General Information

State employee leave benefits and policies are established and governed under state employee union contract provisions and the following statutes:

Vacation Leave — Sections 124.13 and 124.134, Ohio Revised Code
Sick Leave — Sections 124.382 through 124.384, Ohio Revised Code
Personal Leave — Section 124.386, Ohio Revised Code
Disability Leave — Section 124.385, Ohio Revised Code
Bereavement Leave — Section 124.387, Ohio Revised Code
Administrative Leave with Pay — Section 124.388, Ohio Revised Code

Compensation for overtime worked is covered under Section 124.18, Ohio Revised Code.

The employee's step rate, including all supplemental rates and excluding shift pay differential, is the basis for calculating the value of leave benefits or overtime worked. The State's Payroll System, the source from which OBM obtains a year-end compensated absences balances report, is perpetually updated to reflect the provisions of newly negotiated employee union contracts or statutory changes that affect the payment of leave benefits.

For purposes of calculating a year-end compensated absences liability balance, vacation, personal, sick, and compensatory leaves only are considered. Specifics on each type of leave used in the calculation are discussed below.

Vacation

Generally, vacation benefits become vested for

- union employees after six months of continuous service.
- employees who have transferred from other governments or other state agencies and have completed at least one year of continuous service with their government or agency upon transfer.
- all other employees after one year of total service.

Employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. Cash payments may be made for vested, unused vacation for 100 percent of the employee's balance upon termination or separation.

Personal Leave

Personal leave can be either credited at the rate of eight hours at the beginning of each quarter (generally applicable to most union employees only) or credited in a lump sum of 32 hours in December of every year prior to being earned by the employee (generally applicable to employees exempt from collective bargaining).

Union employees appointed after the start of a calendar quarter and non-union employees appointed after December are credited with personal leave on a prorated basis upon appointment. Pro-ration for most union employees (OCSEA/AFSCME) is based upon the formula of .015 hours per hour of non-overtime worked, while for exempt employees, the proration is based upon the formula of 32 hours less 1.2 hours for each pay period that had elapsed from the base pay period in December until the first day of the pay period during which the appointment was effective.

For employees that are credited with a lump sum of personal leave in December, the share of personal leave earned upon termination or separation is determined and adjusted through proration; any unearned personal leave used is recovered by the State by deducting the value of the leave taken from the employee's last paycheck.

The maximum hours a union employee can accumulate for personal time is up to 40 or 48 hours, depending upon the bargaining unit's contract; the employee is paid for personal leave hours earned that exceed this limit. The maximum hours exempt employees can carry as "earned" personal leave is eight hours; any unused personal leave exceeding the eight-hour limit is paid out at 100 percent in December when the 32-hour lump sum for the next year is credited.

Sick Leave
The following two categories of sick leave are tracked on the State's Payroll System:

- "Old" sick leave — benefits carried over for state employees transferred from other governments after July 5, 1987 that are ineligible for payoff upon termination or separation.

- "New" sick leave — benefits earned for state employees who are eligible for payoff upon termination or separation.

Generally, employees accrue sick leave at a rate of 3.1 hours every two weeks. Sick leave benefits vest after five years of credited service for AFSCME employees and after one year of continuous service for other employees. Sick leave is paid at 100 percent of the employee's pay rate when used for the first 40 hours of the benefit year, at 70 percent of the employee's pay rate when used for 40.1 through 80 hours of the benefit year (except in the case of hospitalization during the second week, which is paid at 100 percent), and again at 100 percent of the employee's pay rate when used for any amount in excess of 80 hours of the benefit year. Annually, up to 80 hours of sick leave that was accrued in the current year and remains unused in December may be cashed out at varying rates, as described below.

Number of Hours Subject to Cash Conversion	Percent of Regular Rate
80	80%
72.0 to 79.9	75%
64.0 to 71.9	70%
56.0 to 63.9	65%
48.0 to 55.9	60%
47.9 & less	55%

"Transferred" old sick leave may be used once all "new" sick leave has been exhausted. Unused, vested sick leave may be liquidated at 50 percent of the employee's pay rate upon separation other than retirement. For AFSCME, union-exempt, and healthcare employees, unused, vested sick leave is liquidated at 55 percent upon retirement while other employees receive 50 percent upon retirement. Consequently, OBM calculates the liability for sick leave, as of June 30, by multiplying the value of the unused sick leave balance (pay rate times number of unused hours) by the appropriate separation rate, in conformity with GASB Statement No. 16, paragraph 8. b.

Compensatory Time

Union employees are eligible for cash payments for 100 percent of their compensatory time at a value equal to 1.5 times overtime hours worked multiplied by the employee's pay rate. Compensatory time may not exceed 240 hours.

Overtime-exempt employees are ineligible for cash payments for compensatory time. The policy for granting compensatory time to employees exempt from overtime payment is set by the appointing authority and can differ from agency to agency.

Reporting Requirements

The State of Ohio's compensated absences liability is calculated and reported in accordance with the guidance set forth in the Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*, GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The compensated absences liability and related expenditure/expense, as of June 30, are reported using two bases of accounting: the modified accrual basis and the full accrual basis. The government-wide financial statements and the proprietary fund financial statements report the compensated absences liability and related expense on the full accrual basis of accounting, while the governmental fund financial statements report the compensated absences liability and related expenditure on the modified accrual basis of accounting.

The gross amount of the liability is calculated in the same manner, regardless of which basis of accounting is used, and is detailed below.

	Fifty Percent of the Year-End Value of Sick Leave, and 100 Percent of the Year End Value of Vacation, and Personal Leaves *(Employees' Rates in effect, as of June 30, including scheduled statutory and/or contractual pay raises x Employees' Balances*), as per the State's Payroll System
Add:	Year-End Value of Compensatory Time Balances (*Employees' Rates in effect, as of June 30, including scheduled statutory and/or contractual pay raises x Employees' Balances*), as per the State's Payroll System
Add:	State's Share of Medicare Tax on Value of Compensated Absences Balances and Compensatory Time Balances (for Overtime-Eligible Employees) that Applies to Employees Subject to the Tax
Add:	State's Share of Public Employees Retirement System (PERS) Contributions on Compensatory Time Balances for Overtime-Eligible Employees
	Compensated Absences Liability, as of June 30

At termination, the State's employer share of parental leave (charged at .12 percent), disability leave (charged at 1.4 percent), and workers' compensation (charge varies by agency) benefits are charged against the compensation paid out to employees for vacation, sick, personal, and compensatory leave. For the State's government-wide financial statements, OBM has determined that no year-end expense accrual for these charges will be made, since the potential balances involved have been determined to be of an insignificant nature in relation to reporting of the State's overall compensated absences liability.

The State accrues vacation, compensatory time, and personal leaves as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as at termination or retirement.

Sick leave time that has been earned, but is unavailable for use as paid time off or as some other form of compensation because an employee has not met a minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

The State uses the *vesting method*, as described in paragraph 8.b. of GASB 16, to calculate its liability for sick leave. Under this method, the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such benefits.

On the basis of an annual analysis, OBM determines whether the value of sick leave balances for employees with less than the five-year continuous service requirement is material. If the value of the unvested sick leave is deemed not to materially impact the State's financial statements, OBM includes this value in its year-end compensated absences liability balance. If the value of the unvested sick leave balance is considered to be material, OBM estimates the portion of the balance, which is expected to be paid in termination benefits; the accrual is based on assumptions concerning the probability that the employees affected will become eligible to receive termination payments.

State agency operating funds generally provide funding for the costs of the routine use of compensated absences by employees. Additionally, these funds pay assessments (also known as the payroll check-off) every pay period to Fund 1240: Payroll Withholding, based upon a percentage of the gross payroll, which are later deposited into Fund 8060: Accrued Leave Liability. Fund 8060 provides funding for compensated absences paid upon termination, and for the annual December conversion when employees exercise their option to be paid for their unused sick and personal leave balances within the allowable limits. Assessments deposited in Fund 8060, an agency fund, are net of any compensated absences paid for terminations or the December conversion that occur during the respective pay period being assessed. If the cost of compensated absences paid for terminations or the December conversion during a pay period exceeds the amount of the assessment charged for that pay period, then the amount of the difference is charged to Fund 8060 and used to help pay those compensated absence costs.

As of June 30, Fund 8060's assets include

- cash equity with the Treasurer of State (not adjusted for any unrealized gains or losses on investments included in the cash equity account), and

- balance of payroll check-offs on deposit in Fund 1240 that are pending disbursement to Fund 8060. (In the event moneys in Fund 8060 are needed for termination benefits as of June 30, then Fund 8060 would owe moneys to Fund 1240.)

The following are the approaches that the State of Ohio uses to report the compensated absences liability, and related expenditures/expenses, as of June 30, under the two bases of accounting.

Government-wide Financial Statements
The liability for compensated absences reported in the Statement of Net Assets is reported as an "Other Noncurrent Liability," using the full accrual basis of accounting. The liability reported in the Statement of Net Assets is reported at the gross amount.

When reporting the liability in the Statement of Net Assets, GASB 34 requires that the liability be reported in two components — current and noncurrent. The current portion of the liability consists of the amount of compensated absences that is due to be paid in one year of the balance sheet date. (As explained later under the "Governmental Fund Financial Statements" section, the current portion of compensated absences does not include leave payouts for terminations and retirements that were due, as of June 30, and later paid in July, in the next fiscal year; these liabilities are included as a component of wages payable that is reported under the "Accrued Liabilities" account on the Statement of Net Assets.) The noncurrent portion consists of the amount of compensated absences that is due to be paid in more than one year after the balance sheet date.

In Full Accrual, the following journal entries are made for the government-wide financial statements.

	DR.	CR.
Expenses (by function)	$XXX	
Other Noncurrent Liabilities – Due in One Year		$XXX

To record the current portion of the State's compensated absences liability and the related expense for the year ended June 30.

	DR.	CR.
Expenses (by function)	$XXX	
Other Noncurrent Liabilities – Due in More Than One Year		$XXX

To record the noncurrent portion of the State's compensated absences liability and the related expense for the year ended June 30.

As required by GASB 34, the State reports the current and noncurrent portions of the liability separately on the Statement of Net Assets. All compensatory time/overtime is considered to be current, since it must be paid out or used within a time period short of one year. The current portion of the compensated absences liability, other than compensatory time, is not easily determinable, because the State does not know in advance the amount of compensated absences that will be paid to employees within one year of the balance sheet date. Therefore, the State must estimate the current portion of its compensated absences liability, using trend data from the current and the two previous fiscal years.

For each fiscal year, OBM calculates the additions to the state's total liability for compensated absences, excluding compensatory time/overtime, for the fiscal year as follows:

	Compensated Absences Liability, net of Compensatory Time/Overtime, as of June 30
Add:	Disbursements for Compensated Absences Leave Taken During the Fiscal Year, as reported by the Department of Administrative Services' Payroll Services Division*
Subtract:	Compensated Absences Liability, net of Compensatory Time/Overtime, as of July 1
	"Calculated" Additions to Compensated Absences During the Fiscal Year

* It should be noted that the disbursements for compensated absences do not include disbursement data for compensatory time/overtime, since all compensatory time/overtime must be paid or used currently, when considering the government-wide financial statements. However, the disbursements for compensated absences do include payments from Fund 8060 as well as the State's operating funds that have payroll activity.

For each of the three fiscal years, OBM compares the "calculated" additions to the actual disbursements for compensated absences. The State pays its compensated absences on a last-in, first-out basis, and OBM assumes that termination payments occurring in one fiscal year materially relate to the outstanding compensated absences balance, as of the end of the prior fiscal year. Consequently, when the calculated additions exceed the actual disbursements for compensated absences, as is generally the case, only the amount of termination payments disbursed during the fiscal year is considered to be the "current" portion of the compensated absences liability that existed as of the beginning of the year.

When actual disbursements for compensated absences, net of any termination payments, exceed the "calculated" additions, this difference plus the amount of termination payments made during the fiscal year represents the amount of the current liability for compensated absences existing at the beginning of the fiscal year that was liquidated during the fiscal year.

For each of the three fiscal years, OBM compares the "current" portion of the liability with the overall liability for compensated absences (excluding the portion attributable to compensatory time/overtime) at the beginning of the fiscal year to calculate what percentage of the liability is "current." OBM then averages the percentages calculated for the three fiscal years and multiplies the resulting average percentage by the amount of the liability for compensated absences (excluding the portion attributable to compensatory time/overtime), as of the balance sheet date. This result is then added to the balance of compensatory time/overtime outstanding at the end of the fiscal year to determine the current portion of the total compensated absences liability.

OBM calculates the State's noncurrent portion of the compensated absences liability as follows.

	Total Compensated Absences Liability, as of June 30
Subtract:	Current Portion of Compensated Absences Liability
	Noncurrent Portion of Compensated Absences Liability

In the Statement of Activities, the State reports the expense associated with the liability for compensated absences as a program expense by function in the governmental activities section or the business-type activities section. Functional assignment of expense is determined on the basis of the state agency that has incurred the liability.

For the government-wide financial statements, OBM allocates back Fund 8060's cash equity with treasurer balance to avoid overstating expenses reported for governmental and business-type activities that pay assessments into Fund 8060. For the reallocation, Fund 8060's cash equity balance is adjusted for payroll check-off amounts pending disbursement from Fund 1240: Payroll Withholding.

The Fund 8060 adjustment is recorded as a reduction in expense (by function) and an increase in the "Cash Equity with Treasurer" account. From an OAKS download, OBM determines each governmental and proprietary fund's percentage of the State's total gross payroll for the fiscal year, then multiplies this percentage by Fund 8060's adjusted cash equity with treasurer balance to determine the amount to adjust expenses and the cash equity with treasurer balance by fund and by function (which is determined by the agency that is assigned the fund). In Full Accrual, the following journal entry is made for this adjustment.

	DR.	CR.
Cash Equity with Treasurer	$XXX	
Expense (by function)		$XXX

To allocate back the cash equity with treasurer balance (adjusted, as described above) in Fund 8060, as of June 30, to the operating funds (governmental and business-type) and to avoid double counting the expense in governmental and business-type activities when recording the compensated absences liability.

For the proprietary fund financial statements, the same accounting approach for compensated absences, as outlined above for the government-wide financial statements, applies.

Governmental Fund Financial Statements

In the governmental fund financial statements, the compensated absence liability is reported using the modified accrual basis of accounting. In accordance with GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, the State reports the current portion of the liability for unpaid leave earned through June 30 as a fund liability (included in the "Accrued Liabilities" account for governmental funds), since the balance is normally expected to be paid with expendable, available financial resources (i.e., the State's available period, which is approximately within 60 days of year-end).

According to Interpretation 6, a governmental fund expenditure and liability should be recognized as payments come due for employees who have terminated or retired. Leave payouts for terminations and retirements are liquidated by the end of the pay period that follows the pay period when the termination or retirement officially occurred. Consequently, OBM captures the amount due at year-end for termination and retirement payments through its process of posting year-end wages payable for state employees, since the accrual is calculated on the basis of wages paid during the first and/or second pay periods of the next fiscal year, depending on how June 30 falls in the two-week pay period. The portion of the liability *not* expected to be paid with expendable, available financial resources is reported as a reconciling item to the government-wide financial statements, and accordingly, is not reported as a governmental fund liability.

For the governmental fund financial statements, OBM allocates back Fund 8060's cash equity with treasurer balance to avoid overstating expenditures in the governmental funds that pay assessments into Fund 8060. For the reallocation, Fund 8060's cash equity balance is adjusted for payroll check-off amounts pending disbursement from Fund 1240: Payroll Withholding.

In the governmental funds, the Fund 8060 adjustment is recorded as a reduction in expenditures (by function) and an increase in the "Cash Equity with Treasurer" account. From an OAKS download, OBM determines each governmental fund's percentage of the State's total gross payroll for the fiscal year, then multiplies this percentage by Fund 8060's cash equity with treasurer balance to determine the amount to adjust expenditures and the cash equity with treasurer balance by fund and by function (which is determined by the agency that is assigned the fund).

OBM also records a fund balance reservation in the governmental funds for the amount of the adjusted cash equity balance allocated from Fund 8060, as described above.

In Modified Accrual, the following journal entries are made for the governmental fund financial statements.

	DR.	CR.
Expenditures (by fund)	$XXX	
Accrued Liabilities (Wages Payable)		$XXX

To record the State's compensated absences liability (i.e., leave payouts at termination and retirement included in wages payable) for amounts earned by June 30 that will be paid with expendable, available financial resources, and the related expenditure, for the year ended June 30.

	DR.	CR.
Cash Equity with Treasurer	$XXX	
Expenditures (by fund)		$XXX

To allocate back the balance of cash equity with treasurer balance (adjusted, as described above) in Fund 8060, as of June 30, to the operating funds and to avoid double counting the expenditure in the operating funds when recording the compensated absences liability.

Note Disclosures – Changes in Compensated Absence Liability
Paragraph 119 of GASB 34 requires certain disclosures for changes in the balances of long-term liabilities, including compensated absences. The required disclosures are:

- beginning- and end-of-year balances,
- increases and decreases, presented separately,
- the amount due in one year of the statement date, and
- the identification of which governmental funds typically have been used to liquidate the liability in prior fiscal years.

The State presents the required disclosures on compensated absences and other long-term liabilities using the following format.

Changes in compensated absences for the year ended June 30, 20xx, are as follows.

Governmental Activities

Beginning Balance	Additions*	Reductions	Ending Balance	Amount Due in One Year
$x,xxx	$xxx	$xxx	$x,xxx	$x,xxx

Business-Type Activities

Beginning Balance	Additions*	Reductions	Ending Balance	Amount Due in One Year
$x,xxx	$xxx	$xxx	$x,xxx	$x,xxx

The General Fund and the major special revenue funds primarily liquidate compensated absences attributable to governmental activities.

* OBM deduces the balance of additions to compensated absences for the year by subtracting the beginning compensated absences liability balance from the ending compensated absences balance, then adding back the deductions for the year, as reported by DAS.

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