POSITION PAPER: DETERMINING THE CURRENT AND NON-CURRENT PORTIONS OF THE COMPENSATED ABSENCES LIABILITY

Problem: The current and non-current portions of the liability for compensated absences must be disclosed.

Background: GASB 34, paragraph 31 requires the reporting of liabilities with maturities greater than one year in two components – the amount due within one year and the amount due in more than one year. Furthermore, GASB 34, paragraph 119 states “Information about long-term liabilities should include both long-term debt and other long-term liabilities (such as compensated absences, and claims and judgments.)” It further requires disclosures for “the portions of each item that are due within one year of the statement date.” The Tennessee Board of Regents system has historically reported compensated absences as one amount on the balance sheet with no distinction between the current and long-term portions. Since resignations, retirements, and uses of leave balances cannot be known reliably in advance, the GASB 34 Implementation Guide, Question 83 recommends estimating the current and non-current portions of the compensated absences liability.

Recommendation: After reviewing procedures at other universities, the TBR GASB 34/35 Subcommittee agreed that the following proposal would provide a reasonable estimate of the current and non-current portions of the compensated absence liability.

To estimate the current and non-current portions of compensated absences:

1. Calculate the present year leave value by taking the total hours accrued at June 30 for each employee multiplied by the current pay rate of each employee.

2. Compute the June 30th annual leave hours used for the last three years for each employee regardless of length of service, divide the results by three (3) to calculate the average number of hours used by each employee and multiply the results by the current pay rate. This is the current portion of compensated absences.

3. Subtract the result in Item 2 from the result in Item 1. This is the long-term portion of compensated absence.

If an employee’s average for calculating the current liability exceeds the total leave value on the books at June 30, the total book value will be considered current with no long-term portion reported for that employee.
To assure that the above estimate calculation will not be overly burdensome administratively, procedures have been reviewed and a computer program developed to perform the calculations.

The procedures developed by the TBR GASB 34/35 Subcommittee for estimating the current and non-current portions of the compensated absences liability are being submitted for your review. The TBR System is requesting approval to implement this proposal for FY 2002.

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