



Compensated Absences Policy

Policy Area: Accounting & Financial Reporting	Effective Date: 07/01/95
Policy Sub Area: Long-term Liabilities	Last Revision Date: 7/10/2018
Authority: GASB Codification Section C60; State of North Carolina Human Resources Manual	Policy Owner/Division: Statewide Accounting

Policy:

The maximum amount of vacation leave that may be carried by an employee from one calendar year to another is 30 days. Any excess at calendar year-end, except for the provisions of Section 35.26 of Session Law 2018-5, is converted to sick leave and does not appear as a liability. Section 35.26 of Session Law 2018-5 provides for the reduction of any vacation leave remaining on December 31 of each year in excess of 30 days shall be reduced by the number of Special Annual Leave Bonus days awarded in Session Law 2018-5 that were actually used by the employee during the year such that the calculation of vacation leave days that would convert to sick leave shall reflect a deduction of those days of special annual leave awarded that were used by the employee during the year.

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.

Procedures

[Compensated Absences Procedures](#)

Accounting Guidance

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 employees' rights to receive compensation 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, such as cash payments at termination or retirement. Thus, 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

employee's 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. Sick leave, unlike vacation leave, is contingent upon a future event that is beyond the control of both the employer and the employee (illness or a condition requiring medical treatment). Accordingly, sick leave, as such, is not accrued as part of the liability for compensated absences.

The compensated absence liability should be calculated based on the pay or salary rate in effect at the 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 the balance sheet date.

Governmental Funds

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.

Proprietary Funds and Government-wide Financial Statements

In the government-wide financial statements and the proprietary fund financial statements, the vacation leave liability should be classified into two components - amounts due within 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.

Vacation Leave

The maximum amount of vacation leave liability at the end of the State fiscal year for any employee is 344 hours. This amount is calculated by addition of the maximum allowable rollover amount of 240 hours from the previous calendar year-end to the maximum potential accrued vacation time of 104 hours from calendar year-end to the state fiscal year-end (17hours, 20 minutes for each of the 6 months).

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.

Special Annual Leave Bonus

For fiscal year 2019 and in the future, the CAFR presentation of the accrued vacation leave liability balance will include special annual leave bonus granted by the General Assembly. However, the special annual leave bonus must be segregated from regular earned vacation leave in order to calculate the percentage used for estimating the current accrued vacation leave liability.

Current Accrued Vacation Liability

The calculations made to arrive at the percent of beginning balance liquidated do not include bonus leave and special annual leave bonus 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 and special annual leave bonus). The current accrued vacation liability is the amount of leave at June 30 that is estimated to be exhausted in the next fiscal year.

Related Documents (Memos/Forms)

<https://oshr.nc.gov/policies-forms/leave>

Revision History

Date	Description
07/01/2012	Removed Flexible Furlough Leave information
1/31/2017	Updated links
06/30/2017	Updated links, human resources references, and sick leave guidance
07/10/2018	Updated accounting guidance to clarify types of leave and maximum computations. Updated policy and accounting guidance to reflect the special annual leave bonus.