Comptroller's Directive No. 2-24
Manual Leave Liability Calculation Guidelines
(Informational only)

GASBS No. 16 requirements

GASBS No. 16, *Accounting for Compensated Absences,* requires the accrual of compensated absences liability. Leave liability should include the following.

- Employer's share of Social Security and Medicare taxes on all accrued compensated absences
- Termination payments for traditional sick leave (non-VSDP program) or disability credits for applicable employees limited to the lesser of 25% of leave earned or $5,000
- Other leave earned such as on-call, overtime, compensatory, recognition, and sabbatical leave (if unrestricted in nature) that has not been used by or paid to the employee
- Employer contribution payments made to defined contribution or cost-sharing multiple employer defined benefit pension plans, if associated with service

GASBS No. 34 definitions

The liability for compensated absences (leave liability) that each institution accrues in the financial statements must be split into current and long-term portions as defined below.

Total Leave Liability: This is the liability for accrued annual, sick leave or disability credits, compensatory, on-call, overtime, recognition, applicable sabbatical leave (compensated allowances) and related taxes for all leave-eligible employees employed by the institutions on June 24, 2024.
Current Leave Liability – Due within one year: Compensated absences liabilities become due upon the occurrence of relevant events such as resignations, retirements, and usage of leave balances. These occurrences and related dollar amounts cannot be known reliably in advance so the portion of compensated absences due within one year must be estimated.
Long-Term Leave Liability – Due more than one year: This is the total leave liability less the amount due within one year.

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These guidelines are for informational purposes only and **should not** be submitted to DOA. The institution must determine if any revisions would be needed to these guidelines based on the types of leave offered by the institution that may differ from the Commonwealth's leave policies. The institution's auditors must agree to any methodology that differs from these guidelines. The amount calculated should be included on the financial statement template submitted to DOA.

Impact of Virginia Sickness and Disability Program (VSDP)

For those employees who participate in the VSDP and converted sick leave balances to Virginia Retirement System service credit, the accrual for compensated absences does not include an amount for sick leave.

However, for those employees who participate in the VSDP and converted sick leave balances to disability credits, the accrual for compensated absences **will include an amount for disability credits**. The liability is limited to the lesser of 25% of the disability credit or $5,000.

Sabbatical leave requirements

Accrue sabbatical leave for an employee who receives **unrestricted** time off as compensation for past service. Accrue the liability during the period the employee earns the right to the leave if it is probable that the institution will compensate the employee for the benefits through paid time off or some other means.

Do **not** accrue sabbatical leave if the sabbatical constitutes a change in assigned duties and the salary paid during the leave is compensation for service during the period of the leave. This is only a change in the types of services the employee provides to or for the benefit of the institution and is considered **restricted** time off.

Contributions to pension plans

The accrual **should include** the required contribution to a defined contribution or cost-sharing multiple-employer defined benefit pension plan if the institution is liable for a contribution to the plan based on termination payments made to employees for vacation leave, sick leave, or other compensated absences. Since VRS is an agent multiple-employer defined benefit plan, no additional accrual is necessary for VRS contributions. **Consider whether or not Optional Retirement Plan (ORP) contributions should be included in the institution's accrued leave liability.**

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HCM users – calculating leave liability

Institutions that use Cardinal HCM will run the **HCM Leave Liability Reports** after June Cardinal Close. Please use **6/24/24** as the "through date" parameter for the report.

Step	Action
1	Adjust the total leave liability to include missing amounts if the report used does **not** reflect all transactions through 6/24/2024. Adjust the total leave liability for payouts to terminated employees paid after 6/24/2024 and prior to 7/1/2024 **Do not** adjust the leave liability for the following reasons. • Leave requests for absences during 6/25/2024 through 6/30/2024 • Late leave requests for leave taken from 6/10/2024 through 6/24/2024
2	Compute additional leave liability for sabbatical leave not accounted for on HCM and any non-VRS pension contributions, if applicable. (Since VRS is an agent multiple-employer defined benefit plan, no additional accrual is necessary for VRS contributions.)
3	Compute the current leave liability using the methodology on pages 6 to 7 or other methodology approved by the institution's auditors. Total leave liability calculated in steps 1 and 2 less the calculated current portion (amount due within one year) equals the long-term liability (amount due in more than one year).
4	Retain copies of all computations for review by auditors.

Note: The HCM reports have been modified to include the Social Security (6.2% on a maximum salary base of $168,600) and Medicare taxes (1.45%, no salary limit) on the accrued leave.

Non-HCM users

For individuals not on HCM, institutions have to manually calculate accrued leave balances*.

If HCM is not used for leave, perform the following steps.

***Note**: Institutions with leave liability not on HCM must consider maximum payouts for leave when computing leave liability.

Step	Action
1	Using the records of the institution, determine the leave balance at June 30 for each employee. Leave should include annual, compensatory, overtime, recognition, on-call, **25% of traditional sick leave or disability credits**, and applicable sabbatical leave.
2	Determine each employee's hourly rate by dividing the annual salary at June 30 by standard full time hours of 2,080.
3	Multiply the hours for each leave category by the hourly rate**. (See special instructions below for traditional sick leave or disability credits.)**
4	Calculate and include employer's tax payment for Social Security and Medicare on the leave liability. Based on individual employee salaries, Social Security is 6.2% on a maximum salary base of $168,600 and Medicare is 1.45% on all salaries.
5	Compute additional leave liability for sabbatical leave and any pension contributions, if applicable.
6	Aggregate the information at the institution level.
7	Compute the current leave liability using the methodology on pages 6 to 7 or other methodology approved by your auditors. Total leave liability less the calculated current portion (amount due within one year) equals the long-term liability (amount due in more than one year).
8	Retain copies of all computations for review by auditors.

Non-HCM users – traditional sick leave or disability credits

If the institution is a non-HCM user for leave purposes, the institution must consider the following limits in the calculations of traditional sick leave or disability credit accruals.

- For employees with greater than 5 years of service, the traditional sick leave or disability credits liability is limited to 25% of leave earned or $5,000, whichever is less.

- For employees with less than 5 years of service, compute the traditional sick leave or disability credits liability the same as for those with greater than 5 years of service, then **multiply** the amount based on the probability that the individual will eventually attain 5 years of service.

The Department of Human Resource Management has determined and provided the official probabilities for this purpose. The official probabilities are shown below in the formulas used for calculating traditional sick leave or disability credits liability for employees with less than 5 years of service.

Total Individual Traditional Sick Leave or Disability Credits at 25% or $5,000 per individual with **less than 1 year** service	X 63.92% =	Traditional Sick Leave or Disability Credits Liability to be accrued on financial statements
Total Individual Traditional Sick Leave or Disability Credits at 25% or $5,000 per individual with **1 - 2 years'** service	X 70.56% =	Traditional Sick Leave or Disability Credits Liability to be accrued on financial statements
Total Individual Traditional Sick Leave or Disability Credits at 25% or $5,000 per individual with **2 - 3 years'** service	X 76.63% =	Traditional Sick Leave or Disability Credits Liability to be accrued on financial statements
Total Individual Traditional Sick Leave or Disability Credits at 25% or $5,000 per individual with **3 - 4 years'** service	X 86.35% =	Traditional Sick Leave or Disability Credits Liability to be accrued on financial statements
Total Individual Traditional Sick Leave or Disability Credits at 25% or $5,000 per individual with **4 - 5 years'** service	X 93.49% =	Traditional Sick Leave or Disability Credits Liability to be accrued on financial statements

Manually calculate the amount due within one year

The total leave liability (total amount before deducting current leave liability) has already been calculated. Institutions have to manually calculate the leave liability amount that is due within one year. The following is a suggested methodology. Institutions may use any methodology that is agreed to by their auditors.

Perform the following steps to calculate the amount due within one year.

Step	Action
1	Project the number of annual and sick leave hours that will be accrued in the next fiscal year (7/1/2024 to 6/30/25) for each employee and in total.
2	Determine each employee’s hourly rate by dividing the annual salary at June 30, 2024, by standard full time hours of 2,080.
3	Multiply the projected hours in step 1 for each leave category by the hourly rate in step 2.
4	Calculate and include employer’s tax payment for Social Security and Medicare on the leave liability. Based on individual employee salaries, Social Security is 6.2% and Medicare is 1.45% on all salaries. For this calculation, disregard the Social Security maximum base salary.
5	Calculate a percentage for **annual** leave hours used and paid out compared to **annual** leave hours accrued. Calculate a second percentage for traditional **sick** leave hours used and paid out compared to traditional **sick** leave hours accrued. (For example, agency XYZ used and/or paid out 1,000 hours of annual leave. The annual leave hours earned for agency XYZ were 4,000. Therefore, the percentage factor for XYZ annual leave usage would be 25%). **This calculation can be done on a fiscal year or calendar year basis**.

Continued on next page

Manually calculate the amount due within one year, *continued*

Step	Action
6	Multiply the percentages for annual and traditional sick leave usage in step 5 by the projected annual and traditional sick leave liability calculated in step 4.
7	Aggregate the information at the institution level. This is the amount due within one year. Total leave liability less the calculated current portion (amount due within one year) equals the long-term liability (amount due more than one year).
8	Retain copies of all computations for review by auditors.

Footnote disclosure

The following information is a required footnote disclosure under **GASBS No. 34**. Enter this information on the Compensated Absences line on Attachment HE-10, TAB 5, LT Liabilities.

- Beginning Balance – should equal the prior year ending balance.
- Increases – use the projected amount calculated in step 4 in FY 2023 or actual current year information.
- Decreases – calculated amount since other three amounts are known
- Ending Balance – should equal the total leave liability calculated.
- Amount due within one year – should equal the amount calculated in step 7 above.

The projected leave liability calculated this year can be used as increases in fiscal year 2025. The projected leave liability calculated in fiscal year 2025 can be used as increases in fiscal year 2026 and so on.