

OREGON ACCOUNTING MANUAL	
SUBJECT: Accounting and Financial Reporting	Number: 15.70.00
DIVISION: State Controller's Division	Effective date: April 16, 2009
Chapter: Accounting and Financial Reporting	
Part: Compensated Absences	
APPROVED: John Radford, State Controller	Signature on file at SCD

PURPOSE: This policy provides guidance on accounting and financial reporting for compensated absences.

AUTHORITY: GASB Statement No. 16
 GASB Statement No. 34
 GASB Interpretation No. 6

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by [OAM Policy 01.05.00](#).

DEFINITIONS: [Compensated absences](#) are those absences for which employees are paid, such as vacation leave, sick leave, compensatory time, or personal business leave. For purposes of this policy, the term compensated absences is strictly limited to employee leave that is *attributable to services already rendered* and is not contingent on a specific event that is outside the control of the employee or employer. Vacation time and compensatory time meet this definition. Both types of leave are attributable to past services and, if not used, are fully reimbursable to the employee at termination or retirement.

The liability for compensated absences does *not* include sick leave or personal business time. Paid time off for earned sick leave is contingent on a specific event (illness) that is outside the control of the employer and employee. Therefore, sick leave is recorded as an expenditure/expense in the period in which the illness occurs. Unused personal business time is recorded as an expenditure/expense in the period used because this annual benefit is not attributable to past services and lapses at each June 30.

POLICY:

- 101. Agency management is responsible for ensuring that the agency's accounting and reporting for compensated absences is appropriate.
- 102. For financial reporting purposes, agencies must record a liability for compensated absences at fiscal year end.

PROCEDURES:

Determining the Liability

103. The liability reported at fiscal year end is calculated by multiplying each employee's hourly rate, as of the balance sheet date, times the employee's accumulated hours of vacation and compensatory time. The liability also includes salary-related payments that are directly and incrementally related to the amount of salary paid to the employee. Typically, salary-related payments include the employer's share of social security taxes, Medicare taxes, employer contributions to retirement plans, and mass transit taxes. The total liability for each agency is the accumulated total for all employees of the agency.
104. In July of each year, the State Controller's Division, Statewide Accounting and Reporting Services (SARS) section provides data to agencies for calculating and recording their liability for compensated absences. In addition, SARS performs an annual calculation to determine the appropriate percentages for allocating the liability between current and noncurrent.

Fund Accounting

105. [Governmental fund types](#) report a current liability for compensated absences when the balance owed to the employee is "due and payable." In governmental funds, compensated absences are considered due and payable *only* when the employee terminates. Because the amount due and payable as of each June 30 is insignificant, agencies should not record a liability for compensated absences in the governmental funds.
106. Agencies are required to record a liability for compensated absences in the [government-wide reporting fund](#). For government-wide reporting purposes, the current portion is that portion expected to be used within one year of the balance sheet date. Therefore, two entries may be needed in the government-wide reporting fund: one entry to record the current portion of the compensated absence liability, and another to record the noncurrent portion. If all leave balances are expected to be used within one year of the balance sheet date, the entire liability recorded in the government-wide reporting fund is reported as current.
107. Compensated absences directly related to and expected to be paid from [proprietary funds](#) or [fiduciary funds](#) should be reported in the accounts of those funds. Agencies record the portion of the liability that is expected to be used within one year of the balance sheet date as a current liability. The remainder is recorded as a noncurrent liability.
108. Agencies use the following entries to record the current and noncurrent portions of the compensated absences liability:

TC 440: Record the current portion of vacation payable for all fund types.

DR 3600 GAAP Expenditure Offset-Personal Services	1,000	
CR 1605 Vacation Payable - Current		1,000

TC 442: Record the long-term portion of vacation payable for all fund types.

DR 3600 GAAP Expenditure Offset-Personal Services	1,000	
CR 1718 Vacation Payable -Noncurrent		1,000

Financial Reporting

109. The accrual entries illustrated above to recognize the liability for compensated absences in the state's annual financial statements are required by generally accepted accounting principles (GAAP). For budgetary accounting, the expenditure/expense for vacation pay and compensatory time is recognized *only* when actually paid to the employee.
110. The following information related to liabilities for compensated absences must be disclosed in the annual financial statements:
 - a. Beginning and end of year balances
 - b. Increases and decreases (presented separately) during the year
 - c. The portion of each liability that is due within one year of the financial statement date
 - d. Which governmental funds typically have been used to liquidate long-term liabilities in prior years