$ 89,809 | \$ 208,855 | \$ 148,420 | \$ - | \$ 62,908 | \$ 3,169,314 |

EXHIBIT 3—NEW ACCOUNTING CODES TO BE ESTABLISHED

STATEMENT OF NET ASSETS

Roll up into Current Liabilities-Other Employee Benefits:

| | |
|---|------------|
| CL-Termination Benefits Liability-Salaries and Wages-Voluntary | AGC 164221 |
| CL-Termination Benefits Liability-Salaries and Wages-Involuntary | AGC 164222 |
| CL-Termination Benefits Liability-Other Employee Benefits-Voluntary | AGC 164223 |
| CL-Termination Benefits Liability-Other Employee Benefits-Involuntary | AGC 164224 |

Roll up into Noncurrent Liabilities-Other Noncurrent Liabilities:

| | |
|---|------------|
| NL-Termination Benefits Liability-Salaries and Wages-Voluntary | AGC 165561 |
| NL-Termination Benefits Liability-Salaries and Wages-Involuntary | AGC 165562 |
| NL-Termination Benefits Liability-Other Employee Benefits-Voluntary | AGC 165563 |
| NL-Termination Benefits Liability-Other Employee Benefits-Involuntary | AGC 165564 |

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Roll up into Salaries and Wages:

| | |
|---|---------|
| Termination Benefits-Salaries and Wages-Voluntary | OC 1610 |
| Termination Benefits-Salaries and Wages-Involuntary | OC 1620 |

Roll up into Other Employee Benefits:

| | |
|--|---------|
| Termination Benefits-Other Employee Benefits-Voluntary | OC 8770 |
| Termination Benefits-Other Employee Benefits-Involuntary | OC 8770 |

EXHIBIT 4—HISTORICAL TERMINATION BENEFIT LIABILITY AND EXPENSE

In order to implement GASB Statement No. 47, the University needs to perform the following steps:

- 1) Identify termination benefit liabilities that existed at June 30, 2005, although they may not be recorded as liabilities on the balance sheet; and
- 2) Identify and reclassify into the new expense object codes the amount of termination benefits expense recorded between July 1, 2005 and the date payroll system modifications are implemented to properly segregate termination benefits expense in the operating statement.

Please send the information outlined on the following page to Amal Smith at UCOP no later than **March** 15, 2006.

HISTORICAL TERMINATION BENEFIT EXPENSE LIABILITY AND EXPENSE WORKSHEET

1. Termination Benefit Liabilities Existing at June 30, 2005

Voluntary Terminations:

| | |
|---|--|
| Salaries and wages | |
| Other benefits | |
| Subtotal voluntary terminations benefit liabilities | |

Involuntary Terminations:

| | |
|---|--|
| Salaries and wages | |
| Other benefits | |
| Subtotal involuntary terminations benefit liabilities | |
| Total termination benefits and liability at June 30, 2005 | |

2. Termination Benefits Expense Incurred Between July 1, 2005 and the Date the Payroll System Modifications are Implemented to Properly Segregate Termination Benefits Expense

Voluntary Termination Benefits Expense:

| | |
|---|--|
| Salaries and wages ¹ | |
| Other benefits ² | |
| Subtotal voluntary terminations benefit liabilities | |

Involuntary Termination Benefits Expense:

| | |
|---|--|
| Salaries and wages ³ | |
| Other benefits ⁴ | |
| Subtotal involuntary terminations benefit liabilities | |
| Total termination benefits and liability at June 30, 2005 | |

Notes:

- 1 Reclassify voluntary termination salaries and wages to newly-established OC 1610
- 2 Reclassify voluntary termination other employee benefits to newly-established OC 8770
- 3 Reclassify involuntary termination salaries and wages to newly-established OC 1620
- 4 Reclassify involuntary termination other employee benefits to newly-established OC 8775

GASB Statement No. 47

Exhibit 5: CFR Footnote Disclosure Report

Footnote Disclosure: Voluntary & Involuntary Termination Benefits

For the year ended June 30, XXXX, with comparative totals for June 30, XXXX

CFR XXXX (in thousands of dollars)

Debit (Credit)

| | <u>Current Year</u> | <u>Prior Year</u> |
|---|---------------------|-------------------|
| <u>VOLUNTARY & INVOLUNTARY TERMINATION BENEFITS EXPENSE</u> | | |
| Voluntary Terminations Benefits Expense | | |
| Salaries & Wages | OC 1610 | OC 1610 |
| Other Employee Benefits | OC 8770 | OC 8770 |
| | <u>Sum</u> | <u>Sum</u> |
| Involuntary Terminations Benefits Expense | | |
| Salaries & Wages | OC 1620 | OC 1620 |
| Other Employee Benefits | OC 8775 | OC 8775 |
| | <u>Sum</u> | <u>Sum</u> |
| | <u>Sum</u> | <u>Sum</u> |
| <u>VOLUNTARY & INVOLUNTARY TERMINATION BENEFIT LIABILITIES</u> | | |
| Current Liabilities | | |
| CL-Termination Benefits Liability-Salaries & Wages-Voluntary | AGC 164221 | AGC 164221 |
| CL-Termination Benefits Liability-Salaries & Wages-Involuntary | AGC 164222 | AGC 164222 |
| CL-Termination Benefits Liability-Other Employee Benefits-Voluntary | AGC 164223 | AGC 164223 |
| CL-Termination Benefits Liability-Other Employee Benefits-Involuntary | AGC 164224 | AGC 164224 |
| | <u>Sum</u> | <u>Sum</u> |
| Noncurrent Liabilities | | |
| NL-Termination Benefits Liability-Salaries & Wages-Voluntary | AGC 165561 | AGC 165561 |
| NL-Termination Benefits Liability-Salaries & Wages-Involuntary | AGC 165562 | AGC 165562 |
| NL-Termination Benefits Liability-Other Employee Benefits-Voluntary | AGC 165563 | AGC 165563 |
| NL-Termination Benefits Liability-Other Employee Benefits-Involuntary | AGC 165564 | AGC 165564 |
| | <u>Sum</u> | <u>Sum</u> |
| | <u>Sum</u> | <u>Sum</u> |