



Payroll Information

New Prepaid Salary Process for Faculty

Background Information

The majority of RIT faculty contracts are 9.5 months beginning on or about August 25th and ending on or about June 5th. However, faculty who are on 9.5 month contracts are paid over 12 months beginning July 1st through June 30th. Salaries and benefits paid during July and August (4 pay periods) are actually “advance payments” (paid but not yet earned). It has been RIT’s practice to treat these salary advances as an “expense” (i.e., they are charged directly to a salary expense account line on the general ledger including RIT and NTID operating accounts, grants & contracts, endowment earning accounts, etc.). Since the prepaid amounts were earned in full by the faculty by June 30th, the University’s financial statements have been correctly stated as of June 30th, the end of RIT’s fiscal year.

New Process

Prepaid Salaries – The new process is necessary to ensure that: 1) interim financial statements are accurate; 2) the University is in compliance with effort reporting requirements for employees who work on Federal grants and contracts.

Effective in fiscal year 2009, compensation related to academic year salaries paid in the months of July and August for employees with a “*People.Group*” designation of *Faculty* in the HR system, with a contract term of less than 12 months, will be treated as a “prepaid expense”. The prepaid amounts will be recognized (e.g., expensed) over 19 pay dates beginning September 15th and ending June 15th.

- ✓ This “prepaid salary expense” is an asset residing on the University’s balance sheet until it has actually been “earned” (over the actual contract period). A new object codes has been established for this purpose: “09045” – “Prepaid Faculty Salaries”.
- ✓ When the prepaid salaries are recognized over the course of the fiscal year as the salaries are earned, the expense will be reflected on the department’s/project statements and on the University’s Statement of Activities (or P&L).

Prepaid Account Number – Regardless of the general ledger account number on the faculty member’s HR record, 100% of his/her academic year salary paid during July and August will automatically be charged to a default prepaid general ledger account number.

- ✓ For example, beginning in July 2008 a faculty member in the KGCOE Electrical Engineering department whose salary is charged to his/her home department (63100) will be charged to a prepaid account set up under the dean’s department during July and August. Refer to the attached example #1.

Original Expense Account Number: 01.63100.70150.10.00000.00000
 Prepaid Salary Account Number: 01.63000.09045.00.00000.00000

Expensing the Prepaid Salary Amounts – Beginning on the September 15th pay date, 1/19th of the total prepaid salary amount will be expensed according to the account number (i.e., costing) on the employee’s record as of that pay date.

- ✓ Using the example above, for the period September 1 – September 15, the KGCOE EE faculty member is now expending 50% of his effort on a Federal grant. When the September 15th payroll is processed, 50% of the expense (1/19th of the total prepaid amount) will be charged to the Federal grant and the remaining 50% will be charged to his home department. Refer to the attached example #2.

Credit Prepaid Salary Account Number: 01.63000.09045.00.00000.00000
 Debit 50% to Expense Account Number: 01.63100.70150.10.00000.00000
 Debit 50% to Expense Account Number: 01.6315X.70150.15.30XXX.00000

This process will continue through June 15th of the following year at which time, 100% of the prepaid amount will be expensed. Each time the costing on the employees’ record changes, the distribution of the prepaid amount will change as well.

- ✓ Continuing the example above, for the period December 1 – December 15, the KGCOE EE faculty member is now expending 25% of his effort on his Federal grant and 25% on a private contract. When the December 15th payroll is processed, 25% of the expense (1/19th of the total prepaid amount) will be charged to the Federal grant, 25% will be charged to the private contract and the remaining 50% will be charged to his home department.

Credit Prepaid Salary Account Number: 01.63000.09045.00.00000.00000
 Debit 50% to Expense Account Number: 01.63100.70150.10.00000.00000
 Debit 25% to Expense Account Number: 01.6315X.70150.15.30XXX.00000
 Debit 25% to Expense Account Number: 01.6315X.70150.15.36XXX.00000

The June 30th salary expenses will be expensed directly to the general ledger account number(s) reflected on the employee’s HR record for the period June 15 – June 30.

Budget Implications

1. No academic year salary payments will be charged to RIT and NTID operating expense accounts (or any other accounts) during July and August (typically 8.3% of the total salary budget would be consumed for each of the two months). However, a higher percentage will be charged for the months September – May.
 - ✓ To assist with budget planning, you may want to consider utilizing the “manual encumbrance” feature in the Oracle applications. Please contact Accounting Customer Support at ext. 5-2237 if you would like assistance with setting up manual encumbrances.

Other Information

1. **11-month Contracts** – Salaries for faculty who work on 11-month contracts will be handled as follows: July – Salary expenses will be charged to the costing on the employee’s record during July. August – The salary charges will be treated as a prepaid amount and expensed over 20 pay periods, beginning on September 15th and ending on June 30th.
2. **Benefit Expenses** – Since benefits are calculated based on salary expenses, no benefit expenses will be assessed during July and August for faculty whose contracts are less than

- 12-months. Benefit expenses from September through June will be based on the actual salary expenses charged to costing on the faculty member's salary for the period.
3. **Costing Changes during July and August** – Since academic year salary charges will no longer be expensed over the summer months, it is not necessary to process Salary Redistribution EAFS for those two months. Throughout the rest of the academic year, process Salary Redistribution EAFS as costing changes occur.
 4. **Department Statements** – A footnote will be added to the Department Statement reflecting the balance remaining in the prepaid salary account at the end of the period. At the end of June, the prepaid account balance will be -0-.
 5. **Early Contract Termination** – If a faculty member leaves RIT prior to the end of his/her academic year contract, the prepaid salary amount not yet earned by the faculty member and not recovered upon the termination of his/her contract, will be expensed (i.e., moved from the prepaid account to a salary expense line). The Payroll Office will prepare a journal entry to move the remaining prepaid amount from the balance sheet to the employee's home department.
 6. **Effort Reporting** – During July and August, Quarterly Monitored Workload Reports for faculty will reflect only summer salary contract amounts.
 7. **ITS Charges** – During academic year 2008/09, ITS chargebacks for July and August, (~\$169 per FTE), will be charged directly to the Dean's operating account of each faculty member's college, regardless of the costing on the employee's record at the time. During 2009, these charges will not be distributed to the actual accounts that the faculty member's salary is charged to from September to June.
 8. **Payroll Distribution Reports** – During July and August, the advance payments will be included in the Payroll Distribution Report on object code 09045 under the appropriate dean's office department number. From September through June 15th, 1/19th of the total prepaid salary amount will be expensed according to the account number (i.e., costing) on the employee's record as of that pay date. This amount will be added to the regular salary paid during the period.
 9. **Reconciliations** – To assist departments with reconciling their prepaid account, HR is developing a new Manager Self-Serve Report. More information will be provided as soon as it's complete.

Questions?

If you have questions about this new salary prepayment process, please call Christa Abugasea, Associate Director of Payroll and Accounts Payable at ext. 5-2418 or Ross Koenig, Assistant Controller at ext. 5-5301.

**Prepaid Salary Process for Faculty – Examples
9.5 month Faculty Contract Paid Over 12 months**

	Base Salary	Amount Paid
Base Jul - Sep	\$100,000.00	\$25,000.00
Base Oct - Jun	\$103,000.00	\$77,250.00
Total AY Salary		\$102,250.00

Example # 1 - 100% Expensed/Charged to Academic Home Department

	A	B	C (= A - B)	D *	E	F (= B + D)	General Ledger Account Number (Home Dept)
	Total Amount Paid to Employee	Amount Expensed	Amount Added to Prepaid	Prepayment Amount Expensed/Period	Prepayment Account Balance	Total Amount Expensed	
Jul-08	\$8,333.33	\$0.00	\$8,333.33	\$0.00	\$8,333.33	\$0.00	01.63000.09045.00.00000.00000
Aug-08	\$8,333.33	\$0.00	\$8,333.33	\$0.00	\$16,666.67	\$0.00	01.63000.09045.00.00000.00000
Sep-08	\$8,333.33	\$8,333.33	\$0.00	\$1,754.39	\$14,912.28	\$10,087.72	01.63100.70150.10.00000.00000
Oct-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$13,157.89	\$10,337.72	01.63100.70150.10.00000.00000
Nov-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$11,403.51	\$10,337.72	01.63100.70150.10.00000.00000
Dec-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$9,649.12	\$10,337.72	01.63100.70150.10.00000.00000
Jan-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$7,894.74	\$10,337.72	01.63100.70150.10.00000.00000
Feb-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$6,140.35	\$10,337.72	01.63100.70150.10.00000.00000
Mar-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$4,385.96	\$10,337.72	01.63100.70150.10.00000.00000
Apr-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$2,631.58	\$10,337.72	01.63100.70150.10.00000.00000
May-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$877.19	\$10,337.72	01.63100.70150.10.00000.00000
Jun-08	\$8,583.33	\$8,583.33	\$0.00	\$877.19	\$0.00	\$9,460.53	01.63100.70150.10.00000.00000
total	\$102,250.00	\$85,583.33	\$16,666.67	\$16,666.67		\$102,250.00	

* Note: the remaining 1/19th of the advance is expensed in during the June 15th pay period. At this point, the entire advance amount has been depleted

Example # 2 - Account Expensed To/Charged Varies by Academic Quarter

AY Q1, 50% to the Faculty member's home department / 50% to a Federal grant

AY Q2, 50% to the Faculty Member's Home Department / 25% to a Federal Grant / 25% to a private grant

AY Q3, 100% to Faculty member's home department

	A	B	C (= A - B)	D *	E	F (= B + D)	Expense Distribution (= F * % effort)		
	Total Amount Paid to Employee	Amount Expensed	Amount Added to Prepaid	Prepayment Amount Expensed/ Period	Prepayment Account Balance	Total Amount Expensed	Home Dept Operating Expense	Federal Grant	Private Grant
Jul-08	\$8,333.33	\$0.00	\$8,333.33	\$0.00	\$8,333.33	\$0.00	--	--	--
Aug-08	\$8,333.33	\$0.00	\$8,333.33	\$0.00	\$16,666.67	\$0.00	--	--	--
Sep-08	\$8,333.33	\$8,333.33	\$0.00	\$1,754.39	\$14,912.28	\$10,087.72	\$5,043.86	\$5,043.86	--
Oct-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$13,157.89	\$10,337.72	\$5,168.86	\$5,168.86	--
Nov-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$11,403.51	\$10,337.72	\$5,168.86	\$5,168.86	--
Dec-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$9,649.12	\$10,337.72	\$5,168.86	\$2,584.43	\$2,584.43
Jan-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$7,894.74	\$10,337.72	\$5,168.86	\$2,584.43	\$2,584.43
Feb-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$6,140.35	\$10,337.72	\$5,168.86	\$2,584.43	\$2,584.43
Mar-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$4,385.96	\$10,337.72	\$10,337.72	--	--
Apr-09	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$2,631.58	\$10,337.72	\$10,337.72	--	--
May-08	\$8,583.33	\$8,583.33	\$0.00	\$1,754.39	\$877.19	\$10,337.72	\$10,337.72	--	--
Jun-08	\$8,583.33	\$8,583.33	\$0.00	\$877.19	\$0.00	\$9,460.53	\$9,460.53	--	--
total	\$102,250.00	\$85,583.33	\$16,666.67	\$16,666.67		\$102,250.00	\$71,361.84	\$23,134.87	\$7,753.29

* Note: the remaining 1/19th of the advance is expensed in during the June 15th pay period. At this point, the entire advance amount has been depleted