Compensated Absences Accounting Policy

The following policy provides for the uniform and consistent accounting and reporting of compensated absences liability. The policy also serves as a reference for answering questions.

1. NEED


2. OBJECTIVES OF ACCOUNTING FOR COMPENSATED ABSENCE LIABILITY

- To have a uniform and consistent methodology among OUS institutions for calculating compensated absences liability.
- To ensure that the methodology for distributing the compensated absences liability among the appropriate fund groups is uniform among all OUS institutions.
Compensated absences liability refers to the amount OUS owes its employees for leave balances (e.g., accrued vacation) as of the date of the financial statements. The liability is an estimate based, for each employee, on the leave balances applicable to compensated absences liability, multiplied by the employee's salary rate and an estimated percentage for other payroll expenses (OPE).

.120 AUTHORITY

ORS 351.085 - Duties and Powers of Chancellor

- ORS 351.090 - Standardization of accounts and Records; Preparation of Budget; Allocation of Funds
- OAR 580-040-0005 - Delegation and Assignment of Responsibility
- IMD 6.001 - Finance and Business Affairs Accounting Policies - Assignment of Responsibility

.130 APPROVAL AND EFFECTIVE DATE OF POLICY

Approved by the Controller on December 21, 2004, with an effective date of July 1, 2004.

.140 KNOWLEDGE OF THIS POLICY

All institutional and Chancellor's Office personnel with accounting and financial reporting related responsibilities should be knowledgeable of this policy.

.150 DEFINITIONS

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.

Compensated absences liability refers to compensated absences that are:

- attributable to services already rendered, AND
- not contingent on a specific event that is outside the control of the employer and employee.

The liability includes amounts to be paid in paid time off or some other means, such as cash payment at termination. For OUS institutions, the typical type of compensated absences liability is "accrued vacation." See .170 Clarifications, below, for what is and what is not included in the term "compensated absences liability."

.160 RESPONSIBILITIES

University and OUS Controller's Division responsibilities related to compensated absences liability include the following:
1. **UNIVERSITY RESPONSIBILITIES:**
   - Maintaining accurate records in *Banner HRIS*.
   - Distributing the compensated absences liability among the appropriate *Banner FIS* fund types within the context of this policy.

2. **CONTROLLER'S DIVISION RESPONSIBILITIES:**
   - Developing accounting and reporting policies related to compensated absences liabilities.
   - Calculating the compensated absences liabilities on an annual fiscal year-end basis from data in each university's *Banner HRIS* database.
   - Forwarding reports of the detail of the compensated absences liability calculation to universities.
   - Ensuring that compensated absences liability is appropriately reported in the annual financial statements.

**.170 CLARIFICATIONS**

**Vacation Leave**

Vacation leave balances are included in compensated absences liability because (1) the employee's right to receive compensation is attributable to services already rendered, and (2) it is probable that the employer will compensate the employee for the benefits either through paid time off or cash payment. Vacation leave balances are the primary component of compensated absences liability.

Vacation leave balances are subject to a maximum cap. In addition, for some employee classes, payments of vacation leave balance at the time of termination is subject to a lower cap. Vacation leave balances beyond the termination cap up to the maximum cap ARE included in compensated absences liability because it is probable that the employee will take the additional hours through paid time off before termination.

**Trial Service**

Vacation leave balances of employees in trial service ARE included in compensated absences liability because it is probable that trial service employees will meet the conditions for compensation in the future.

**Miscellaneous Other Leave**

Some forms of miscellaneous other leave meet the criteria of compensated absences liability. Examples include balances of comp time and shore leave.

**Benefits That Will Lapse**

Benefits earned but expected to lapse and thus not result in compensation to employees are NOT accrued as compensated absences liability.
Sick Leave

Sick leave balances represent possible future compensated absences but are NOT considered a compensated absences liability. Although sick leave is earned and attributable to services already rendered, it is also contingent on a specific event (e.g., illness) that is considered outside the control of the employer and employee. In addition, OUS policy is that payment at termination or retirement does not include payment of accrued sick leave.

Personal Leave

Personal leave hours are NOT considered a compensated absences liability because they must be used before the end of the fiscal year and are not carried forward into the following fiscal year.

Military Leave and Jury Leave

Military leave and jury leave are NOT considered a compensated absences liability because they are not earned on past service and are contingent on a specific event that is outside the control of the employer and employee.

Sabbatical

Sabbatical is NOT considered a compensated absences liability because (1) sabbatical leave is considered a change in assigned duties, and (2) the salary paid during the leave is compensation for service during the period of leave.

.180 CALCULATION RESPONSIBILITY

The compensated absences liability is calculated at the end of each fiscal year by the Controller's Division. The calculation contains many steps and is complex. Having the calculation performed centrally ensures the uniformity and consistency of compensated absence liability amounts among the OUS institutions.

.190 CALCULATION FREQUENCY

Calculation of compensated absences liability and recording the net change in compensated absences liability is done at the end of each fiscal year, not throughout the fiscal year.

.200 DISTRIBUTION OF COMPENSATED ABSENCES LIABILITY

The following is to ensure that the distribution of compensated absences liability among the Banner FIS fund types is uniform throughout OUS.

The Controller's Division provides a report of the detailed results of the compensated absences liability calculation to each OUS institution. The report contains the following information:
As part of year-end closing procedures, each OUS institution distributes the compensated absences liability to the employee's payroll "FOAPAL" or another fund within the FOAPAL's same fund type, in accordance with the table below:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Additional Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>11- Budgeted Operations</td>
<td>For OSU, the compensated absences liability must also be split among the general budgeted operations and each of the &quot;statewides,&quot; including Agriculture Experiment Station, Extension Service, and Forest Research Lab.</td>
</tr>
<tr>
<td>12 - Designated Operations</td>
<td></td>
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<tr>
<td>13 - Service Departments</td>
<td></td>
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<tr>
<td>21 - Housing</td>
<td></td>
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<tr>
<td>22 - Student Centers/Activities</td>
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<tr>
<td>23 - Intercollegiate Activities</td>
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<tr>
<td>24 - Health Services</td>
<td></td>
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<td>25 - Parking</td>
<td></td>
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<tr>
<td>26 - Bookstores</td>
<td></td>
</tr>
<tr>
<td>27 - Other Rentals</td>
<td></td>
</tr>
<tr>
<td>29 - Other Auxiliaries</td>
<td></td>
</tr>
<tr>
<td>39 - Restricted Funds</td>
<td>This fund group is used to record the compensated absences liability pertaining to employees paid from funds in fund type 30. This would include: 31 - Federal Funds - Restricted</td>
</tr>
<tr>
<td>Management</td>
<td></td>
</tr>
<tr>
<td>32 - State of Oregon Funds - Restricted</td>
<td></td>
</tr>
<tr>
<td>33 - Other Government Funds - Restricted</td>
<td></td>
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<tr>
<td>34 - Private Funds - Restricted</td>
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<tr>
<td>35 - Foundation Funds - Restricted</td>
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</tbody>
</table>
Compensated absences liability may NOT be charged to funds within the following fund types:

14 - Clearing Funds
31 - Federal Funds - Restricted
32 - State of Oregon Funds - Restricted
33 - Other Government Funds - Restricted
34 - Private Funds - Restricted
35 - Foundation Funds - Restricted
41 - Student Loans
61 - Endowment Funds
62 - Quasi Endowments
63 - Annuity & Life Income
66 - Valuation Reserves
81 - Unexpended Plant Funds
83 - Renewal & Replacement Funds
85 - Retirement of Debt Funds - II
87 - Investment in Plant Funds - II
91 - Agency Funds - II

**.690 CONTACT INFORMATION**

Direct questions about this policy to the following offices:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>General questions from institutional personnel</td>
<td>Institution Office of Business Affairs</td>
</tr>
<tr>
<td>General questions from institutional central administration and Chancellor's Office personnel</td>
<td>Chancellor's Office Controller's Division</td>
</tr>
</tbody>
</table>

**.695 HISTORY**