EDMUND RICE EDUCATION AUSTRALIA

Employee Entitlements Policy

Approved by the EREA Board 25 June 2013

POLICY STATEMENT:
Edmund Rice Education Australia (EREA) adopts a structured approach to reporting and disclosing employee entitlements in accord with Australian Accounting Standard AASB 119 *Employee Benefits and* AASB 101 *Presentation of Financial Statements*. This refers to both Short-term and Long-term Benefits.

RATIONALE:
Short-Term Employee Benefits
Paragraph 11 of AASB 119 (as it applies to years commencing on or after 1 January 2013) requires that short-term employee benefits are recognised and measured on the following basis:

> *When an employee has rendered service to an entity during a reporting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service*

This requires that any employee remuneration of any nature that refers to the financial year is required to be accounted for as an expense in that year, whether it was paid during the year or whether it remains due at the end of the financial year. Accordingly leave entitlements accrued in relation to a financial year are to be accounted for as an expense that year. This Policy applies to all accumulating leave that vest's with the employee, meaning that employees are entitled to a cash payment for unused entitlements on leaving their employment. In respect to non-vesting arrangements, for instance sick leave, no accrual of a liability is to be made in relation to unused amounts.

The liability calculated for short-term employee benefits in relation to annual leave is to include the cost of leave loading. It is also to be based on the total employment package costs, where relevant. On-costs in respect to the full rate of compulsory superannuation guarantee and the workers compensation insurance rate (applicable to the particular school) applying in the following reporting period are to be included in the measurement of the liability recognised.

Long-term Employee Benefits
Long-term benefits include items not normally expected to be settled wholly within 12 months after the end of the annual reporting period in which the employee has rendered their related service. This includes long-term paid absences such as long service leave. Such obligations are to be accounted for as a liability at the end of the financial year measured at the present value of the expected future payments to be made in respect of services provided up to the reporting date. Future wage and salary levels and the prior history of employee departures and periods of service are taken into account in determining the obligation, with expected future payments being discounted at the reporting date using market yields on national government bonds with terms of maturity and currency that match, as closely as possible the estimated future cash outflows.

Accrued long service leave which is expected to be paid within 12 months of the end of the financial year is required to be accounted for as short-term employee entitlements.

With respect to EREA's Parent and member entities all permanent employees are entitled to portability of long service leave from the first day of employment. EREA Parent Entity/member entities are required to recognise a long service leave liability for permanent employees from the commencement of their contract with a 100% probability factor of payment being included within the calculation of the liability.

The expected increases in salary rates at a minimum are to be based on the known Award increases, and for unknown periods they are to be based on the average of the previous 5 years Award increases. In determining the expected date of payment of these entitlements for a particular entity, the average experience of the level of long service leave payments for the entity over the 3 year period immediately prior to the end of the financial reporting period are taken into account.

On-costs in relation to superannuation and workers compensation insurance are to be included in the calculation of the liability based on an estimation of the amount of long service leave entitlements expected to be paid out by way of the employee taking the long service leave as against the amount paid out on termination. This estimate is to be based on the EREA experience over the previous 5 year period on the proportion of long service leave taken by employees compared to the amount paid out on termination.

Disclosure Current / Non-current Liability

Short-term employee benefit
All short-term employee benefits are to be included in the annual financial report as a current liability.

Long- term employee benefit
Accounting Standard AASB 101 *'Presentation of Financial Statements'* which deals with the classification of liabilities requires that:

> *"An entity shall classify a liability as current when the entity does not have an unconditional right to defer settlement of a liability for at least twelve months after the reporting date".*

Given the portability arrangements in place and the right of an employee to give notice at any time, triggering an obligation to pay out the long service leave to the employee or if the employee joins another EREA member entity or Catholic employer in the education sector, the employing EREA Parent Entity/member entity does not have control as to the timing of the payment of the liability to enable the deferral settlement for at least twelve months from the reporting date. Accordingly all long service leave liabilities are to be disclosed as a current liability

PRINCIPLES:
EREA adopts the accounting framework and principles as determined by the Australian Accounting Standards 101 and 119.

RESPONSIBILITIES:

EREA Board
1. The EREA Board monitors compliance ensuring that all applicable accounting standards are adhered too.

Executive Director
1. The Executive Director is accountable and will develop procedures to implement this policy.
2. The Executive Director will ensure all accounting reports for the EREA Parent Entity and EREA Schools are prepared in accordance with the applicable accounting standards.

School Principals

1. Principals will ensure that the statutory accounts of their school are prepared in accordance with applicable accounting standards.
2. Principals may delegate their responsibility to ensure the statutory accounts are prepared in accord with applicable accounting standards.

School Board

1. The School Board has the responsibility to provide support to the Principal to ensure that the statutory accounts are prepared in accordance with the applicable accounting standards.

REVIEW:

This Policy will be reviewed in 2016