

### **Prefunding Compensated Absences**

Some districts and CESAs may decide to put money aside for future compensated absences, such as accumulated sick leave or vacation payouts. The money may be put aside, but the expenditure is recognized upon termination and payment of the accumulated benefits.

### **GAAP treatment**

Governmental accounting standards dictate that expenditures for compensated absences be recorded as an expenditure upon separation of the employee or when due for payment and should not be accrued currently as it is earned. The Standards also state that any advance funding made by the government should not result in the recognition of any additional governmental fund liabilities or expenditures. Therefore, this is treated differently from contributions to an OPEB trust fund based which are based upon an actuarially determined calculation.

### **Discussion**

School districts and CESAs that wish to accumulate net assets in an employee benefit trust fund for future payment of vacation or sick leave would not be allowed to record a current expenditure reflecting the transfer of funds into the trust fund. This is consistent with Paragraph 64 of GASB Interpretation 6 which specifically states that the accumulation of resources should be independent of the recognition of the expenditure. Therefore, any transfers would have to be accounted for as an asset in the General Fund with a corresponding amount reflected in restricted fund balance until some future period when the compensated absence is liquidated.

### **Entry of prefunding into an employee benefit trust fund:**

**Fund 10:** Transfer funds to trust fund for future compensated absence:

Dr. 10B 719000 Other Fund Assets  
Cr. 10B 711000 Cash

Unused sick leave on deposit as of June 30 would be reflected as Restricted Fund Balance.

**Fund 73:** Receipt of funds

Dr. 73B 711000 Cash  
Cr. 73B 816900 Deferred Revenue (to be reversed out when sick leave payout occurs)

### **Payment of compensated absence upon termination of employee:**

**Fund 10 (or applicable district fund):**

Dr. 10E 290 291000 Termination Benefits  
Cr. 10B 719000 Other Fund Assets

**Fund 73:**

Dr. 73B 816900 Deferred Revenue  
Cr. 73B 711000 Cash

Updated 10/16/14 to correct last Fund 73 Debit to Deferred Revenue