June 4, 2021

Alan Skelton  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Re: Project No. 4-7

Dear Alan:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Exposure Draft (ED) of the Governmental Accounting Standards Board, *Compensated Absences*. NACUBO is a nonprofit professional organization representing chief financial and administrative officers at 1,700 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting industry guidance for higher education and educates thousands of higher education professionals annually on accounting and reporting issues and practices.

NACUBO’s comments on the ED were developed with input from its Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

**Overall Observations and Conclusions**

We appreciate the time and effort that the staff have devoted to updating the guidance for compensated absences in SGAS 16 (from 1992) to address the changes in employee leave benefits. However, we are concerned about the recognition of a liability when the benefits do not vest.

**Eliminating Vesting as a Criteria**

Paragraphs 7 and 8 of the ED specify that a liability is recognized in financial statements when all three criteria are present:

1. The absence accumulates  
2. The absence is attributable to services rendered  
3. The absence is more likely than not to either be paid (including being paid for use) or settled through other means
Accumulated leave balances that are forfeited upon termination or retirement (nonvested) do not represent an obligation of the government. Liabilities are defined in Concepts Statement 4 as “present obligations to sacrifice resources that the government has little or no discretion to avoid.” Unvested leave balances do not require the government to sacrifice resources to settle the obligation and therefore do not meet the definition of a liability. The obligation to provide paid leave in a future period is not a (present) binding obligation; when the benefit is nonvesting the government can avoid sacrificing resources. This viewpoint appears to be supported in paragraph B16 of the Basis for Conclusions, “the future use of nonvesting leave might not result in an increase in the total amount paid to an employee over their period of service. For example, in the case of a salaried employee, the amount paid is the same regardless of actual hours worked or used as paid leave” [emphasis added].

With unvested sick time, the “expense” or “cost” to the government is lost production, i.e. paying for time not worked. Because there is no additional “out-of-pocket” expense, the ED is requiring governments to accrue a liability for the lost production that may occur. In addition to an employer not being bound to sacrifice resources, we do not believe that the expense associated with the liability meets the definition of an “outflow of resources” because there is no consumption of net assets that is applicable to the reporting period when the benefit is earned.

The ED indicates that paid holidays, closures due to inclement weather, and “use-it-or-lose-it” policies would not require the recognition of a liability, paying employees when these benefits are used produces the same financial result as paying employees who use accumulated sick time. For nonvested benefits that accumulate, we struggle to see how recording a liability based on a forecast enhances financial reporting objectives. It would be helpful to have this explained.

Estimating the amount of nonvested sick leave balances that are “more likely than not” to be used necessitates guesswork at best and would create inevitable inaccuracies. Due to different compensation rates, the estimate of future sick time will have to be calculated per employee. Will a predictive data analytics model need to be developed? Will governments be required to procure actuarial studies or use independent data scientists to verify the liabilities for audit purposes? We are concerned that the intended end result here does not merit the undue administrative complexities and burden.

Regarding the treatment of parental leave and military leave, per the ED liabilities are only recorded when the qualifying event occurs (i.e. birth or adoption of a child or military service) and the leave spans the fiscal year. However, employees “earn” the opportunity for these benefits when they are hired, regardless of whether they have family or military obligations at the time of hire. It’s unclear why the obligation for the nonvested parental and military leave is recorded at the time a qualifying event occurs, but an obligation for nonvested sick leave can be recorded during the entire period of service.

Based on concerns raised, we respectfully request that the GASB revisit the third criteria in the ED and only recognize a liability when the absences vest because the government has no discretion to avoid the obligation.
Modified Disclosure Requirements

NACUBO appreciates the proposed modified disclosure requirements, reporting the net change in the liability rather than the separate increases and decreases.

We respectfully request that you revisit the requirement to separate the obligation into current and long-term obligations. The difficulties of estimating the current and long-term portions are acknowledged in paragraph B28 in the Basis for Conclusions, and summarily dismissed. The requirements in this proposed ED already require employee behavior predictions, and the arbitrary split between current and long-term obligations will further exacerbate the potential for misstatement caused by applying a guess to an estimate.

In closing, we wish to express our appreciation for the opportunity to comment. We welcome questions the Board or the staff may have about our response. Please direct your questions to me at 202-861-2542 or smenditto@nacubo.org.

Sincerely,

Susan M. Menditto
Senior Director, Accounting Policy