Financial Information for Schools Handbook
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1.1 Introduction

The Financial Information for Schools Handbook (FISH) is for school boards, principals, administrators and accountants working in and with schools. The purpose is to provide information to encourage best practice in financial governance, financial management and reporting. The FISH has been separated into sections which outline the specific roles and responsibilities for the boards and the principals of schools.

Financial management is crucial to the health of a school in order to provide adequate funding for day-to-day needs and in planning for the future. Any system of school administration must keep the needs of students in mind, support the learning and teaching at the school, and enable the board to realise its strategic goals and objectives. A lapse in financial management – or deliberate fraud – diverts the attention of staff and board members and may cause a reduction in the funds available for curriculum delivery. Problems with a school’s financial governance and management almost always impact the education being provided to students.

This handbook deals with a range of financial governance, management and reporting matters that are specific to schools in New Zealand. It is not a textbook on accounting or financial matters, nor do you have to become an overnight expert in legislation. The Ministry of Education (the Ministry) has produced FISH to help you become familiar with the legal framework that impacts schools and especially their finances.

The handbook is updated regularly so please refer to the Ministry of Education website to make sure you are always using the latest version.

The FISH was most recently updated in October 2020.
Chapter 1: School boards and financial governance

2.1 Board roles and responsibilities

Section 125 of the Education and Training Act 2020 states a board is the governing body of its school and responsible for the governance of the school, including setting the policies by which the school is to be controlled and managed.

National Administration Guideline 4 (NAG 4) requires a board to:
- allocate funds to reflect the school’s priorities as stated in its charter
- monitor and control school expenditure
- ensure that annual financial statements are prepared and audited as required by the Public Finance Act 1989 and the Education and Training Act 2020.

Under the Education (School Boards) Regulations 2020, a board may delegate any of the functions and powers of the board or the board members, either generally or specifically, to any of the following persons:
- A member or members
- The principal or any other employee or employees, or office holder or holders of the board
- A committee consisting of two persons at least one of whom is a member
- Any other person or persons approved by the Minister of Education
- Any class of persons that comprises any of the persons listed above in this list

A board must not delegate the general power of delegation nor any power to borrow money that it may have under section 160 or 162 of the Crown Entities Act 2004.

Delegation must be by resolution and written notice to the delegated person or persons.

Generally, a school board will delegate its day-to-day financial management responsibilities to the principal. Refer to the ‘Principals’ roles and responsibilities’ section for details of their roles and responsibilities. In small schools there may not be sufficient other staff to ensure segregation of duties and therefore a board member should be appointed as a further level of control involving day-to-day expenditure. An example of this could be through a board member having internet banking authority and being the second approver for any payments.

The school board retains a financial governance role that includes establishing and maintaining financial policies, setting the strategic direction for the school and allocating resources to achieve the school’s goals. Every board member has a responsibility to establish and maintain appropriate financial policies and understand key financial information about their school.

Board members make significant financial decisions about the school and should carefully document those decisions and their decision-making processes. Actual and potential conflicts of interests in any decisions should be declared and managed appropriately.

The Ministry of Education (Ministry) can help. The Ministry contracts with organisations to provide a range of training and support for board members: group training opportunities are advertised in the Education Gazette; support for boards of schools that are at financial risk is available through local Ministry offices; professional development, advice and support are available from the New Zealand School Trustees Association; and further help is available from the school’s financial service provider or auditor.

The Ministry also has a team of financial advisors who are available to provide guidance, advice and support to schools.
2.2 Governance

A board’s primary objective in governing the school is to ensure that every student at the school is able to attain his or her highest possible standard in educational achievement. The board sets strategic goals around student achievement and sets policies by which the school is controlled and managed.

A successful school must plan what it intends to achieve and outline a strategy for achieving those goals. A combination of good planning and communication ensures that parents, teachers, administrators, principals and board members are all striving for a common goal. If schools do not identify their goals and communicate them to all their stakeholders, they run the risk that the people critical to the school’s success will be ‘pulling in different directions’ – and the students' education will suffer.

The Education Review Office (ERO) reported in 2007 (School Governance: An Overview) that well-governed schools had these common features: governance was centred on students, with members committed to improving student learning and achievement; student achievement information was used to set realistic targets and underpin decision-making; strategic and annual planning was strongly focused on improving student achievement.

2.3 Conflicts of interest

2.3.1 What is a conflict of interest?

A conflict of interest arises where a member has an interest or duty that conflicts (or might conflict, or might be perceived to conflict) with the interests or duties of the board itself. That interest or duty may relate to money or any other interest that may reasonably be regarded as likely to influence a member in carrying out their duties as a member. The key question to ask when considering whether an interest might create a conflict is:

"Does the interest have the potential to create an incentive for the member to act in a way which may not be in the best interests of the school?"

2.3.2 Types of conflicts of interest

A conflict of interest may take a number of forms. It may be financial or non-financial. It may be direct or indirect. It may be professional or family related. It may be perceived or actual.

A conflict of interest may arise from:

- family relationships
- existing professional or personal relationships
- directorships or other employment
- interests in business enterprises or professional practices
- share ownership
- beneficial interests in trusts
- professional associations or relationships with other organisations, including appointing bodies
- personal associations with other groups or organisations.
Common examples of potential conflicts of interests include the following:

- The spouse of a board member is an employee of the school.
- The spouse of a board member is contracted by the school.
- A board member owns a company that is contracted by the school.

The existence of the incentive or a perception of bias is sufficient to create a conflict. Whether or not the individual concerned would actually act on the incentive or allow it to influence their decision-making is irrelevant.

For example, a board may have a dispute with a builder about the quality of building work carried out. If that builder was the brother-in-law of one of the board members, the school community might reasonably assume that the member would be influenced by this relationship when the board considers legal action against the builder. Whether or not the member would allow that relationship to influence their decision-making is irrelevant. The only way for the member to ensure that no doubt is raised about the board's decision is to declare their interest and be excluded from any meeting of the board while it discusses, considers, any matter relating to, or decides the matter.

### 2.3.3 Why does a conflict of interest matter?

All aspects of school governance and management must be fair and ethical and must be very clearly seen to be so in the interests of transparency and good and impartial decision-making. It is inevitable that in small communities those in governance roles will have interests which could come into conflict (whether real or perceived) and create risks to the impartiality of decisions.

The State Services Commission notes that conflicts of interest should be viewed within an ethical context of "good faith, honesty and impartiality".

- **Good faith**: members of boards have an obligation to act at all times in good faith and in the best interests of the school.
- **Honesty**: members of boards have an obligation to act honestly at all times in relation to all matters concerning the school.
- **Impartiality**: members of boards must observe the principles of fairness and impartiality, or access to information, or anything similar.

How the situation may be perceived by an outsider is as important as the reality.

### 2.3.4 What should a board member do if they have a conflict of interest?

The Office of the Auditor-General (OAG) publication *Reflections from our audits: Governance and Accountability* (April 2016) states that conflicts of interest are not necessarily a problem – they are a reality. It is how they are identified and managed that determines whether they are a problem.

Those in governance roles need to manage their interests in a way that is transparent and does not compromise the decision that is being made by the board. There are three steps that members need to take:

- Recognise that there is a conflict of interest.
- Disclose the conflict of interest.
• Manage the risks associated with the conflict of interest.

Recognising a conflict of interest – see paragraphs 2.3.1 and 2.3.2 above.

Disclosing a conflict of interest – boards should have a policy for disclosing interests as a matter of routine at the start of each meeting in relation to the agenda, and annually for ongoing issues. When disclosing it is best to err on the side of openness.

Managing the conflict of interest

If a member has a conflict of interest, they must declare it and remove themselves from any discussion or decision-making by the board in that matter.¹

An important rule of thumb for members to use is ‘if in doubt, opt out!’ When there is any doubt about whether a conflict of interest exists, or whether an outside observer could reasonably perceive that such a conflict exists, it is safer for both the board and the member if the member declares the interest and is excluded while the board discusses the matter. This is particularly important when a member feels passionately about an issue – if he or she declares their interest and excludes themselves from the board, there can be no subsequent allegations that the board’s decision-making was tainted.

2.3.5 What should a board do about a conflict of interest in contracting processes?

The Education and Training Act 2020 does not prohibit a board from entering contracts with members or people associated with members, provided the member concerned declares their interest and is excluded from meetings when the matter is being considered or decided.

However, under Sch 23 Cl 10 a member may be disqualified from being a board member or a member of a board committee if they have financial interests or concerns in contracts with the board that total more than $25,000 inclusive of GST (or an amount determined by the Secretary for Education) in any financial year unless the board obtains prior approval from the Secretary for Education.

2.3.6 How can a school apply for approval where contracts may exceed $25,000 (GST incl)?

If a board wants to enter into contracts totalling more than $25,000 in any one year with a board member who has declared a conflict of interest, the board must obtain the prior approval of the Secretary for Education. The Secretary for Education must be satisfied there is no risk that the board member who has a concern or interest in the contract has used their position on the board to receive preferential treatment from the board.

The board must submit a written application that includes the following information:

1. Evidence that the board has taken all reasonable steps to ensure that potentially interested parties had an opportunity to tender for the contract.
2. Evidence that the board has considered and evaluated each of the tenders or quotes, and can justify the preferred choice on the basis of cost, performance or quality of service.
3. Evidence that the board has resolved to accept the contract subject to the Secretary for Education’s approval. The contract should not have been entered into prior to approval being sought, but it is

¹ The Education (School Boards) Regulations 2020 states that “…a trustee who has a pecuniary interest in any matter or any interest that may reasonably be regarded as likely to influence a trustee in carrying out his or her duties and responsibilities as a trustee shall be excluded from any meeting of the board while it discusses, considers, considers anything relating to, or decides the matter.” This is being moved into Regulations in September 2020.
permissible for the board to have conditionally entered into the contract subject to obtaining the Secretary’s approval.

4. The board minutes record that the member who is ‘concerned or interested’ in the contract, declared that interest and excluded themselves from all meetings of the board when the matter was being considered.

Although the Secretary may retrospectively approve contracts that have already been entered into, the approval process is not an automatic one. Where the contract has already been entered into when a board makes its application, evidence needs to be provided that there is sufficient good reason why the board did not apply for prior approval. It is a risk not to seek permission early as the member may be disqualified from the board if approval is not given.

Applications for approval should be sent to the Ministry of Education National Office, attention National Lead Advisor, School Financial Advice, Ministry of Education, PO Box 1666, Wellington 6041 or email school.finances@education.govt.nz.

Note: this figure of $25,000 is only a trigger point. Even if a contract is less than $25,000 but still a significant sum (say $5,000 to $10,000), the board needs to be very certain that it has taken the same rigorous approach to ensuring that a conflict of interest is avoided.

2.3.7 What should a board do if the conflict of interest is unmanageable?

A conflict of interest can be managed when the board member is able and willing to remove themselves from any discussion and decision-making surrounding the ‘conflicting interest’.

A conflict of interest may be unmanageable when a board member is unable or unwilling to disassociate themselves from the conflicting interest. In some cases the conflict may be so pervasive or material that the member is unable to discharge their duties at all and therefore should resign from the board.

2.4 Financial decision-making

2.4.1 Probity

All money received by boards, whatever the source, automatically becomes public funds and boards are accountable for all of their expenditure. Board members are responsible for prudent financial management of the school and appropriate financial decision-making. They should not spend money on transactions or activities that are extravagant or wasteful, and only approve spending that is appropriate and necessary for the effective operation of the school.

One of the most common reasons given by schools when an inappropriate payment is made is “the payment was from locally raised funds/international student income and not from government grants”. The logic seems to be that schools have to be prudent with grant money, but can do whatever they like with funds raised locally. This argument is not consistent with National Administration Guideline (NAG) 4.

Sensitive expenditure

School boards and management have a responsibility to ensure that all funds received by the school, no matter their origin, are safeguarded and spent in the best interests of students. Any sensitive expenditure should be carefully thought out before approving. Expenditure is deemed as sensitive when it could appear to be spent inappropriately and not in the best interest of the school. Common examples of areas of expenditure that can be highly sensitive are travel, principals’ expenditure and board expenditure.

Boards should consider the following before approving proposed expenditure:
Does the expenditure further the aims of the school?
Could the board justify this expenditure to a taxpayer, parent or other interested party?
Would publicity over this spending adversely affect the school?
Would there be a perception of any personal gain to this expenditure?
Does the expenditure represent the best value for money?
Is it in the budget?
Does this expenditure occur frequently?

Examples of inappropriate expenditure approved by boards which could cause risk to the school include the:
- purchase of lifetime Koru Club membership for the principal and spouse
- hiring of a corporate box to reward staff for their endeavours during the year
- school paying the related costs for a spouse or companion on an overseas trip

**Overseas trips**

Boards have discretion to make decisions on the expenditure of Crown funding, however, there should be reasonable justification for how the proposed expenditure supports a board’s primary objective – achievement of all students at the school/kura. We recommend that boards ask two main questions when considering whether an overseas trip is appropriate:

1. How would the proposed trip support the curriculum?
2. How would the trip be paid for?

Crown funding refers to all money received by the school (including locally raised funds) which is subject to the same standards of expenditure, regardless of the source of income. The only exception is conditional revenue, such as parental contributions towards an overseas trip, which must be paid back if the trip does not go ahead.

Examples of overseas travel that may further student achievement include, but are not limited to: visiting the site of a significant cultural event (e.g. a battle where the school community had significant casualties), senior Māori groups visiting Pacific Islands where ancestral stories originate (e.g. Tahiti), or language students visiting a country where the language of study is primarily spoken.

**Travel involving students**

School boards should be the approver for overseas trips involving students. Before approving any overseas travel involving students, the Ministry advises that boards:

- In the absence of a documented approval process specific to the school, complete the Decision Guide for Funding Overseas Travel Involving Students (Appendix C). This document provides a framework to guide decision making when considering whether to approve Crown funding for overseas travel for students.
- Keep a copy of the signed Decision Guide, along with the board minutes of each decision, to be available for audit purposes.
- Account for all expenditure associated with the travel, including receipts returned following the trip.

In addition to completing the Decision Guide, it is good practice to consider the following questions:

- Why is this experience likely to be more effective than a local or virtual alternative?
- Where appropriate, how might learning from this trip be shared with other students, staff, or the community?
- How does the expenditure on this trip further the aims for the school as set out in its charter?
- Is this spending justified for the select number of students (where applicable)?
• After accounting for the cost of the trip and other financial commitments, will the board have sufficient working capital/available cash to meet expenses?

Non-curriculum and staff travel
Non-curriculum and staff travel is generally, but not limited to, a principal attending an international conference or completing a marketing trip for international students.

For all such overseas travel, the Ministry recommends that boards:
• Provide reasonable justification for how the expenditure supports the board’s primary purpose, and record formal approval.
• Apply the one-up principle i.e. approval for travel is given by the staff member’s direct manager.
• Consider the below questions:
  ▪ What is the purpose of the trip?
  ▪ What is the budget, including all associated costs and potential staffing implications?
  ▪ What are the expected outcomes of the trip – for the school and the individual travelling?
  ▪ How will learning from the trip be used in the school and shared amongst colleagues?
  ▪ How will learning be used to enhance student achievement?

It is good practice for a report to be provided to the board identifying actual vs budgeted expenditure for each trip including reference to achievement of outcomes.

Accounting for expenditure
If there is any overseas travel incurred in the current period which is material to the school (including significant travel expenditure for professional development purposes), this should be disclosed in the notes section of the school’s audited accounts.

Some overseas travel may require greater justification and transparency than others, e.g. a two week trip to Europe costing $10,000 verse a $500 day trip to Melbourne. If a school does not think a trip is ‘material' and therefore does not require disclosure, the Board should discuss that with their auditor.

Gifts
A board should be cautious when giving and receiving gifts. This is a sensitive area of expenditure where perception is important. Generosity should be tempered with probity for prudent management of school finances. Decisions should be made carefully, taking into account the purpose and value of the gift. If the board has any doubt about the appropriateness of a gift they should seek independent advice (eg from a lawyer, the New Zealand School Trustees Association or their regional financial advisor in the Ministry of Education).

Gift policies generally require that all gifts given and received by school employees and members are recorded. This ensures transparency in school operations and also provides protection for employees in the event of allegations being made about that employee. Gift policies also reduce a school’s exposure to the risk of fraud and any obligation to the giver.

Giving gifts
Gifts given in recognition of employment or services rendered by employees (including payments made when employees retire, compassionate grants and bonus payments), may conflict with the terms of collective agreements and require concurrence ie, approval from the Secretary for Education (refer to the collective agreements). Find out more about applying for concurrence for employee benefits.
The board may wish to express its thanks to parents or other community members who donate services to the school by way of a small gift. It may also be appropriate for employees travelling overseas to give a small gift to their hosts.

Factors that the board may wish to consider would include the value of gifts, frequency of gifts, perception issues, personal links between staff/members and receivers of gifts.

Receiving gifts

Gifts to board members
Section 159 of the Education and Training Act 2020 and section 167 of the Crown Entities Act 2004 allow a board to accept or decline any gift of money or property. Where a board accepts the gift of an item that it could not acquire on its own behalf (for example, real property or securities that are not authorised by the Education and Training Act 2020 or by approvals given by the ministers of Education and Finance), the Education and Training Act 2020 allows the board to continue to hold that gift for a period that is reasonable in the circumstances. In these circumstances, boards wishing to retain the gift are advised to seek approval within 12 months of receiving it. If approval is not forthcoming then the board must return the gift.

In some circumstances, a board may receive a gift or bequest where, as a condition of the gift or bequest, the board must continue to hold a security in its current form. This form of gift or bequest is common in schools where the donor or testator determines that the school should continue to hold the security and fund activities or prizes from any return on that security. In these circumstances the acceptance of a conditional gift or bequest creates a trust and section 161(2) of the Crown Entities Act exempts the board from the requirement to hold only authorised securities. The board may, therefore, continue to hold the gifted or bequeathed security in perpetuity without need to seek approval.

Gifts to school employees
The board should have a policy on gifts as part of its conflict of interest policy. School employees should consider the appropriateness of the gift offered.

It may be appropriate for a teacher to accept a small gift (eg chocolates) from the parents of a student who has shown great improvements under that teacher’s guidance. The board policy should have a policy that outlines what types of gifts may be accepted by staff. The policy should clearly state what gifts are appropriate and what aren’t, and the value that would be considered appropriate. A cash gift to a teacher by the parents of a student is inappropriate and could lead to a feeling of obligation to the giver, or even to allegations of bribery or graft. Cash gifts should always be declined by a teacher.

Similarly, a principal or member should consider if any gifts offered to them could give rise to a conflict of interest and therefore should be declined. For example, if a gift was offered from a construction firm when the school was about to tender a construction project, this would give rise to a conflict of interest and would not be appropriate to accept.

2.4.2 Policies and procedures

Policies need to be set by the board as a guideline of what is expected at the school. Policies and procedures are designed to clearly outline the intentions of the school and how funds should be spent. They are intended to help decision-making by the principal and any staff who has authority to make and/or approve expenditure. The Ministry has developed a number of model financial policies as a guide for schools when developing their own policies. These can be found at Appendix B.
2.4.3 Delegations

A delegation is a formal tool used to communicate the authority and responsibility that is being vested in an individual or group. Providing delegations to school employees is one of the key ways in which boards carry out their responsibilities for governing schools. By setting appropriate delegations, the board communicates its views about school management to staff. For example, a board may delegate to the principal authority to make all staff appointments within the existing school structure. However, the board may retain the right to approve or veto any appointments to newly established positions.

Delegations are given only by board resolution, with the nature and conditions of the delegation to be specified in writing and provided by notice to the delegated person or persons as specified in the Education (School Boards) Regulations 2020. By formalising the delegation process (recording it in writing) the board reduces the risk of:

- overlooked tasks because 'everybody thought someone else was doing it'
- duplicated tasks because several people thought they were responsible
- conflicts between people or groups because they feel they are uncertain of who should be doing what.

A sample of a formal delegation is available in Appendix B.

2.4.4 Approval of budget

Board approval

Budgets are to be prepared annually. It is the responsibility of the board to ensure budgets are prepared and, once finalised, the board must approve the budget for the year. The principal and the financial provider or office support staff who are involved in the day-to-day running of the school are often involved in the budgeting process with the board. The budget should align with the school's annual plan, allocating resources to identified educational priorities.

Before the budget is finalised, the full board must have an opportunity to check it. If the board has been part of the planning process there will be no surprises now – the board may refine some of the detail and then formally approve the budget. For further guidance on how to prepare a budget, refer to section 3.2.

When the New Year starts…

Once the school opens for the New Year the budget should have one last check. Primarily you need to make sure that your assumptions about roll numbers have been realised. If your roll expectations differ from reality, your funding will be altered and you will need to re-examine your expenditure plans.

When the board approves the school budget it should record this decision in its minutes.

The approval of the budget by the board is the approval of the expected expenditure for the upcoming school year. It is important that the budget is monitored by the board throughout the year.

The budget that is approved by the board at the beginning of the year must be the budget reported in the year-end financial statements even if there has been any re-forecasting during the year. Any variances between actual and budgeted outcomes will be reflected in the Analysis of Variance report also included in the financial statements.
2.4.5 Borrowing decisions

School boards can only borrow within the limits set by section 155 of the Education and Training Act 2020 and the conditions specified in regulation 12 of the Crown Entities (Financial Powers) Regulations 2005. A school board can: “in any calendar year, borrow any amount it thinks fit from any source it thinks fit provided that the total annual cost to the board in repaying all outstanding borrowings (including both principal and interest repayments) is equal to or less than one-tenth of the value of the grants determined by the Minister of Education to be paid to the board for operational activities for that year”.

What situations won’t create a breach of the borrowing limit?

From time to time changes in a board’s circumstances may cause the board to exceed the 10% limit. For example, increases in interest rates and/or decreases in operational funding may cause the board to have borrowing in excess of the limit. If this occurs, the board is not required to seek retrospective approval for the borrowing because, at the date the borrowing was entered into, the borrowing met the restrictions. However, if changes to a school’s environment have caused it to exceed the 10% limit, then any further borrowing will be in breach of the Education and Training Act 2020.

If money has been borrowed within a board’s borrowing limit and the board subsequently decides to retire the debt early (pay it off), when the repayment of the principal plus interest costs for the year exceed the school’s 10% limit, the repayment of principal will not cause the school to breach regulation 12 of the Crown Entities (Financial Powers) Regulations 2005 or section 155 of the Education and Training Act 2020.

A long-term loan or short-term advance from the Ministry will not create a breach.

Note: advances are only approved for schools that are in severe financial difficulties and will almost certainly be accompanied by a requirement to engage expert assistance.

What will create a breach of the borrowing limit?

Any new borrowing that causes a school’s total principal and interest repayments to exceed 10% of its operational funding in that year will cause a breach of the borrowing limit. The new borrowing may be a finance lease (some long-term property maintenance contracts are a form of finance lease), overdraft or other loan. If a board exceeds the limit and does not obtain prior ministerial approval then that board is deemed to be in breach of the Education and Training Act 2020 and retrospective approval cannot be given.

How can a school get approval to exceed the borrowing limit?

If a board wants to borrow and it will cause the school to exceed the 10% repayment threshold they must obtain prior joint approval from the ministers of Education and Finance.

The board must submit a written application that includes the following information:

a. The educational benefit expected from the new borrowing, eg increased capacity or improved performance from the acquisition of physical assets.

b. A copy of the board’s minutes showing its resolution that the proposed borrowing is necessary, including how and why, to achieve the aims and objectives for its strategic direction as set out in the school charter.

c. The value and the term of the proposed borrowing arrangement, along with any associated security, contractual restrictions, obligations or covenants.

d. Any credit rating or other financial risk information about the proposed lender.

e. A copy of the board’s latest audited financial statements and current year-to-date financial information for the school.

f. A copy of the board’s financial plan (including a projected Statement of Cash Flow) that demonstrates the school’s ability to meet its current financial obligations and the proposed borrowing arrangement.
g. Details of any interest a board member may have and the extent and/or financial value of that interest.

h. Information relating to any negative implications that may accrue to the board if the borrowing arrangement is not approved.

i. Details of the investment proposition that the borrowing is for, including cash flow projections of the investment, e.g., the borrowing is for a new hostel at the school and the revenue and expenses expected to be incurred annually for the hostel.

Applications should be forwarded to the Ministry of Education, National Office, attention National Lead Advisor, School Financial Advice, Ministry of Education, PO Box 1666, Wellington 6041 or email school finances@education.govt.nz.

The Ministry will consider the application and may request clarification or further information. If the Ministry of Education supports the application then they will forward it to Treasury officials for consideration. Joint approval by the Minister of Education and the Minister of Finance is required.

If approval is granted the following conditions will apply:

- The approval is from the date of the decision and is not retrospective.
- The approval is for the proposed borrowing arrangement only. The Ministry and Treasury do not guarantee any borrowing arrangements entered into by boards.

**I need to purchase new equipment for my school, how should I pay for this?**

As part of school life there is a need to invest in new equipment such as photocopiers, IT equipment, motor vehicles or even alternative energy sources to support the educational objectives of the school. How these equipment purchases are funded is a significant decision that school board or management will need to make. The decision to buy or lease equipment for your school or kura depends on your school’s circumstances.

- If you have the cash available, purchasing the equipment outright will often be the best option.
- If your school does not have the required cash (i.e., you have insufficient cash reserves, the capital item is very expensive or you do not want to tie up large amounts of cash) then you may choose to consider borrowing to purchase the equipment or leasing the equipment and paying for this purchase over a number of years.

If the options are not so clear-cut, then you have some thinking to do. As a public entity the decisions you make need to follow the guiding principles of public sector procurement practices, following transparent, unbiased decision making, with consideration of value for money. Often the initial cost of the equipment is only part of the total life time cost and any associated costs need to be considered. The Buy vs Lease Tool is available to assist you in making purchasing decisions. While this tool is not designed to make the decision for you, it has been developed to assist the decision making process.

You can find the Buy vs Lease Tool on our website.

**2.4.6 Securities**

A security is any interest or right to invest in any capital, assets, earnings, royalties or other property of any person. There are two main types of securities: debt securities and equity securities.

In general terms, a debt security is a right to be paid money that has been lent to someone else. The most common form of a debt security that most people are familiar with is a term deposit. Debt securities can also include debentures, debenture stock, bonds, notes, certificates of deposit and convertible notes.

An equity security is full or part ownership of a private or public company.
What this means is that you can own securities in a registered bank or other credit worthy institution (seek advice on credit worthiness rather than make your own decision), and you can own bonds and stock issued by public bodies, but you cannot own shares in private or public companies (meaning companies listed on a stock exchange). You definitely cannot invest overseas or in any currency other than New Zealand dollars.

Under section 161(1)(a) of the Crown Entities Act and the replacement schedule 6 (clause 28) of the Education Act boards may not acquire securities other than:

1. a debt security denominated in New Zealand dollars that:
   - is issued by a registered bank, or any other entity, that satisfies a credit rating test that is specified in either regulations made under part 4 of the Crown Entities Act 2004, or a notice in the Gazette, published by the Minister of Finance

2. a public security (this includes any loan or credit agreement, guarantee, indemnity, bond, note, debenture, bill of exchange, Treasury bill, government stock and any other security representing part of the public debt of New Zealand)

3. a security authorised by regulations or by approval given jointly by the Minister of Education and the Minister of Finance under section 160(1)(a) or (b) of the Crown Entities Act and also in the replacement schedule 6 (clause 28) of the Education Act.

Approval of securities

Approval for securities that do not meet the tests listed above requires the joint approval of the Minister of Finance and the Minister of Education. Approval will only be given if there is no risk to Crown funds, and there is a significant level of benefit (educational or otherwise) for one or more boards or their students.

How to apply for approval to acquire securities

A written application needs to include:

- reasons for wanting to acquire these securities
- expected benefits from acquiring the security
- current financial information for the school
- the value and, where applicable, the term of the security the board wishes to acquire
- details of any interest a board member may have and the extent and/or financial value of that interest
- any credit rating or other financial risk information about the issuer of the security
- any security offered by the issuer
- an assessment of the potential effect on the school in event of default by the issuer
- information relating to actions taken, or proposed to be taken, by the board to minimise and/or mitigate credit risk exposure if the application is approved.

If approval is granted the following conditions will apply:

- The approval is from the date of the decision and is not retrospective.
- The approval is for this transaction only.
The Crown does not guarantee securities acquired by school boards.

Applications should be forwarded to the Ministry of Education, National Office, attention National Lead Advisor, School Financial Advice, Ministry of Education, PO Box 1666, Wellington 6041 or email school.finances@education.govt.nz.

What if a debt security ceases to qualify as authorised?

Should a security cease to qualify as a security authorised by the replacement schedule 6 (clause 28) of the Education Act, as detailed above, a board has a period of grace in which it may continue to hold that security. The period of grace ends on the earlier of:

- two months after the bank account ceases to qualify
- a date specified by the Minister of Finance and notified to the board.

From the time the board becomes aware that the security no longer satisfies the credit rating test, it must diligently monitor the credit rating of the debt security and take all prudent steps to avoid loss.

What if the school is given the securities?

The replacement schedule 6 (clause 33) in the Education Act applies to boards that receive gifts of money or property including securities. Under this provision:

- any money or property that is gifted to a school may be accepted or declined by the board
- any limitation in the Education Act or that applies under the Crown Entities Act 2004 (such as a limitation on the form in which property may be held) does not apply during a period that is ‘reasonable in the circumstances (for schools this is a period of no more than 12 months)’. 

This means that the school is required to divest itself of the non-approved securities or apply for approval to keep the securities within a year of receiving them. Requests for approval to retain securities will be assessed on a case-by-case basis. All of the information listed above for an application to acquire securities should be provided with the application to retain securities.

What if the school is given non-approved securities as a conditional gift?

In some circumstances a board may receive a gift or bequest with the condition that the board must continue to hold the security in its current form. This form of gift or bequest is common in schools where the donor or testator determines that the school should continue to hold the security and fund activities or prizes from any return on that security.

In these circumstances, the acceptance of a conditional gift or bequest creates a trust and the restrictions in section 160 regarding securities do not apply as stated in section 161(2) of the Crown Entities Act. The board may, therefore, continue to hold the gifted or bequeathed security in perpetuity without need to seek approval.

2.4.7 Loans

In no case shall a board approve a loan to any party. This includes any staff, any trusts associated with the schools or any external parties. In terms of the Education Act a loan made by a school to a member of staff is illegal. If a school or board is approached in regards to providing an external loan, the board should immediately get in touch with the Ministry.
2.4.8 Large or long-term financial commitments

A school board needs to take significant care when making decisions about large purchases or long-term financial commitments. Decisions made now may impact a school’s financial situation for many years.

The table below includes some of the things that should be considered when making decisions about spending a lot of money and before signing long-term contracts.

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<tr>
<th>Assets</th>
<th>Consumables</th>
<th>Services</th>
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<td><strong>Examples include:</strong></td>
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<td>• computers</td>
<td>• stationery</td>
<td>• painting and maintenance contracts</td>
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<td>• buildings</td>
<td>• sports equipment</td>
<td>• plumbing and electrical work</td>
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<td>• vehicles</td>
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<td><strong>Possible options include:</strong></td>
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<td>• finance lease</td>
<td>• bulk purchase agreements</td>
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<td><strong>Key considerations:</strong></td>
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<td>• cash discount</td>
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<td>• warranty</td>
<td>• continued supply</td>
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<td>• ongoing service and supplies</td>
<td>• delivery cost</td>
<td>• reputation</td>
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<td>• maintenance (local expertise and complexity)</td>
<td>• environmental impact</td>
<td>• communication</td>
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<td>• economic life</td>
<td>• loyalty discounts</td>
<td>• continuity of service</td>
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<tr>
<td>• obsolescence</td>
<td>• fit for purpose</td>
<td>• guarantee</td>
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</table>

2.4.9 Treatment of board contributions

A funding contribution can range from a school board contributing a small sum to a Ministry-funded capital works project to expand or enhance on Ministry design specification, through to ‘shared ownership’ capital works projects where the school board, in conjunction with the Ministry, contributes to a large school property development.

Funding contributions may be one of two types:

- **“Donation”** – a contribution towards an upgrade of a Ministry-owned and maintained asset.
- **“Investment”** – a contribution towards the creation of a new asset or enhancement of an existing asset owned and maintained by the school board or owned and maintained partly by the Ministry and partly the school board.

Where the capital works project is run by the Ministry, and the school board has agreed to the contribution for specific enhancements or developments, then the school board will receive a GST-inclusive invoice for its contribution.

Where the school runs the capital works project, then school must declare what it spent on the project at its conclusion to the Ministry.
Where the contribution is a “Donation” then the invoice must be treated as a distribution to the Crown through the Statement of Changes in Net Assets/Equity. GST on the invoice must be accounted for accordingly.

Where the contribution is an “Investment” then the expenditure must be capitalised in the school’s fixed asset register as well as GST being accounted for accordingly.

2.4.10 Treatment of School Owned Assets Transferred to Ministry of Education

Where a school board transfers its ownership interest in a building or part of a building to the Ministry, then this transfer must be treated as a distribution to the Crown through the Statement of Changes in Net Assets/Equity, and not as an expense.

2.4.11 Treatment of Overspends on Five-Year Agreement Projects

If a board is facing an overspend on a Ministry-funded capital works project, eg a five-year agreement (5YA) project, then the board should approach the Ministry on project management options before exceeding the budget. Options could include scope reduction or readjusting the school’s 5YA. If the step is not followed and the budget is overspent without Ministry pre-approval, any overspend will result in the board having to recognise the over-spend as a board expense (in this scenario, the board will not own an asset).
2.5  School property management

2.5.1  State schools

Schools can have both board and Ministry owned buildings. It is the board’s responsibility to manage and maintain both Ministry and board owned property. The cost of a board-funded building must be accounted for as a fixed asset in the school's Statement of Financial Position while all Ministry owned buildings should not be included in the school's accounts.

Find out more about property management in state schools.

Property Maintenance Grant for school maintenance work

Boards can use the Property Maintenance Grant (PMG) to pay for maintenance work on Ministry-owned buildings and facilities at their school. This funding does not cover capital work or operational non-property expenses.

Find out more about the Property Maintenance Grant for state school maintenance work.

2.5.2  State integrated schools

State integrated schools are former private schools that have become part of the state system. They receive some government funding to maintain and modernise the integrated school buildings. They differ from other state schools in that a private entity, the ‘proprietor’, owns the school buildings and land and is responsible for ensuring the buildings meet Ministry standards.

Find out more about property management for state integrated schools.

Property Occupancy Document

Download the Property Occupancy Document for state school property management.

2.6  Strategic planning

2.6.1  School charter – an integrated planning tool

Every board is required to review its school charter every year. You should think of your charter as a chance to bring together all the elements of board planning. Based on student achievement data, you will set your educational goals and these will drive your resource allocation – from the number of teachers and support staff, through professional development, information and communications technology (ICT) planning, property plans, and budgets.

When developing your targets, you should also think through to the reporting that you will be doing against these targets in the Analysis of Variance part of the school’s annual report.
Find out more about planning and reporting requirements.

2.7 Monitoring

Periodically during the year, the board will want to assure themselves that the school is on track towards achieving its financial and non-financial objectives. This is usually monitored through the review of the management reports presented to the board by the principal at each board meeting. It is important that the board meet regularly throughout the year to discuss the current status of the school. This is predominantly through the review of the monthly management reports. When reviewing the management reports, the board should be looking for anything that may indicate that the school is financially at risk. The management reports should include budget versus actual for the month. If there are areas where actual is well over budget the board should be asking questions about why this has occurred. They also should be looking at roll numbers and whether the school is meeting its targets set in the school charter. Meeting minutes of all board meetings should be maintained as a record of all matters discussed and decisions made by the board.

2.7.1 Indicators of financial health

- Positive working capital – this shows that the board can pay its current debts – short-term assets, such as cash or assets that can be converted to cash quickly, are greater than short-term liabilities (payments that have to be made soon)
- Operating surplus – revenue is greater than expenses
- Positive equity – total assets are greater than total liabilities
- Cyclical maintenance obligations are up to date
- Steady/improving roll numbers
- Staffing usage information is on track
- Budgets are prepared annually and are being met
• An unqualified audit report
• Having a 10-year property plan in place
• Cash is set aside for any future asset replacement (ie computers) or exterior painting of the buildings (ie cyclical maintenance provision)
• The school does not have excessive borrowings

If any of the above factors are not being met by a school (ie there is an operating deficit or a declining school roll) there could be an indication that the school is financially at risk. The board needs to analyse any indicators that the school is financially at risk and assess whether there needs to be an intervention. Each of these indicators in isolation does not necessarily mean that a school is financially at risk as circumstances may vary, eg a board may have cash reserves to cover a one-off operating deficit.

If a principal or board is uncertain or believes their school is at risk, they should contact their financial service provider or local Ministry of Education financial advisor for help to assess the situation. This does not necessarily imply that more funding can be made available.

The most common reasons for a school finding itself in difficulty are:
• large property projects paid in full or part from local funds
• unsustainable levels of staffing (including teachers) paid out of operational funding and local funds
• unplanned acquisitions and large commitments to ongoing expenditure (ie long-term painting contracts, ICT leases, etc)
• school rolls falling year on year.

In most cases, these problems can be avoided if the school plans and accurately forecasts what levels of expenditure are sustainable.
2.7.2 Schools at financial risk, and the Ministry of Education

The Government requires that the Ministry of Education reviews every school's audited financial statements and contacts schools where there is an element of financial risk. This does not mean that the school is necessarily at risk. A letter from the Ministry may simply ask if the board has taken steps to remedy specific matters.

It is common for boards to have already noted potential problems and have the situation under control. There is evidence that a high percentage of boards exercise robust levels of financial responsibility and effectiveness.

If the board would like some assistance, the Ministry's financial advisors are available to provide advice and support to the school.

If the financial situation of a school becomes critical, the Minister of Education can invoke the provisions of the Education and Training Act 2020. These can range from requiring the school to supply information or use expert assistance, develop an action plan, have a specialist audit, receive a performance notice, the appointment of a limited statutory manager, or even removal of the board and replacement with a commissioner. It is better, for both the school and the Ministry, if the school's situation can be improved before this intervention is necessary. We encourage schools experiencing financial difficulty to contact their local financial advisor or other help as soon as possible.

2.8 Associated parties

2.8.1 Parent/teacher associations

Parent/teacher associations (PTAs) or home school associations are voluntary organisations bringing together parents, teachers and sometimes students within a particular school. Normally, their aims are to help fundraise for developing parent involvement and community at school and other activities relating to the welfare of the school.

Good communication between the board and the PTA can help the two entities work together effectively for the school and its students.

For further information on parent/teacher associations, visit the New Zealand Parent Teacher Association website.

It is likely that PTAs or similar may need to be registered under the Charities Act 2005 in order to retain their charitable (and tax-free) status. All such organisations are encouraged to check with their parent organisations – or seek advice from the Ministry's financial advisors.

Unless the PTA is a delegated committee of the board, members have no authority over the use of funds raised by the PTA. The PTA may, however, gift funds to the board.

Find out more about Parent Teacher Associations.
2.8.2 Trusts

**Non-controlled trust**

An independent trust may be operated for the benefit of the school, yet be outside of the school’s (board’s) control. In this case, the trust is considered as a separate entity and should not be consolidated within the school’s accounts.

The board cannot transfer or gift any money or assets to any trust or other organisation that it (the board) does not control. If a gift or bequest is made directly to an independent trust, then that money is controlled by the trust and is not subject to the Education and Training Act 2020. It can, therefore, be invested however the trust wishes.

**Controlled trust**

Board members can also be members of an independent trust board. However, that would make it more likely that the trust is within the school’s control and that their accounts should be consolidated. The individuals would need to be very careful to distinguish in which capacity they are acting and to avoid conflicts of duty and interest. In practice, it may be very difficult for the members to avoid conflicts of interest.

2.8.3 Integrated schools

Those who are associated with state integrated schools (as defined in section 10 of the Education and Training Act 2020) should note that any funds raised by PTAs or similar and that are transferred at any time to the school’s board automatically become Crown funds and can only be spent on board-owned assets, ie they cannot be spent on the proprietor’s property.

Fundraisers for integrated schools are encouraged to ensure that funds raised in support of school property are clearly identified as being in support of the proprietor and do not come under the control of the board at any time. Note this includes board-controlled trusts.
Chapter 2: School Principals and Financial Management

3.1 Principals’ roles and responsibilities

Principals are usually delegated authority from the board for the day-to-day financial management of the school. Under section 130 of the Education and Training Act 2020 a school’s principal is the board’s chief executive in relation to the school’s control and management. The principal is appointed by the board and shall comply with the board’s general policy directions and has complete discretion to manage as the principal thinks fit the school’s day-to-day administration.

Principals are responsible for monitoring and controlling school expenditure to make sure that money is carefully spent on the school’s priorities, as planned and budgeted. Principals should report regularly to the school board on financial management, and prepare annual audited financial reports.

Principals may delegate financial management tasks to school employees such as office support staff and may also pay for external accounting services. The principal, however, retains full responsibility for the financial records and reporting.

Every principal has a responsibility to maintain sound financial systems, understand key financial information about their school and provide appropriate reporting.
3.2 Budgeting

3.2.1 What is a budget?
A budget is an estimate of revenue and expenditure to be incurred by the school over the financial year (January to December). A budget serves as a plan of action for achieving quantified objectives, a way of measuring performance and a device for coping with foreseeable adverse situations.

It is the responsibility of both the board and principal to ensure a budget is prepared. Often a finance committee may be set up which will include the principal and at least one board member who are tasked with preparing the budget. It is the responsibility of the board to approve the budget.

The Education and Training Act 2020 requires that budgets are shown on the Statement of Comprehensive Revenue and Expense, and Statement of Financial Position.

3.2.2 Steps to budgeting

Compile the draft budget
1. It is useful to prepare for your budgeting by:
   a. reviewing the school charter and strategic plan to identify specific goals or activities that are required to be budgeted for
   b. creating a budget committee – in a small school this might be one or two board members; in a larger school it might include senior managers
   c. clarifying roles (who does what)
   d. reviewing expenditure against the budget for the current year to see what has gone well and what needs to be addressed for the new year
   e. identifying the information required to help make sound decisions.

   This will give you a budget work plan.

2. It is important not to just use the last year’s final figures and adjust for inflation etc to create your budget. Each year needs to be treated independently and a budget should be based on identified annual priorities, known figures and expected outcomes for the year ahead. For example, the school could, where appropriate, determine donation revenue based on roll numbers and the donation rate.

Detailed budgeting
3. Revenue
   - What is your operations grant entitlement next year (remember to take GST off the entitlement figure in your funding notice)?
   - What activity fees and/or donations do you expect to collect next year?
   - Are you planning an overseas student programme next year?
   - What other fundraising do you plan for next year?

   Note: it makes good financial sense to be conservative when estimating revenue, just in case things don’t go quite as well as hoped.
4. Personnel costs
   - What is your entitlement for next year for teachers and for management units?
   - Do you plan to fund any teachers from operational funding or locally raised funds?
   - How will these teachers contribute to student outcomes?
   - What teacher aides are you planning to employ next year and how will they contribute to student outcomes?
   - What support staff are you planning to employ next year?
   - How will they contribute to student outcomes?
   - How do your planned support staff numbers compare to the benchmark for similar schools?

5. Department and/or classroom costs
   - Based on your review of student outcomes, what department and classroom expenditure will you make next year?

6. Infrastructure costs
   - Based on your review of school infrastructure, what property and ICT costs do you face next year?

7. Other costs
   - What other expenditure must you make next year?
     i. Administration costs
     ii. Depreciation costs

8. Future costs
   - Do you have costs coming up in future years that you will need to save for now? For example, will any of your support staff become entitled to long service leave, meaning that you have to fund a temporary replacement while they are on holiday?

9. Based on your review of school infrastructure, what fixed asset purchases do you need to make next year?

Review your draft budget

10. Now that you have the first version of your budget, it is time to give it a reality check.
    - Are your assumptions realistic? For example, if your boiler breaks down every year, have you assumed there will be no boiler maintenance expenditure next year?
    - Does the school show a surplus including depreciation?
      If not:
      i. What changes can you make that will either increase revenue or cut costs?
      ii. Can you afford to run a deficit next year?
      iii. How can you make changes in future years to ensure you make a surplus and start building up reserves?
    - Based on your experience last year and over the year to date, is your budget realistic?
    - Will you have the funds necessary to make planned fixed asset purchases?
    - Are there any areas where spending is not essential and does not directly contribute to student achievement?

11. Once you consider the budget is representative of the board’s strategic plan, prepare it for review by the board.
Seek board approval

12. Before the budget is finalised, the full board must have an opportunity to check it. If the board has been part of the planning process there will be no surprises now – the board may refine some of the detail and then formally approve the budget.

When the New Year starts…

13. Once the school opens for the New Year, the budget should have one last check. Primarily you need to make sure that your assumptions about roll numbers have been realised. If your roll expectations differ from the reality, your funding will be altered and you will need to re-examine your expenditure plans.

14. When the board approves the school budget it should record this decision in its minutes.

3.2.3 Reviewing the budget during the year

No matter how careful the preparation of the budget is, it cannot account for everything that will happen in the year ahead. Budget holders should have the flexibility to reassess how they will spend their allocation as needs change. The total amounts required by budget holders may also change. A review during the year may reveal such significant changes that a new forecast may need to be developed. The process for approving these forecast changes should be documented and approved by the board.

It is recommended that boards conduct at least one formal review of their budgets during the year. This review is likely to follow the 1 July roll return.

Once the revised forecast has been approved, it will be used by the school for its own management.

Note: the board’s annual report must only show the original operating budget figures. Decisions about forecast changes during the year will provide information for the Analysis of Variance about why actual revenue or expenditure was different from the original budget.

The cash flow budget should be reviewed quarterly and the cash flow forecast for the rest of the year updated. Boards are encouraged to maintain a rolling forecast of their year-end positions, based on the actual year to date and budget or forecast figures for the remainder of the year. This will ensure that the board knows that it has sufficient funds to the end of the year.

Internal controls

Internal control refers to the set of policies, procedures and systems an organisation uses to safeguard its resources. These can range from requiring two signatures on a cheque to having a computerised purchasing and accounting system that separates the ordering, approving, receipting of and payment for purchases.

No organisation can completely guard against fraud and theft, including schools. When this occurs, it can be devastating to the board and school community and the board should be vigilant. However, a combination of internal controls will help to prevent it.

Strong internal controls within a school are vital to ensuring its financial integrity. It is the responsibility of the principal to ensure day-to-day internal controls are in place. Below is a list of key internal controls that should be implemented within all schools.
3.2.4 Segregation of duties

One of the simplest and most effective forms of internal control is to ensure the segregation of any duties relating to purchasing and paying for items or handling money. This makes it harder for one person to steal or defraud the school, unless they have the help of someone else, and employees are not exposed to temptation. When considering the segregation of duties, schools should try to separate as many as possible of the following functions:

- Receipting of cash
- Banking
- Ordering of goods/services
- Authorisation of expenditure
- Cheque signing
- Accounting records
- Payroll

No one person should have control of ordering goods, approving expenditure and authorising payments (via internet banking or cheque). This would allow a dishonest person to purchase and pay for goods for their own use without the purchase ever being checked or detected by someone else. To prevent this situation, the school could require that goods are requested, and the expenditure authorised by senior staff. The order is then placed by the school’s administration staff and the payment made via internet banking by two authorised signatories (often the principal and a board member).

Effective segregation of duties is much more difficult in smaller schools where there are fewer people available to carry out tasks. However, every attempt should be made to separate as many of the functions listed above as possible, if necessary by the involvement of board members with some tasks.

In addition to the segregation of tasks, another very effective internal control is requiring two signatures on cheques. Two people should also be required to authorise payments made via internet banking and for authorisation of payments within the online payroll system. This arrangement can be formalised with the bank and will help prevent fraudulent payments.

Examples of segregations of duties:
- Person who authorises an invoice does not then authorise it for payment.
- Person who banks cash should be different to the person who received it.

3.2.5 Authorisation of expenditure

It is vital that all expenditure is verified, approved and authorised before it is paid. The authorisation of expenditure should be in line with the delegation policies and budget set by the board and approved by the employee in charge of the department, i.e., the head of department, principal, etc. All expenditure incurred by the principal should be approved by the board.

Credit cards

If the school has any credit cards in its name there must be strict controls over the use of them. This includes giving only certain staff access to the credit cards and for receipts to be kept and authorised when expenditure occurs.
3.2.6  Bank accounts/bank reconciliations

Per section 158 of the Crown Entities Act, all money received by a school must be paid, as soon as practicable after it is received, into the school's bank account. The account must comply with Crown Entities Act requirements at all times.

School boards must properly authorise the withdrawal or payment of money from their bank accounts. This means that:

1. boards may grant a power of attorney to a service provider to use the bank account but those boards will still be responsible for that account
2. no income for the school can be paid directly to a service provider trust account, proprietor’s account or the account of any other third party.

Bank reconciliations

Bank reconciliations should be prepared and reviewed at least monthly, and weekly for larger schools. Schools can download their bank statements from their online banking at any time. Bank reconciliations are used to compare bank balances recorded in the general ledger to those recorded in the bank account/bank statement. Any variances identified should be able to be traced to supporting documentation. Common examples of variances include cheques received and accounted for in the system/general ledger but not yet cleared through the bank.

Authorised bank accounts

Your school's bank accounts must be held in registered banks or building societies that either meet the credit test specified in the Crown Entities (Financial Powers) Regulations 2005 or have been approved by the Minister of Finance.

School bank accounts must:

1. be in the name of the school only and may not include the name of a service provider, for example, ‘Kiwi Park School’ or ‘Kiwi Park School Board of Trustees’
2. be denominated in New Zealand dollars unless the Minister of Finance allows otherwise
3. be held at one or more of the following:
   a. a registered bank or registered building society that meets a relevant credit rating specified in the Crown Entities section 158(1)(a) and the credit-rating test set out in Regulation 7, or
   b. a registered bank or registered building society that meets the conditions of any relevant approval given by the Minister of Finance by notice in the Gazette, or
   c. a bank outside New Zealand if that meets the conditions of any relevant approval given to all schools, is authorised by the Minister of Finance or conditions related to an individual school, a group of schools or a type of bank account.

All approvals are gazetted in the New Zealand Gazette.

The Reserve Bank maintains, and updates from time to time, a list of registered banks and their credit ratings at: www.rbnz.govt.nz.

Approved banks

Banks currently approved for use by school boards are as follows:
ABN AMRO Bank NV
ANZ National Bank Limited
ASB Bank Limited
Bank of New Zealand
Citibank N A
Commonwealth Bank of Australia
Deutsche Bank A G
Heartland Bank Limited
Kiwibank Limited
Rabobank Nederland
Rabobank New Zealand Limited
Southern Cross Building Society
The Bank of Tokyo-Mitsubishi Limited
The Hongkong and Shanghai Banking Corporation Limited
TSB Bank Limited
Westpac Banking Corporation

**Period of grace for bank accounts that cease to be authorised**

Should a bank account cease to qualify as an account authorised as detailed above, a board has a period of grace in which it may continue to operate that bank account. By the end of that period, it must have closed the account and transferred all the money in the account to another account that does qualify as an authorised account. This situation would arise, for example, if a registered bank no longer satisfies the credit-rating test. The period of grace ends on the earlier of:

- two months after the bank account ceases to qualify, or
- a date specified by the Minister of Finance and notified to the board.

**Approval of bank accounts at registered banks and building societies**

If your board wishes to operate a bank account that is not authorised under the guidelines above it can apply to the Ministry of Education, attention Senior Financial Advisor, for approval of the bank account. The application must contain the following information:

- Why the board wants or needs to bank with a bank or building society that does not meet the specified credit-rating test.
- The nature and size of the board seeking approval and the likely amounts that will be kept in the bank from time to time.
• What the bank or building society’s credit rating is (if applicable), the reasons it has not been able to satisfy the specified credit-rating test and the significance of those reasons, in terms of investment risk, to the board as a banking customer.
• Whether the bank or building society is prudently managed and meets its statutory obligations.
• The ability of the bank or building society to meet the needs of the board and the relative convenience of the board using that bank or building society.
• The level of risk that the bank or building society might default on its obligations (and any attendant Crown risk).
• Whether there is any other factor that might point to it being financially irresponsible for the board to bank with the particular institution.

**Bank accounts at banks outside New Zealand**

School boards may not operate a bank account at a bank outside New Zealand unless they receive the prior written approval of the Minister of Finance or the prior approval of the Minister of Finance by notice in the Gazette.

Boards may seek the Minister of Finance’s approval for the operation of a bank account outside New Zealand. For such a request to be considered, a board must forward a written application to the Ministry (attention Senior Financial Advisor, PO Box 1666, Wellington) and receive approval prior to opening the account.

**Bank accounts denominated in foreign currency**

The bank accounts of school boards must be denominated in New Zealand dollars unless the board obtains the prior approval of the Minister of Finance.

For such a request to be considered, a board must forward to the Ministry a written application (attention National Lead Advisor, School Financial Advice, PO Box 1666, Wellington 6041 or email school.finances@education.govt.nz) and receive approval prior to opening the account.

**Internet banking**

Internet banking has become significantly more common over the past 10 years. All schools should have internet banking established and be using it as the main way for paying expenditure and receiving funds. It is a simple means of payment as it can be done from anywhere at any time – as long as the authorisers have access to the internet. It is a more secure means of payment than cash and should reduce the amount of cash held by the school.

Strict controls should be implemented around internet banking. This includes the restriction around who has access to internet banking and ensuring any payments always require two approvals before they are made. Where one person can act on their own to make payments or transfers, there is a higher risk. If there is only one authoriser for internet banking it is recommended that other controls are in place to mitigate the higher risk. An example of this would be for the board to approve all payments. Those who have access to internet banking should be well thought out and approved by the board, as processing fictitious payments is one of the ways fraud could be perpetrated. Any payments should always be supported by documentation such as an invoice. It is important to ensure the invoice has been approved prior to any payments being made.

Any reimbursements to staff should be made via internet banking and again should be accompanied with a receipt that has been approved for reimbursement.

It is important when making internet banking payments that the supplier bank account details loaded into internet banking agree with those on the invoice.
**Petty cash**

Petty cash is used to make small purchases or reimbursements in cash for items such as stamps, office supplies, milk, etc. The board should develop a policy of how much money should be available in cash and a maximum expenditure that can be paid with petty cash – this can be included within the board’s cash management policy.

The majority of expenditure should be made through internet banking and therefore only a small amount of cash should be held. It is recommended that no more than $200 is held in cash by the school. Any cash payments received by the school should be banked as soon as practical.

The petty cash fund should be kept in a locked box or drawer. Auditors recommend that only one person, called the custodian, has access to this cash and that person be responsible for all petty cash activity. To disburse petty cash funds, the school will need to document each transaction, using receipts and petty cash vouchers and determine who in the school can approve petty cash top-up payments.

### 3.2.7 Posting/approval of journals

Journals are a daily occurrence to record transactions. They are both manual and automatic depending on the accounting system used. Journals are recorded in the accounting system and there should be internal controls in place to ensure appropriate journals are being posted. A key internal control over journals is to have separate people prepare and post the journals and for all journals to be approved before they are posted. Supporting documentation around every manual journal should be kept. For example, if an invoice is received for stationery, the office manager should prepare the journal and attach the supporting invoice to the journal for approval by the principal. The principal should then sign the journal as approved before it is then posted to the accounting system.

### 3.2.8 Fixed asset register

A fixed asset register is a document maintained outside of the accounting system – often in excel. The register records all assets which have been purchased by the school, although the Ministry suggests that schools only record assets in their fixed asset register if they cost more than $1,000. This is up to the board and should be stated in the policies set by the board.

The fixed asset register includes all the details of the asset purchased such as:

- purchase date
- purchase price
- estimated useful life
- residual value
- annual depreciation expense
- depreciation rate.

The register should be kept up to date and an asset stock-take should be performed at least annually. This involves sighting all assets that are included in the register to ensure they still exist and checking the quality of the asset – ie that no impairment over the asset needs to be recognised or that it should not be disposed of.

As well as recording all fixed assets in the fixed asset register, schools should maintain those assets in good working order and plan for their replacement.

Asset planning should be consistent with an asset management policy that should be set by the board – refer to Appendix B for an example of an asset management policy.
One suggested method for preparing an asset replacement plan is the following:

1. Ensure that the fixed asset register is up to date and accurate.

2. Identify fixed assets that you:
   (a) don’t plan to replace, eg school houses, or assets becoming obsolete with technology changes
   (b) don’t plan to replace by using board funds, eg assets bought with fundraising
   (c) don’t plan to replace by purchasing, eg computers that will be leased; make sure that all finance leases are within the school’s borrowing limit.

3. Decide what new assets will be needed to achieve the school’s strategic plan.
   Note: asset costs such as consumables and maintenance need to be budgeted for.

4. Determine when existing assets will be replaced.
   Note: replacement costs may be higher than original cost, and that roll projections will affect the number of assets to replace.

5. Prepare a forecast of future cash flows needed for asset replacement, including timing of purchases during a year, as teaching staff may expect assets to be available for the beginning of a new school year.

Compare the depreciation budget with the asset replacement budget. Prepare a savings plan to cover any shortfall plus new asset purchases.

Build in flexibility to the asset and savings plans if possible so that funds are available if an asset needs to be replaced unexpectedly.

It can be a challenge to stick to an asset plan, especially if there is a perceived need or community expectation to keep up with technology beyond the school’s ability to pay for it, or if senior staff members are tempted by marketing and salespeople.

It may help to discuss variations to the asset replacement plan at a board meeting and/or with the school’s financial service provider and to have a ‘wish list’ of items that could be considered for purchasing later in the year, as finances allow and there are clear links to educational outcomes.

### 3.2.9 Password controls

It is important for each employee of the school and the board who has access to the accounting system and/or internet banking to keep a safe and secure password. Passwords should not be shared amongst staff and they should be updated regularly. This is a key internal control as knowledge of other staff members’ passwords can give access to the system or internet banking to those who should not have it.

### 3.2.10 Supplier master file

A supplier master file is maintained in the accounting system and contains details of all suppliers including their bank account details. Whenever a change is made to a supplier, eg a change in bank account details, supporting documentation should be kept. To ensure no inappropriate changes are made to supplier details, a review of the supplier master file should be done whenever a change is made. A common way for fraud to occur is through the creation of fake invoices and the payment made to the bank account of the person who is committing the fraud. Review of the supplier master file is an internal control which can prevent this from happening as any changes to supplier details are checked by a second person.
3.2.11 Fundraising cash
Schools undertake a variety of fundraising activities, sometimes using associated groups to organise the activities. Careful controls on cash in and out should be agreed before the fundraising activity starts. For example, a cash ‘float’ may be required at the beginning of the activity to provide change for cash purchases etc. The source of those cash funds should be carefully recorded and all cash received counted by two people before banking.

One system for reducing cash handling at school fairs is to sell tickets equivalent to cash that can be ‘spent’ at booths and stalls around the fair. That keeps cash at the ticket booth, where there should always be two people monitoring cash in and tickets out.

Cash should not be provided to any third party who is not directly associated with the school and its board. This includes the PTA and any external persons or businesses on site. They must be responsible for obtaining their own cash.

Schools may not use excess funds to contribute towards any trips that they are fundraising for, ie they may only use funds earned through fundraising to pay for the trip.

3.2.12 Financial records
Section 168 of the Crown Entities Act 2004 requires school boards to ensure that accounting records:

- correctly record and explain the transactions of the school
- will at any time enable the financial position of the school to be determined with reasonable accuracy
- will enable the members to make certain that the financial statements of the school comply with generally accepted accounting practice
- include any other information or explanations needed to fairly reflect the school’s financial operations and financial position
- include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements
- will enable the financial statements of the school to be readily and properly audited.

The accounting records must be in written form or in a manner in which they are easily accessible and convertible into written form.

3.2.13 Fraud
Fraud refers to an intentional act by one or more individuals among management, employees, or third parties intended to deceive others. Fraud may involve:

- manipulation, falsification or alteration of records or documents
- suppression or omission of the effects of transactions from records or documents
- recording of transactions without substance
- misapplication of accounting policies
• misrepresentations in a financial report
• misappropriation (theft) of assets.

The Ministry policy is to refer all prima facie cases of fraud to the appropriate authorities for consideration of prosecution. Schools are expected to adopt the same policy including reference to the Education Council where required.

The school board and management are responsible for the prevention and detection of fraud and error, which is done through the implementation and continued operation of adequate internal control systems. These systems reduce but do not eliminate the possibility of fraud and error.

Boards should note that it is not the responsibility of auditors to detect or prevent fraud. In the course of their work, auditors may uncover evidence of fraud and, if that is the case, they bring this evidence to the attention of the board. It remains the responsibility of the board and principal for the prevention, detection and reporting of fraud.

**Practical steps to protect the school**

Remember that most fraud is opportunistic. Generally, fraud is committed when an individual is presented with an opportunity to commit that fraud.

For example, when a school employee holds a school credit card and that same employee is responsible for checking, approving and paying the credit card bills, an opportunity exists for them to use the credit card for personal purchases without anyone else noticing. By ensuring that an independent person reviews all credit card purchases, the opportunity for fraud is reduced. Practical steps that staff and the board can take to protect the school are:

• remain sceptical – it is better to ask questions and follow up where necessary than to suffer loss
• educate all concerned of the risk of fraud – the more people are aware of the risk, the harder most frauds become
• revisit your financial controls whenever changes occur – you must ensure the controls in place in your school are appropriate to the systems you operate; where possible, make sure that more than one person is involved in any financial process
• seek independent assistance – a review of your systems and controls by an independent, expert third party can be highly beneficial
• if you do find fraud, take action – taking appropriate legal action against a fraudster does two things: it prevents the fraudster from taking advantage of another school and it sends a clear message to all that fraud will not be tolerated.

If you suspect fraud in your school, then immediately seek appropriate advice from an expert, such as your liability insurer, the Ministry of Education financial advisor, an auditor or forensic accountant with fraud investigation experience, or a solicitor who has taken fraud cases. This is important because, if the correct process is not followed, it is easy to destroy the chance of recovery of funds. If the person you suspect of fraud is an employee, contact your NZSTA industrial advisor, or another advisor approved by your liability insurer, for advice on how to handle the issue appropriately.
No single control will protect against fraud. Instead, a full and varied set of systems and controls provides the best chance of fraud prevention.

### 3.2.14 Funds held for international students

In certain circumstances, schools may look after international students' personal funds and ‘drip-feed’ this money to the student over the year. However, there are other options available, such as bank accounts with restrictions on access.

Whatever the legal arrangement, any school looking after funds for international students needs to regard itself as being in a fiduciary relationship with the student. Therefore, the school must behave in an exemplary manner with regard to the use of the funds.

For example, schools should deposit the private funds held on behalf of students into a bank account separate to the school’s main bank account – schools are holding funds on trust and have a very high duty of care. Interest earned on the funds must be returned to the students rather than being treated as a windfall by the school. Schools should have written agreements with the students and/or their parents/guardians to outline the circumstances in which the funds can be used or accessed and by whom.

Schools should not act as financial guarantors for international students since this places school resources at risk. Moreover, while boards have very wide powers, they are only allowed to commit school funds in pursuit of school goals as outlined in their charters and according to the National Administration Guidelines (NAGs).

### 3.2.15 Shared funds

There are several instances when schools share resources to achieve a common purpose. Common purposes may include projects to improve teaching and learning, for teacher professional development; to improve efficiencies; or to reduce administration costs. Examples include:

- Enhanced Programme Fund (EPF)
- ICT professional development clusters (ICT PD)
- Joint Schools Initiative Funding (JSIF)
- Resource Teachers of Learning and Behaviour (RTLB)
- School transport networks (known as Direct Resourcing or DR)
- Supplementary Learning Support (SLS)
- Communities of Learning/Kāhui Ako.

Shared resources may include people, property or funds (money). This information is about how to account for shared funds.

Schools form a cluster or group (referred to as a cluster in the handbook) and share funds for a common purpose as an administrative convenience; the cluster is not a new entity but is a jointly controlled operation.

One school will be the ‘lead school’ (or ‘host school’ or ‘fund-holder school’ or ‘initiating school’) for the cluster and act as an agent for all the schools in the cluster. This school is referred to as the lead school in the
handbook. The lead school may set up a separate bank account on behalf of the cluster, or account for shared funds using a separate ledger, but can only spend shared funds as agreed with the cluster.

The lead school will receive funds from the Ministry of Education or other funding sources on behalf of the cluster; they may also receive funds from member schools to be used for the cluster’s common purpose.

The lead school should include GST on transactions for the cluster with their own GST returns.

The cluster should have a written agreement about what the shared funds are for, how they are to be used, which school/s own any assets bought with shared funds, and what will happen to any remaining funds and assets when the cluster stops working together.

The use of the funds is subject to the same considerations that apply to the schools that are members of the cluster, eg reporting, audit, procurement processes, investment of funds and managing any conflicts of interest.

Reporting to the Ministry or other funder of the cluster

An organisation that is funding the cluster (or the part of the Ministry of Education that is monitoring funding provided to the cluster) may have specific requirements about reporting that need to be adhered to by the cluster.

Such reporting requirements will be set out by the funder and are separate to the reporting that schools are required to include in their financial reporting.

Management reporting to other members of the cluster

The lead school should track all income and expenses for the cluster’s purpose separately from their other operations so that they can provide regular, detailed management reports to the cluster and the cluster’s funders.

Each school that is a member of a cluster should show the balance of funds held by the lead/host school on their behalf as an asset in their balance sheets, with reference to a note. The note should include their share of the net income (or expenses) of the cluster for the year to show how the asset balance changed during the year.

Refer to section 4.2.6 for accounting for shared funds.

3.2.16 Housing for staff

Core school houses are houses that are needed to recruit and retain teachers at schools. As a board you are responsible for managing any core houses your school has, which includes dealing with rent and tenants. The Ministry manages non-core houses through the National Housing Contractor. We no longer build or replace caretaker houses but, if your school has one, you are responsible for its management.

Find out more about houses for teachers and caretakers
3.3  Management reports

3.3.1  Purpose of monthly financial reports

To enable the board to carry out their financial governance responsibilities they need to receive regular (preferably monthly) updates about the school’s financial performance and financial position.

The board should get assurance from the financial reports that:

- they have been advised of all key current financial issues and how those are being managed, eg if the audit management letter was received recently, what actions are planned to respond to any recommendations
- the school has adequate working capital – or what is being done to improve the financial position
- revenue and expenditure is within budget for the year to date – or reasons for major variations are supplied
- forecast revenue and expenditure for the rest of the year indicate the school’s finances will remain on track – or what action is being taken to mitigate identified issues and risks, eg if the roll has changed significantly, has the forecast been adjusted
- all funds held on trust are kept separate and managed appropriately
- the school has set aside enough money for long-term commitments, eg asset replacement, external painting
- the school is operating within the policies approved by the board, eg there has been no unauthorised expenditure, all spending is within delegations.

3.3.2  Responsibility for preparing reports

The responsibility for preparing monthly financial reports will vary from school to school. In general the board will delegate to the principal responsibility for the quality of the reports and for ensuring they are prepared and presented on time. The principal may in turn request the office manager or service provider to prepare the financial reports based on the information held in the accounting system. It is the principal’s responsibility to completely understand what is in the financial reports as they will be the one reporting it to the board at board meetings. The principal needs to be in a position where they are able to answer any questions the board may have in regards to the school’s financial status.

3.3.3  The basics of good reporting

Things to keep in mind when preparing internal reports:

- Use current information and prepare and present your reports as soon as possible. For example, if it takes 15 working days for monthly financial reports to be generated by your accounting service provider, commented on by budget holders and reviewed by the principal, the board will not get their reports until near the end of the following month. If the report indicates that urgent action needs to be taken it may be too late.
- The information presented should be limited to what is useful and relevant for decision-making. Providing too much detail can cloud the issues and may confuse.
- Information should be presented according to the needs of the audience. Avoid accounting jargon, especially for a board whose members have little or no financial experience. A finance committee is
likely to want more detail.

3.3.4 Monthly report to the board

The monthly report to the board should include:

- Statement of Comprehensive Revenue and Expense (or a summary statement) showing revenue and expenditure against budget to date
- Statement of Financial Position (or a summary statement) including significant commitments for the next month
- Commentary/exception report – a simple written report showing:
  - any unusual or unexpected variance from what was budgeted, eg extra interest
  - any points that should be brought to the board’s attention
  - any areas of risk and plans for mitigating that risk
  - plans and expectations for the coming month(s).

Payments outside the principal’s delegation (eg over a certain amount or of a certain type) need to be presented to the board for approval.

3.3.5 Monthly report to principal and/or finance committee

The principal, as the manager of the school’s day-to-day finances, should receive more detailed monthly reports. It is important the principal is fully conversant with the financial performance of the school.

Therefore, in addition to the reports provided to the board, the principal should receive a complete Statement of Financial Performance and review a full ledger transaction report, listing all revenue received and payments made during the month.

3.3.6 Monthly report to budget holders

If a senior staff member has been allocated responsibility as a budget holder then the principal is obliged to keep them fully informed. They should receive regular and up-to-date reports showing details of all transactions from accounts within their control and the balance against budget.

The budget holder should always have an accurate picture of all expenditure committed. They should also hold records of all outstanding orders.
3.4 Annual reports

Under Section 134 of the Education and Training Act 2020 all state and state-integrated schools are required to prepare an annual report each year. The annual report must include audited annual financial statements prepared in accordance with generally accepted accounting practice. It is the responsibility of the board to approve the financial statements but it is the responsibility of the principal to ensure they are presented to the board.

All public organisations (including public companies, incorporated societies, territorial authorities, government departments and schools) are required by law to produce an annual report. This allows the organisation’s owners, employees, creditors and customers to review its performance and to make informed decisions about the future.

Annual reports for schools allow teachers, parents, students and the wider school community to review the school’s performance. Members of Parliament, the Minister of Education and the Ministry of Education are also interested in how well individual schools and the wider school sector have performed.

Preparation of annual reports

The annual report includes the school’s annual financial statements which are required to be prepared in the Kiwi Park format, which complies with generally accepted accounting principles.

While the responsibility of preparing the annual reports is often delegated to the principal, it is the responsibility of the board to ensure that the annual report is prepared for their school and presented to the Secretary for Education no later than the statutory deadline of 31 May. Failure to do so will be a breach of the Education and Training Act 2020.

Filing the school annual report

The Education and Training Act 2020 requires schools to meet the following deadlines each year.

By 31 March, draft financial statements (and as far as possible the whole annual report) must be submitted to your appointed auditor (section 135). Auditing standards require auditors to review of the contents of the annual report in its entirety so that they may check consistency of information between the financial statements and the rest of the report.

If a financial service provider completes your financial statements, it is still the board’s responsibility to ensure that the service provider meets this deadline.

By 31 May, a single PDF file of your annual report (including audited financial statements) must be submitted to the Ministry via the Ministry’s School Data Portal (section 137). The financial statements must be signed by the board chair, the principal and the school’s appointed auditor. It is the responsibility of the board to submit the report and not that of your auditor or your financial service provider.

To help ensure clarity of document content, you are asked to use original documents, rather than photocopies, to construct the PDF file. The Ministry recommends that you agree upon a timetable with your auditor to ensure that the annual report is with the Ministry by 31 May of the following financial year. This timetable should allow for sufficient time to work through any issues identified through the audit.

School Data Portal for submission of annual reports

Please use the School Data Portal to submit your annual reports to the Ministry. Please use the portal drop-down option ‘Annual Report’ as shown in the picture below to ensure your annual report is submitted correctly.
Publishing your Annual Report online

The board of a school/kura is required to publish their annual report on an internet site maintained by or on behalf of the Board. Generally this will be the school’s own website. Making an annual report available online ensures that parents, and the wider community, can access information about what schools/kura have achieved, and how they managed their finances in the previous financial year. It is expected that a board will publish their Annual Report on their website at the same time they submit the report to the Ministry.

It is the board’s responsibility to ensure the Annual Report does not contain any information that may breach an individual’s privacy before being publicly available.

Find out more about privacy issues on the New Zealand School Trustees Association website.

If you do not currently have a website the Ministry can host your Annual Report on our Education Counts website. Please send your request for us to host your report to planning.reporting@education.govt.nz

Find further guidance and a set of frequently asked questions on our website.

3.5 Tax

Find out more about legislation and tax issues that impact schools.

3.5.1 Income tax

All schools are exempt from paying income tax under section 124 of the Education and Training Act 2020.

3.5.2 GST

Schools must be GST registered and must complete GST returns regularly. The Ministry of Education recommends two-monthly GST returns, or monthly for large schools.

Systems need to be established to ensure GST is fully accounted for and is readily reconciled with GST returns. GST statements received from the IRD need to be checked with the return submitted and any adjustments required incorporated into the accounting system.

All Ministry grants are GST inclusive except for Furniture and Equipment Grants, Capital Contribution Grants and School Support Capital Grants.

Most expenses have GST included except for wages and salaries, interest and bank charges, and loan repayments.

Make sure that you only claim GST on expenses where the supplier has provided a correct GST invoice.

Check that all your invoices are correct GST invoices.
A common mistake that schools make is to pay invoices that are addressed to other organisations or people. For example, a school could contract a painter for the exterior repaint of school buildings. The painter then purchases paint on behalf of the school and gives the invoice from the paint company to the school for payment. If that invoice is addressed to the painter rather than the school and the school pays the invoice and subsequently tries to claim a GST credit, the school has committed an offence and could be fined. Instead, the painter should pay for the paint then include the cost of the paint on their invoice to the school or the paint company should invoice the school directly.

For further guidance around GST including how to fill in GST returns, avoiding penalties, and how and when GST is refunded refer to the GST guide IR375 (published September 2016) found on the IRD website: GST Guide IR375

3.5.3 Fringe Benefit Tax (FBT)

Schools are employers and may have to pay FBT on benefits provided to employees. Schools should ensure that any benefits provided to staff do not contravene the terms of the prevailing collective agreements.

FBT may be payable on the laptops provided to teachers (and any other employees) if they have significant private use and no recovery is made for that by the school. It is recommended that schools stress to teachers that the laptops are to be used predominantly for work-related purposes.

FBT will be payable if a school vehicle is provided to a principal for their private use. Providing a vehicle for private use would also form part of the principal's remuneration and requires concurrence from the Ministry of Education. If the board allows a principal to take a school vehicle home (such as the school van), it should be clearly documented that the vehicle is not to be used for private use.

Find out more about applying for concurrence for employee benefits.

FBT will also be payable where a school has not complied with the ‘service tenancy’ rules for any school properties whether they are Ministry or board owned.

For further guidance around FBT and whether it is applicable to certain employee benefits refer to the FBT guide IR409 (published April 2017) found on the IRD website: Fringe Benefit Guide (IR409)

Pay-related deductions

Education Payroll Limited (known as Novopay) manages all pay-related deductions, eg PAYE and superannuation, on behalf of education sector employees paid through that service on behalf of schools.

If a school manages the payroll for any employees then that school is responsible for all payroll taxes and deductions for those employees. Please refer to the IRD webpage on employer responsibilities, and obtain and read all relevant IRD guides: Employer Responsibilities
3.6 Insurance

3.6.1 Risk Management Scheme

The Risk Management Scheme offered through the Ministry of Education is a contents and liability insurance that covers most losses of property in the event of break in, vandalism or fire, as well as a range of legal liabilities.

Find out more about the Risk Management Scheme.

3.6.2 Workers Accident Insurance

The Accident Compensation Corporation (ACC) is the sole provider of accident insurance for all employers. All claims for work-related injuries must be lodged with ACC.

On behalf of state and state integrated schools, the Ministry has entered into ACC’s WorkPlace Cover programme. Schools are invoiced by ACC each August for their Residual Claims Levy and Workplace Cover premiums.

3.6.3 Contract works insurance

Contract works insurance covers property that is in the course of construction for Ministry of Education contracts or jointly funded contracts with the board. The cover is on the basis of accidental damage, including vandalism, theft and earthquake, to the contract works. If the project is funded by the board or the community, the board can choose to use the Ministry’s contract works insurance. Or the board can arrange its own insurance separately.

3.6.4 Other potential areas of insurance

Schools are covered for most types of insurance. However, additional areas of insurance that should be considered are:

- overseas travel insurance – if staff travel abroad on school business
- motor vehicles – the Risk Management Scheme covers vicarious liability for motor vehicles within the public liability section, but if a school owns motor vehicles, then it should consider obtaining comprehensive insurance for these
- overseas students – overseas students should obtain their own health and travel insurance.
Chapter 3: Financial reporting

4.1 Financial reporting framework

4.1.1 Legal requirements

All public organisations (including schools) must produce annual financial reports. This allows the organisation’s owners and stakeholders to review their performance and to take action if they consider the performance to be inadequate.

Annual reports for schools serve the same purpose. They allow teachers, parents, students, Members of Parliament and the Minister of Education to review schools’ performance.


School boards must present audited annual financial statements for their school to the Secretary for Education by 31 May each year under section 137 of the Education and Training Act 2020.

Your board is required under section 136 of the Education and Training Act 2020 to make your school’s annual report available to the public on an internet site maintained by or on behalf of your board. Find further guidance and a set of frequently asked questions on our website.

The annual report and financial statements consist of the following.

Annual report

**Required to be included**

**KiwiSport**

KiwiSport is a Government funding initiative to support sport for school-aged children. A direct fund has been included in the Ministry of Education’s Operations Grant paid quarterly to schools for 2016 and has been identified as a separate line in the entitlement notice.

Schools are required to include a short statement in their annual reports on how they have used the funding to increase student participation in organised sport – see Kiwi Park Annual Report model, ‘Reports on special and contestable funding’. Use of the funding will also be monitored as part of schools’ regular ERO reviews.

The KiwiSport report must not form part of the financial statements. Therefore it is not to be included as part of the notes to the financial statements but to be shown in a separate statement with the annual report.

**Statement of variance**

All schools are required to include an Analysis of Variance in which the board describes for the community how the school has gone about addressing the school’s priorities in its Charter and shows how successful this approach has been.

Find out more about developing your analysis of variance.

**Other reports on special and contestable funding (may be necessary)**

During the year the school may have been the recipient of additional Government funding for specific purposes. The school may wish to report on how it has used these funds to support student development.
**Optional to be included**

**Board chair/principal’s report**
In this report, the chairperson and/or principal can inform the school’s community about the achievements and successes of the academic year. It also provides an opportunity to tell staff, parents and students about the school's goals for the coming year, and the risks and opportunities that may be encountered along the way.

It also provides the principal with a chance to talk about the opportunities and challenges coming up in the year ahead. Each school works out what will be covered in the two reports (if there are two reports).

There are no samples provided of this kind of report in the Kiwi Park School model, as there are no mandatory requirements about content.

**Principal’s report**
This report provides the principal with the opportunity to outline the highlights of the year to the school’s community. As for the chairperson’s report, there are no samples provided of this kind of report in the Kiwi Park School model, as there are no mandatory requirements about content.

**National Standards/ Ngā Whanaketanga Rumaki Māori**
Schools are no longer required to include National Standards data (NAG 2A) in this report but may wish to include it.

**Statement of Resources**
The Statement of Resources describes the financial and non-financial resources used by the school during the year.

**Financial statements**

**Required disclosure**

**Statement of Responsibility**
This statement is signed by the principal and the chairperson of the board, and acknowledges that the board is responsible for the preparation and accuracy of the financial statements. It also states that the board has established and maintained a system of internal control to safeguard the school's assets.

**Statement of Comprehensive Revenue and Expense**
This financial statement summarises the revenue and expenditure of the school over the financial year and shows whether the school has managed to operate within the funding received.

**Statement of Changes in Net Equity/Assets**
This financial statement shows the value of the Government’s ‘investment’ in the school (for schools, this is known as ‘equity’) and shows any increases or decreases in the value of that investment over the course of the financial year.

**Statement of Financial Position**
This financial statement shows everything the school owns (assets) and everything it owes (liabilities) at a specific date.

**Statement of Cash Flows**
A statement of cash flows shows all cash received and all cash paid by the school over the financial year. It is split into three categories: operating, investing and financing. This is now a compulsory statement for all schools under the new financial reporting framework. Refer to PBE IPSAS 2 for further guidance on Statement of Cash Flows.
Notes to the financial statements

The notes to the financial statements provide an extra level of detail that supplements the information shown in the financial statements. They include the statement of significant accounting policies, contingencies and commitments that were previously separate statements.

Auditor’s report

Auditors are appointed by the Auditor-General who then prepare their report on the school’s financial statements. The auditor’s report must be included in the board’s annual report. It provides an opinion to the readers of the annual report about whether the financial statements comply with generally accepted accounting practice and whether they fairly represent the school’s financial position, financial performance and cash flows. There are no samples provided of this kind of report in this model, as these reports will be prepared by the school’s independent auditor.

Note: the board can delegate the responsibility for preparing the financial statements, but the school chairperson and principal must sign a Statement of Responsibility that accompanies the financial statements – section 87(4) of the Education Act 1989.

4.1.2 IPSAS PBE Tier 2 reporting framework

In 2014 new reporting standards for Public Benefit Entities were introduced by the External Reporting Board (XRB). These were prepared by schools for the first time for the December 2015 financial year.

The financial statements for schools are required to be prepared in accordance with generally accepted accounting practice in New Zealand, applying International Public Sector Accounting Standards (IPSAS) for Public Benefit Entities (PBE) Reduced Disclosure Regime as appropriate to Public Benefit Entities that qualify for Tier 2 reporting. The school is considered a Public Benefit Entity as it meets the criteria specified as “having a primary objective to provide goods and/or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for financial return to equity holders”. The school qualifies for Tier 2 as the school is not publicly accountable and is not considered large as it falls below the expenditure threshold of $30 million per year. All relevant reduced disclosure concessions have been taken.

The main change under the new accounting standards is that a Statement of Cash Flow is now compulsory for all schools to prepare.

The Ministry has created model annual reports for a simulated school called ‘Kiwi Park’. These can be found: Kiwi Park

4.1.3 Reporting entity

A ‘reporting entity’ is the organisation that is being reported upon in financial statements. Generally, the reporting entity for a school is the organisation governed by the board and the school charter. However, there may be more complex cases, eg a large school may have a trading enterprise, such as a farm.

The reporting entity must accurately describe the legal and accounting entity in the Statement of Financial Responsibility.

4.1.4 Consolidation Kiwi Park Group

Where the board has the capacity to influence the activities and financial and operating policies of an entity connected with the school (eg the boarding hostel, the parents’ support group, activity centre, teen parent unit or trust), then the financial reporting of the entity must be incorporated into the school’s accounts.
It first needs to be determined whether the entity is an integral part of the school or a separate legal entity. Entities whose activities are an integral part of the school (such as a teen parent unit) would be accounted for as a separate activity within the school’s financial statements.

Separate legal entities, which are controlled by the board, are also public entities and must prepare their own financial statements, which are subject to audit in the same way as the school’s accounts. Where the separate legal entity is material to the school, the school will have to prepare consolidated accounts incorporating the transactions of the separate entity.

The capacity to influence is defined in terms of control, eg can the board control the financial and operating policies of another entity for the purpose of obtaining the benefits and/or assuming the risks normally associated with ownership.

Use these questions to determine whether the board ‘controls’ a unit:

- Can the board influence appointing or removing people from the decision-making body of the unit?
- Can the board influence the distribution of the unit’s funds and assets?
- Can the board make decisions on behalf of the unit or veto any decisions made by the unit?
- Can the board dissolve the unit and obtain any of the unit’s funds and assets?

If the answer to these questions is yes, the unit is deemed to be a subsidiary of the board and its accounts must be consolidated with the school’s in the annual report.

If a board is in doubt about what comprises its reporting entity, it should obtain an opinion from its accounting service provider, auditor or a Ministry of Education financial advisor.

Consolidated financial statements are prepared by combining the financial statements of the separate entities on a line-by-line basis, ie by adding together (after adjustments for inter-entity balances and transactions) corresponding items of assets and liabilities, revenue and expenses. It is recommended that a full set of accounts be presented for each entity as well as the consolidated accounts. A number of accounting software products enable separate sets of accounts to be kept and then consolidated at year-end. A spreadsheet to help combine information kept in different systems is available in the ‘Resources’ chapter of this handbook.

If there is a unit associated with the school but not controlled by the board then keep that unit’s funds, assets and operations separate from the school and account for it separately.

You can see an example of consolidated financial statements for Kiwi Park Group on our website.

### 4.1.5 Annual financial timetable

To help schools ensure their financial statements are prepared on time, below is a basic timeline which outlines when schools should be starting to think about certain tasks throughout the year.

<table>
<thead>
<tr>
<th>Month</th>
<th>Task</th>
</tr>
</thead>
<tbody>
<tr>
<td>October</td>
<td>Strategic planning starts.</td>
</tr>
<tr>
<td></td>
<td>Budgeting starts.</td>
</tr>
<tr>
<td></td>
<td>Issue reminder notices for all outstanding debts to try and collect</td>
</tr>
<tr>
<td></td>
<td>all money owing to the school before it closes for the year.</td>
</tr>
<tr>
<td>Month</td>
<td>Task</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>November</td>
<td>Ensure your 10-year Property Plan is up to date and calculate the provision for cyclical maintenance.</td>
</tr>
<tr>
<td></td>
<td>Complete as much ordering of goods and services as possible, so that invoices will be received and processed before the end of the year.</td>
</tr>
<tr>
<td>December</td>
<td><strong>Present</strong> the draft budget to the finance committee or board for review.</td>
</tr>
<tr>
<td></td>
<td><strong>Start</strong> to gather information for year-end financial statements, eg inventory lists, library stock list, fixed assets register.</td>
</tr>
<tr>
<td></td>
<td><strong>Ensure</strong> all reconciliations are up to date, including any funds held on trust, eg funds received in advance for international students match funds held in trust account.</td>
</tr>
<tr>
<td></td>
<td><strong>Pay</strong> as many bills as possible to minimise the number and value of the 31 December payables, receivables and associated accruals.</td>
</tr>
<tr>
<td></td>
<td><strong>Ensure</strong> there will be enough money in the bank to meet any automatic payments due over the holiday period.</td>
</tr>
<tr>
<td></td>
<td><strong>Review</strong> term deposits, especially if any are due to mature and bearing in mind that an operational grant is received in early January.</td>
</tr>
<tr>
<td>January</td>
<td>Complete the:</td>
</tr>
<tr>
<td></td>
<td>• fixed assets register and the fixed assets reconciliation</td>
</tr>
<tr>
<td></td>
<td>• bank account reconciliations</td>
</tr>
<tr>
<td></td>
<td>• payables and receivables schedules.</td>
</tr>
<tr>
<td></td>
<td>If your school uses a financial service provider, ensure all financial information is sent to the provider within the provider’s time frame.</td>
</tr>
<tr>
<td></td>
<td>Complete the Analysis of Variance.</td>
</tr>
<tr>
<td></td>
<td>Obtain the principal’s and chairperson’s (or combined) report(s).</td>
</tr>
<tr>
<td>February</td>
<td>Final review of the budget and present to board for final approval.</td>
</tr>
<tr>
<td>February/March</td>
<td>The board approves the draft annual financial statements and sends it to your auditor.</td>
</tr>
<tr>
<td>31 March</td>
<td>Statutory deadline for draft annual financial statements to be presented to the auditor (section 135 of the Education and Training Act 2020).</td>
</tr>
<tr>
<td>April/May</td>
<td>When the annual financial statements have been audited, the board should adopt the statements and the principal and board chairperson sign the Statement of Financial Responsibility as required by section 155 of the Crown Entities Act 2004.</td>
</tr>
<tr>
<td>31 May</td>
<td>Statutory deadline for the audited financials and annual report, including the Analysis of Variance and audited financial statements, to be provided to the local office of the Ministry of Education.</td>
</tr>
<tr>
<td></td>
<td>Section 136 of the Education and Training Act 2020 requires the board to ensure that its annual report is available to the public on an internet site maintained by or on behalf of the board.</td>
</tr>
<tr>
<td>July</td>
<td>Budgeting – review current budget and update cash flow forecast.</td>
</tr>
<tr>
<td>September</td>
<td>Review the fixed assets register and asset plan.</td>
</tr>
</tbody>
</table>
Other information that can be included in your annual financial timetable

Any of the key events or important dates during the year can be included in your annual financial timetable. For example:

- dates when budget proposals need to be submitted and to whom
- dates of the board's approval of the operating and other annual budgets
- any other key dates for the board that are finance related
- GST payments and any other payments to Inland Revenue
- deposit maturity dates
- loan repayment dates
- dates when funding payments are due from the Ministry of Education
- dates when monthly financial reports are due to the board.
4.2 Revenue

4.2.1 Revenue disclosure
Revenue should be disclosed separately from expenses – not ‘netted off’ – to help the reader of the financial statements understand what has happened at the school during the year. This includes locally raised funds, such as trading activities, hostel operations and fees from international students. The detailed breakdown of all revenue is usually provided in the notes to the financial statements rather than the Statement of Comprehensive Revenue and Expense.
Under the new accounting standards, revenue is required to be separated into exchange and non-exchange transactions.

Exchange PBE IPSAS 9
Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange. Examples of exchange transactions for schools would be interest revenue and money received from overseas students that pay market rates for education.

Non-Exchange PBE IPSAS 23
Non-exchange transactions arise where an entity receives value from another entity without giving approximately equal value in exchange. The main types of transactions applicable to schools are transfers (eg grants, donations, gifts and pledges).
The majority of transactions that schools take part in are non-exchange. While we do not recommend labelling revenue as exchange and non-exchange on the face of the Statement of Comprehensive Revenue and Expenditure, it is a requirement to show the amounts receivable/payable in exchange/non-exchange transactions in the notes.

Determining the difference between exchange and non-exchange transactions
If the grantor of a grant or donation, or a person involved in any monetary exchange, has an expectation for the return of a specified service or goods then this can be deemed an exchange transaction. Alternatively, if there is no expectation that goods and/or services will result in a specific service and or goods this can be deemed a non-exchange transaction.
The Kiwi Park model financial statements clearly outline what category each revenue stream falls under.

4.2.2 Government grants
The school receives funding from the Ministry of Education. Below are the main types of funding that the School receives.

Operational grants are paid by the Ministry based on school roll numbers. The grant is to assist in the operations of the school and is received quarterly. Operational grants are recorded as revenue when the school has the rights to the funding, which is in the year that the funding is received.

Example:
Kiwi Park School receives an operational grant of $350k for the quarter Jan – Mar from the Ministry into their school bank account.

Journal

<table>
<thead>
<tr>
<th>Debit</th>
<th>Bank (asset)</th>
<th>$350,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Operational grant (revenue)</td>
<td>$350,000</td>
</tr>
<tr>
<td>Narrative:</td>
<td>To recognise receipt of operational grant for quarter Jan - Mar</td>
<td></td>
</tr>
</tbody>
</table>
Teachers’ salaries grants are recorded as revenue when the school has the rights to the funding in the salary period they relate to. The grants are not received in cash by the school and are paid directly to teachers by the Ministry of Education through Novopay. A journal is processed at year end to record the amount as a revenue and expense item in the financial statements based on the Staffing Usage and Expenditure (SUE) report sent by the Ministry.

Example:
Kiwi Park School has teachers’ salaries grant/expense for the year of $4m per their SUE report received from the Ministry.

Journal

<table>
<thead>
<tr>
<th>Debit</th>
<th>Employee benefits – teachers (expense)</th>
<th>$4,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Teachers’ salaries grant (revenue)</td>
<td>$4,000,000</td>
</tr>
</tbody>
</table>

Narrative: To recognise teachers’ salaries grant and expense for the year per SUE report.

Use of land and buildings grants are recorded as revenue in the period the school uses the land and buildings. These are not received in cash by the school as they equate to the deemed expense for using the land and buildings which are owned by the Crown (non-integrated schools) or proprietor (integrated schools). The grant is recognised through a journal at year end.

How is the value of the use of land and buildings calculated?

The notional lease value is determined by the Ministry and emailed to each school by the Ministry.

Example:
Kiwi Park School has use of land and buildings grant/expense for the year of $1m per their email from the Ministry.

Journal

<table>
<thead>
<tr>
<th>Debit</th>
<th>Use of land and buildings (expense)</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Use of land and buildings grant</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

Narrative: To recognise use of land and building grant and expense for the year per email from the Ministry.

Other grants are recorded as revenue when the school has the rights to the funding, unless there are unfulfilled conditions attached to the grant, in which case the amount relating to the unfulfilled conditions is recognised as a liability of revenue received in advance and released to revenue as the conditions are fulfilled.

4.2.3 Locally raised funds

Revenue such as donations, fundraising, bequests, trading and activities are disclosed in the financial statements as locally raised funds.

Donations, gifts and bequests are recorded as revenue when their receipt is formally acknowledged by the school.
The board may accept or decline gifts from any person. All accepted donations, bequests and gifts must be recorded as income according to section 159 of the Education and Training Act 2020.

Any donations of goods or services should be recognised at the fair value of those goods or services.

Example:
If a parent donates a new computer to the school, and the current price for purchasing that computer is $2,000, the accounting entries required are:

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer equipment (fixed asset)</td>
<td>Donations (revenue)</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

**Narrative:** To recognise donated computer asset

In the case of gifted services, if the value is not material then they can be disclosed by a note in the financial statements. For example, if grounds maintenance was achieved through voluntary effort it can be recorded that the work was completed with a stated number of non-waged hours.

**Restricted donations**

Schools receive donations or bequests from individuals or organisations for specific purposes. These purposes may be to create scholarships for pupils, to pay for specific building developments or for any other educational purpose in connection with the school. These gifts can only be used in accordance with the specific purpose stated.

Under clause 159(4) of the Education and Training Act 2020, the board is required to hold any bequest or gift received for a specific purpose. It cannot pass any gifts to an entity that it does not have control over. A school may pass a gift to a trust that it controls and must ensure that the trust uses the gift for that specific purpose.

Restricted income should be credited to a liability account. Once the conditions or restrictions governing the use of the donation are met, the donation should be transferred from the liability account into income. In some cases, the donor or grantor may require a financial report to assess compliance. Appropriately detailed records need to be kept.

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Funds held in trust (liability)</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

**Narrative:** To recognise funds received to be held in trust

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds held in trust (liability)</td>
<td>Donations received (income)</td>
<td>$200</td>
</tr>
</tbody>
</table>

**Narrative:** To recognise donation income for x purpose

**Bequest**

A bequest is a gifting to the school from someone who has passed away. This can be in the form of cash, property, or investments. If a bequest is provided to the school and it comes with certain conditions, the bequest will be held on trust.

**Example:**

Kiwi Park School board is left a property under a will (a bequest) valued at $500k and the testator has specified that the property is to be applied for a particular purpose. The board is therefore to hold the property on trust and must deal with it according to the terms of the trust. The trust must at all times remain under board control.
Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Property held on trust</th>
<th>$500,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Bequest (revenue)</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

Narrative: To recognise bequest received in the form of property

**Gifted securities and investments**

Schools are limited in their ability to acquire and hold securities and investments under section 154 of the Education and Training Act 2020. If a school is gifted securities or investments it would not have been allowed to acquire under section 154, then section 159 of the Education and Training Act allows the school to hold those gifts for a period that is ‘reasonable in the circumstances’. If a school wants to keep those assets long term then the Ministry recommends they seek approval within 12 months of receiving them.

In some circumstances a board may receive a gift or bequest where, as a condition of the gift or bequest, it must continue to hold a security in its current form, eg the donor or testator specifies that the school should continue to hold the security and fund activities or prizes from any return on that security. In these circumstances, the acceptance of a conditional gift or bequest creates a trust and section 161(2) of the Crown Entities Act states that the restrictions in section 160 regarding securities do not apply. The board may therefore continue to hold the gifted or bequeathed security in perpetuity without need to seek approval.

Activities revenue such as school trips can be made up of payments from parents’ contributions and fundraising. Parents’ contributions should be recognised as the expenditure is incurred and is considered an exchange transaction. However, any fundraising is classified as non-exchange. As it is unlikely that the funds can be refunded if the trip does not go ahead, it must be recognised when received.

**4.2.4 International students**

International student fees received must only be recognised as revenue when they are earned.

*For example:*

Funds are received for an international student in December for the whole of the next school year. That money is all revenue received in advance when it is received. It must be reported as revenue in advance at 31 December. In the next year, a portion of those funds can be reclassified as revenue earned each term.

**Journal entry for December when funds received**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Bank (asset)</th>
<th>$100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Revenue received in advance (liability)</td>
<td>$100</td>
</tr>
</tbody>
</table>

Narrative: To recognise funds received in advance for the next financial year

**Journal entry for next financial year – quarterly**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Revenue received in advance (liability)</th>
<th>$25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>International student fees (revenue)</td>
<td>$25</td>
</tr>
</tbody>
</table>

Narrative: To recognise international student fee revenue for the first term of year

**4.2.5 Hostels**

For schools which run a hostel, hostel payments received must only be recognised as revenue when they are earned. If hostel fees are paid in advance, the same journals will be recorded as with international student fees above.
4.2.6  Shared funds (received on behalf of other schools)
There are several instances when schools form a cluster or group to share funds and other resources to achieve a common purpose. The cluster is not a new entity but is a jointly controlled operation.

One school will be the ‘lead school’ (or ‘host school’ or ‘fund-holder school’ or ‘initiating school’) for the cluster and act as an agent for all the schools in the cluster. The lead school may set up a separate bank account on behalf of the cluster or account for shared funds using a separate ledger, but can only spend shared funds as agreed with the cluster.

The lead school will receive funds from the Ministry of Education or other funding sources on behalf of the cluster; they may also receive funds from member schools to be used for the cluster’s common purpose.

The lead school will include GST on all cluster transactions with its own GST records and record cluster revenue and expenses net of GST.

At the end of the year, the lead school should show the balance of funds held on behalf of the cluster as a liability in its Balance Sheet, with reference to a note. The note should show how the balance of funds held will be allocated.

**Journal entries for cluster member schools (example)**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Kiwi Cluster (asset)</th>
<th>$4,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Bank</td>
<td>$4,000</td>
</tr>
<tr>
<td>Narrative:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Funds contributed to Kiwi Cluster (20% share)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debit</th>
<th>Kiwi Cluster (asset)</th>
<th>$1,300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Kiwi Cluster activities (revenue)</td>
<td>$1,300</td>
</tr>
<tr>
<td>Narrative:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recognise 20% share of surplus in Kiwi Cluster for the year</td>
<td></td>
</tr>
</tbody>
</table>

Each school that is a member of a cluster should show the balance of funds held by the lead/host school on their behalf as an asset in their Balance Sheet, with reference to a note. The note should include their share of the net revenue (or expenses) of the cluster for the year to show how the asset balance changed during the year.
4.3 Expenses

4.3.1 Expenditure disclosure
Expenditure should be disclosed separately from revenue – not ‘netted off’ – to help the reader of the financial statements understand what has happened at the school during the year. This includes locally raised funds, such as trading activities, hostel operations and fees received from international students, although the detail is usually provided in the notes to the financial statements rather than the Statement of Comprehensive Revenue and Expense.

School expenditure is usually reported against a range of expenditure-type categories, eg learning resources, administration or property. This enables comparisons from year to year within the school and across the school sector. However, if a school has allocated its budget against strategic priorities within those categories, it may choose to report actual expenditure in the same way, especially within its Statement of Variance or notes to the accounts.

4.3.2 Depreciation
What is depreciation?
When an asset is bought, the cost is recognised in the Statement of Financial Position of the school as an asset and not expensed in the year of purchase. Instead, in each year of using the asset, part of the cost of the asset is expensed as depreciation.

How is depreciation calculated?
The most common and simplest method used to calculate depreciation is to estimate the useful life of an asset and then divide the cost of the asset equally across that life. This is known as ‘straight line’ depreciation.

Example
A computer is estimated to have a useful life of four years and at the end of that time it will have no resale value. If the computer cost $2,000 then the depreciation cost each year will be:

Annual depreciation expenses = \( \frac{\text{(purchase price) less (residual or resale value)}}{\text{useful life}} \)

= \( \frac{(2,000) - (0)}{4} \)

= \$500

Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>Accumulated depreciation (ICT)</td>
</tr>
<tr>
<td>$500</td>
<td>$500</td>
</tr>
</tbody>
</table>

Narrative: To recognise the depreciation expense for the year

4.3.3 Use of land and buildings expense
Schools must recognise the cost of a notional lease for land and buildings provided to them by the Crown (or their proprietor) as an expense, with the same number recognised as revenue (refer to 4.2.2 for further information, including how the value is calculated).
4.3.4 Personnel expenses
Boards are required to show all personnel costs relating to their employees in their financial statements, even when these payments are made by the Ministry of Education on behalf of the board, eg for the school’s full-time teaching equivalent (FTTE) teachers.

Salaries and wages for administration and property staff are also usually paid via the Ministry of Education payroll system but are expensed against the board’s operational grant. Schools can also elect to pay teachers additional to their FTTE with operational grants or locally raised funds. Some schools elect to administer their own payroll for non-teaching staff. If these employees are on a payroll system administered by the school then their costs will be recognised as they are paid.

The costs for employees on the payroll administered by the Ministry of Education must be entered as a journal entry. Boards should enter the payroll costs from their monthly Staffing Usage and Entitlement (SUE) report as a journal entry each month rather than wait until the end of the year. This ensures meaningful reporting against budget.

To assist schools with the annual journal entry, a summarised SUE report is generated at the end of each financial year and sent to schools in mid-January.

Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching salaries (expense)</td>
<td>Teacher salaries grant (revenue)</td>
</tr>
<tr>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

Narrative: To recognise Ministry of Education teacher salary grants for the period 28 January to 27 January.

ACC premium
The Ministry of Education pays ACC premiums on behalf of schools. As with teacher salaries, ACC premiums must be recorded by schools in their financial statements as a grant from the Ministry of Education and as a cost to the school. Although this will have no effect on a school’s surplus for the year, it will reflect the actual cost of operating the school and the revenue earned.

4.4 Assets

4.4.1 Cash and cash equivalents
Cash and cash equivalents are disclosed as a current asset on the school’s Statement of Financial Position.

‘Cash’ includes cash on hand and demand deposits. This includes:
- cash on hand
- cheque account
- call account.

‘Cash equivalents’ include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk and change in value. This includes money deposited with a financial institution, with a maturity of three months or less from the date of acquisition.

When money reaches ‘maturity’, it refers to the final date of repayment, where the interest and principal of a loan are to be paid in full.
4.4.2 Investments
Bank deposits with a maturity greater than three months are classified as investments.

<table>
<thead>
<tr>
<th>Term deposits with time to maturity:</th>
<th>Type of asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>greater than three months and less than one year</td>
<td>Current asset</td>
</tr>
<tr>
<td>greater than one year</td>
<td>Non-current asset</td>
</tr>
</tbody>
</table>

Some schools also have approval for investments classified as available-for-sale financial assets including investments in shares. These investments are measured at fair value, or, where fair value cannot be reliably measured, at cost. Any objective evidence of impairment in the fair value or cost of investments is recognised as an expense in the Statement of Revenue and Expenses.

4.4.3 Accounts receivable
Accounts receivable represents items that the school has issued invoices for or accrued for, but has not received payment for at year end. Receivables are initially recorded at fair value and subsequently recorded at the amount the school realistically expects to receive. A receivable is considered uncollectable where there is objective evidence the school will not be able to collect all amounts due. The amount that is uncollectable (the provision for uncollectibility) is the difference between the amount due and the present value of the amounts expected to be collected.

Example
Property funding agreed by the Ministry of Education but not yet received.

Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Account receivable</th>
<th>$87,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Property funding/grant revenue</td>
<td>$87,000</td>
</tr>
</tbody>
</table>

Narrative: To recognise property funding due from the Ministry of Education (cash not yet received)

Impairment of debtors
If your school has applied a general provision for doubtful debts to all debtors, this must be based on objective evidence that the school will not be able to collect the amount owing.

Accounts receivable for schools are mostly current (received within 12 months) and relate to grant funding receivable from the Ministry. It is very unlikely that grant funding receivable will not be collected by the school and an impairment loss recognised. However, your school should assess annually for any objective evidence that other receivables are impaired.

Example
Twenty-five students of Kiwi Park School went on a school trip out of town in November. The cost for each student attending the trip was $200 to cover meals, accommodation and travel. At 31 December one family who had two students on the trip had moved to Australia and the students no longer attend the school. The family owes $400 for the trip but the school does not yet have a contact address for the family and it is unlikely the money will be collected.

At 31 December, the present value of estimated cash flows is calculated as $0 as the school is unlikely to recover any of the receivable outstanding. The carrying amount is $400, which is the amount of the receivable. An impairment loss of $400 is recognised directly against the receivable in the Revenue Statement as follows:
Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment expense</td>
<td>Receivables</td>
</tr>
<tr>
<td>$400</td>
<td>$400</td>
</tr>
</tbody>
</table>

Narrative: To recognise unrecoverable debt

4.4.4 Donated assets

The value of donated assets received must be recorded as an asset and revenue.

Example

If a parent donates a new computer to the school, and the current price for purchasing that computer is $2,000, the accounting entries required are:

Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer equipment (fixed asset)</td>
<td>Donations (revenue)</td>
</tr>
<tr>
<td>$2,000</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

Narrative: To recognise donated assets

4.4.5 Inventory/stock

Inventories are consumable items held for sale and comprise of stationery and school uniforms. They are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is the estimated selling price in the ordinary course of activities less the estimated costs necessary to make the sale. Any write down from cost to net realisable value is recorded as an expense in the Statement of Comprehensive Revenue and Expense in the period of the write down.

Example

Kiwi Park School sells school uniform jerseys. As at 31 December, the school holds 200 jerseys at the total cost of $10,000 ($50 per jersey). During that year, the school changed the school uniform and the jerseys are now only optional for the senior students at the school. The school has reduced the price at which they sell the jerseys to $25 per jersey and expects to be able to sell all 200 at this price. The jerseys’ net realisable value is now $5,000 ($25 per jersey).

A write down of $25 per jersey is required because the net realisable value for each jersey ($25) is less than the cost ($50).

Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment expense</td>
<td>Inventory</td>
</tr>
<tr>
<td>$5,000</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Narrative: To recognise a loss from the reduction in value of school jerseys held in stock

4.4.6 Property, plant and equipment

Property, plant and equipment are tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

b) are expected to be used during more than one reporting period.

For a school these can include the following:

- Board owned buildings
- School housing
- Furniture and equipment
- Library and teaching resources
- Information and communication assets (i.e., computers)

**Buildings – state schools**

Any buildings erected on Crown land become part of that land. Legal ownership of educational Crown land and the buildings on it that are used by schools is vested in the Ministry of Education. It is for these reasons that before any school buildings are erected on school land, Ministry of Education approval must be obtained. This will avoid any later disputes as to the ownership, use, and disposal of such buildings. The cost of a board-funded building must be accounted for as a fixed asset in the school’s Balance Sheet. All buildings on the school’s Balance Sheet are the responsibility of the board to manage and maintain.

**Furniture and equipment**

Funding for furniture and equipment in state schools is provided as a capital contribution. There is no GST included and it is not income for the school. On receipt, the money should be credited to the school’s equity account in the Balance Sheet and not recorded as revenue in the Income Statement.

Funding is on the basis of new square metres based on an approved maximum roll increase, at the same rate as state schools. As with state schools, repair and replacement of furniture and equipment is the responsibility of the school to pay for from their operations grants.

Furniture and equipment is the property of schools rather than the Ministry of Education and, therefore, schools are responsible for its repair and replacement. Grants received from the Ministry of Education provide for this repair and replacement, but if the school’s furniture and equipment needs are met the money can be used for other purposes.

**Integrated Schools Furniture and Equipment (F&E) Grant**

The Ministry has changed the way it pays F&E grants to State Integrated Schools. This is due to changes of appropriation funding for the 2019 year. Payments to State Integrated Schools for F&E should be regarded as a ‘Non Taxable Supply’ and treated as an equity transaction through the statement of Movements/Changes in Equity. This brings the treatment in line with the current treatment of a state school.

This Means:
- Funding provided by the Ministry to State – Integrated schools should not include GST
- State – integrated schools will not need to return output tax on receipt of the funding
- State – integrated schools can claim GST input tax on the purchase of furniture or equipment (provided they are GST registered and a valid tax invoice is held)

For example, if the school required new equipment worth $1,000 + GST, the amount required from the Ministry to the school would also be $1,000.

<table>
<thead>
<tr>
<th>State- Integrated School</th>
<th>MOE Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding payment from the Ministry to the school</td>
<td>1,000</td>
</tr>
<tr>
<td>Output Tax (Returned) on receipt of funding/Paid to IR</td>
<td>(0)</td>
</tr>
<tr>
<td>Purchase of Furniture/equipment</td>
<td>(1,150)</td>
</tr>
<tr>
<td>Input Tax Claimed on purchase of furniture/equipment</td>
<td>150</td>
</tr>
<tr>
<td>Net Receipt / (Cost)</td>
<td>1,000</td>
</tr>
</tbody>
</table>
**Library and teaching resources**

A school’s library resources (including classroom libraries), teaching and curriculum resources are valuable assets that support teachers and enhance students’ learning opportunities. Schools are required to account for these resources as fixed assets if they cost more than their asset capitalisation limit.

This is consistent with generally accepted accounting practice.

**Accounting for library resources**

Changes in the quantity and value of library resources should be reconciled once a term with the school’s accounting records. This includes resources in all formats, eg books, periodicals, kits, maps and posters, videos or CD-ROMs. It excludes library consumables, software and online subscriptions. This ensures that the figures are accurate and also provides more readily reconcilable figures for verification at the end of the financial year.

Multi-volume resources, such as encyclopaedias, change in value in the same way as single-volume items and should be included in the general book value calculation.

Rare items, which may have a unique value, should be excluded.

A record should be kept of all library resources donated and those purchased in sales. Many automated library systems provide for this information, together with a field for recording the value of such items. For those on manual systems, procedures will be necessary to value donated or sale-price purchases of library resources, so that appropriate journal entries can be made in the accounting system. Appropriate valuation procedures should be specified and agreed with the school’s auditors. Any alternative method of accounting must conform to PBE IPSAS 17.

**Financial year-end procedures**

At year end it is recommended that schools:

- ensure that the beginning of year values and quantities are the same as those for the end of the previous financial year
- add this year’s purchases and donations to the gross value of books
- carry out a stock-take to establish the value and number of books on hand and those lost or damaged, which must be written off
- calculate average resource values and calculate the cost of and depreciation on books written off
- calculate the depreciation for the current year on those books on hand at the end of the year.

**Example**

The following Library Resources Reconciliation Statement provides a summary of the items needed to ensure all library-related transactions are properly recorded in the accounting system. Below the statement are the steps required to complete the Library Resources Reconciliation Statement.
<table>
<thead>
<tr>
<th></th>
<th>Gross value</th>
<th>Accumulated depreciation</th>
<th>Net value</th>
<th>Book numbers</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January</td>
<td>$45,000</td>
<td>$17,800</td>
<td>$27,200</td>
<td>5,000</td>
<td>1</td>
</tr>
<tr>
<td>Purchases for year</td>
<td>8,000</td>
<td>8,000</td>
<td>533</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>53,000</td>
<td>17,800</td>
<td>35,200</td>
<td>5,533</td>
<td>3</td>
</tr>
<tr>
<td>Write off</td>
<td>(2,000)</td>
<td>(790)</td>
<td>(1,210)</td>
<td>(222)</td>
<td>4, 5, 6</td>
</tr>
<tr>
<td>Adjusted book value</td>
<td>51,000</td>
<td>17,010</td>
<td>33,990</td>
<td>5,311</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>6,375</td>
<td>(6,375)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 31 December</strong></td>
<td><strong>51,000</strong></td>
<td><strong>23,385</strong></td>
<td><strong>27,615</strong></td>
<td><strong>5,311</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>

**Note 1**

Balance at beginning of year

Establish the opening balances for the financial year. These balances are the same as the closing balances at the end of the previous financial year.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Number</th>
<th>Average cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross value</td>
<td>$45,000</td>
<td>5,000</td>
<td>$9/book</td>
</tr>
<tr>
<td>Depreciation</td>
<td>17,800</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Net book value</td>
<td>27,200</td>
<td>5,000</td>
<td></td>
</tr>
</tbody>
</table>

**Note 2**

Purchases during the year

Establish the number and cost of books purchased during the year. The information is obtained from the general ledger, invoices and the accession register.

<table>
<thead>
<tr>
<th>Books purchased</th>
<th>Cost</th>
<th>Number</th>
<th>Average cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,000</td>
<td>533</td>
<td>$15/book</td>
</tr>
</tbody>
</table>

**Note 3**

Calculate total number and value of books

Based on the opening number of books and purchases during the year, how many books should be held by the library?

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Number</th>
<th>Average cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>45,000</td>
<td>5,000</td>
<td>$9</td>
</tr>
<tr>
<td>+ Purchases</td>
<td>8,000</td>
<td>533</td>
<td>$15</td>
</tr>
<tr>
<td>= Closing (expected book numbers)</td>
<td>53,000</td>
<td>5,533</td>
<td></td>
</tr>
</tbody>
</table>
### Note 4
Carry out stock-take

Count the number of books on hand (including books currently on issue).

| Books on hand | 4,080 |
| + Books on issue | 1,231 |
| = Actual books | 5,311 |

| Expected | 5,533 |
| - Actual | 5,311 |
| = Lost or damaged | 222 |

### Note 5
Calculate value of books lost

Calculate the value of books lost or damaged based on the average cost of books at the beginning of the year. This is the amount that must be written off.

| Lost or damaged | $9 | 222 | $9 x 222 = $1,998 |

### Note 6
Calculate depreciation on the lost books

As part of the write off of the books that have been lost or damaged, the depreciation relating to those books must also be written off.

| As at 1 January | 5,000 |
| Depn | 17,800 |
| = 3.56/book | 222 x $3.56 = $790 |

### Note 7
Calculate depreciation for the current year

Calculate the depreciation expense for the current year.

| Opening | 45,000 |
| + Purchases | 8,000 |
| - Lost | (2,000) |
| = Total | 51,000 |
| @12.5% (8 year life) | $6,375 |

### Note 8
Calculate accumulated depreciation

Based on the workings above, calculate the total depreciation on the school’s library resources.

| Opening balance | 17,800 |
| - Books lost (Note 6) | (790) |
| + Current year (Note 7) | 6,375 |
| Total | 23,385 |
Assets should be reported at their fair value. If the value of an asset has reduced then that asset has been impaired and its lower value should be reported. The reduction in value is an impairment expense.

**Impairment of property, plant and equipment**

Property, plant and equipment may reduce in value for a variety of reasons, including:
- physical damage or the asset wearing out earlier than expected – eg assets damaged in a flood
- changes in technology that makes an asset obsolete – eg computer software no longer of any use
- changes in the school curriculum – eg obsolete text books.

Each year your school must consider:
- whether there are any indications that asset values have been impaired for each class of property, plant and equipment and intangible assets
- where indications of impairment exist then calculate the assets’ recoverable amount (ie depreciated replacement cost – an estimate of the current replacement cost less allowances for physical deterioration and optimisation for obsolescence and surplus capacity)
- if the carrying amount/book value of the assets is higher than the depreciated replacement cost then recognise an impairment loss as an expense in the Revenue Statement.

**Example**

Kiwi Park School purchased a collection of 100 maths text books for its middle school two years ago. The collection has a gross book value of $10,000 (each book cost $100) and the depreciation rate is straight line over five years or 20%. This year the school changed its maths curriculum and the content of the text books is no longer applicable for teaching.

The change in school curriculum has reduced the value of the maths text books to zero because they are now obsolete.

The carrying value of the collection of maths text books in the school’s financial statements as at 31 December is $6,000 (two years’ depreciation is $6,000, 20% a year of $10,000). An impairment loss of $6,000 is recognised as an expense for the year as the carrying value ($6,000) is greater than the fair value of the text books ($0).

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Impairment expense</th>
<th>$6,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Text books</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

**Narrative:** To recognise a loss on obsolete text books

### 4.4.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Schools may have intangible assets, such as websites or software for student management or financial management.

**Software**

No intangible asset is recognised where a school pays an annual rental or licence fee rather than purchasing a software program (or where the software had only a minimal purchase price with a substantial annual licence fee).

When a school purchases a computer, this will often include suite or day-to-day software. Schools are not required to separately identify software acquired when hardware is purchased (for example, Microsoft Office/Vista) unless the software is determined to be greater than the school’s threshold for capitalisation of an asset (the Ministry recommends $1,000 threshold). The operating system of a computer is not required to be identified as this is considered part of the hardware.
The Ministry recommends:

- software purchased is recognised as an expense in the Statement of Comprehensive Revenue and Expense when it is less than the school’s threshold for capitalisation of an asset

- software purchased is recognised as an intangible asset when it is greater than the school’s threshold for capitalisation of an asset

- if the total gross book value of all software recognised as intangible assets is greater than 5% of the total gross book value of the school’s property, plant and equipment, the Ministry believes it would be material enough to recognise in a separate intangible asset class. If it is less than 5%, the Ministry believes it is immaterial enough to be recognised within the information and communication technology asset class.

If your school is considering capitalising a software program that was developed internally, you should consult your financial service provider or auditor. PBE IPSAS 31 provides certain circumstances where costs can be capitalised.

**Examples**

a) Kiwi Park School purchased a laptop computer for $1,999 for use in its junior classroom. The laptop has a basic Microsoft Office package installed that cost $150. This was included in the purchase price of $1,999. Kiwi Park School has adopted a $1,000 threshold for capitalisation of an asset.

The software portion is below the capitalisation threshold and, therefore, it is not required to be separately identified as an intangible asset. The laptop computer is capitalised at the cost of $1,999 and recorded in the information and communication technology asset class.

b) Kiwi Park School has purchased a school management system with a gross book value of $15,000. No other intangible assets have been recognised by the school and at year-end the total gross book value of all property, plant and equipment of the school is $758,000.

The software is an intangible asset. As the gross book value of all intangible assets is only 2% of the total gross book value of property, plant and equipment, no separate intangible asset class is required.

**Website costs**

Schools can recognise their website as an intangible asset if they can demonstrate how the website will generate probable future economic benefits. A school website that promotes and advertises the school does not generate probable future economic benefits unless it is capable of generating revenues, including direct revenues from enabling orders to be placed. For example, international student fees can be paid via the school’s website.

Schools should consult their financial service provider or auditor before any website costs are capitalised in accordance with PBE IPSAS 31.

Costs associated with developing and maintaining your school’s website that do not generate probable future economic benefits are to be expensed in the Statement of Revenue and Expenses when incurred.

**4.4.8 School Network Upgrade Programme (SNUP)**

For cabling installed as part of the joint Ministry/schools SNUP project, boards should recognise the board contribution as a fixed asset. This advice constitutes “explicit agreement with the Ministry”. The school may contribute from its 5YA funds instead of making a direct contribution. This should not be capitalised in the school’s financial statements, as this is Ministry capital funding and it will recognise the asset on its balance sheet.
For equipment such as switches and servers installed as part of the SNUP project, schools should (for 2016 and future years):

- record the Ministry of Education portion as an equity contribution
- record the assets initially at 100% of their value, and
- subsequently depreciate the asset accordingly.

If, in previous years, schools accounted for the cabling, switches, and servers differently from what is outlined above, no adjustments are required to previous financial statements because of the decreasing materiality of previous years' figures.

Please note that 5YA funds cannot be applied to switches and servers that are part of the joint Ministry/schools SNUP project.

Further information on contribution arrangements is available from each school's SNUP memorandum of understanding.

**School Network Upgrade Project (SNUP) – state integrated schools**

For state integrated schools the Ministry pays 68% of the costs of the project, and bills the rest to the proprietor. The proprietor cannot pass on any of the costs of the cabling to the school board, but can ask for a contribution to the cost of the servers and switches.

As the servers and switches are equipment, the school should recognise these on the school's balance sheet as equipment. The school should recognise 100% of the cost of the equipment as an asset. Any contributions made by the Ministry or the proprietor should be shown as income (in the same way as the integrated school recognises the furniture and equipment grant).

### 4.5 Liabilities

#### 4.5.1 Accounts payable

Accounts payable is made up of the following.

**Operating creditors:** This is the amount of any invoices that have been received by the school for expenditure incurred that have not yet been paid for. It is required that the school recognises both the expense and the operating creditor (liability) through a journal entry.

**Example:**

Kiwi Park School orders and receives stationery totalling $115 in December. They will not pay for the stationery until January of the following year and therefore is required to recognise the stationery expense and the accounts payable in December.

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Stationery (expense)</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>GST (expense)</td>
<td>15</td>
</tr>
<tr>
<td>Credit</td>
<td>Operating creditors (liability)</td>
<td>115</td>
</tr>
</tbody>
</table>

**Narrative:** Journal to record stationery expense and operating creditor as no payment has been made

Once the invoice is paid in January the journal is reversed so that there is no longer an operating creditor.
**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Operating creditors (liability)</th>
<th>115</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Bank (asset)</td>
<td>115</td>
</tr>
</tbody>
</table>

Narrative: Journal to record payment of stationery and reversal of operating creditor.

**Accruals:** An accrual is similar to an operating creditor but an invoice has not yet been received. It is therefore a best estimate of the expected cost of expenditure incurred. A common example is the audit fee which is generally not invoiced until after the end of the audit. The best estimate for this is based on the engagement letter received by the school during the year. The journals are the same as above but the liability account is accruals rather than operating creditors.

**Banking staffing overuse:** Banking staffing is the tool schools use to manage their annual staffing entitlement. A school’s banking staffing balance is shown on the fortnightly Novopay banking staffing report. Any over-usage must be recorded as a liability and will be recovered from the operations grant payment made by the Ministry.

Find out more about banking staffing.

Example:

Kiwi Park School receives a banking staffing report for PP22 showing overuse at a value of -6.52 FTTE or $13,792.31. No underuse is expected to 31 March.

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Teachers Salary Grant</th>
<th>13,792.31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Banking staffing liability</td>
<td>13,792.31</td>
</tr>
</tbody>
</table>

Narrative: To recognise the banking staffing liability relating to the year ended 31 December.

**Employee entitlements – salaries:** Schools are required to report a liability in dollar terms for annual leave and long-service leave for their non-teaching staff. A leave liability report will be available through the Novopay system in February 2017.

Schools should be actively managing outstanding leave balances where the balance is high. This will assist in reducing the leave liability for which your school is required to account.

No provision is required to be recognised for sick leave for any teachers, irrespective of whether a school is above its teaching entitlement as in practice most teacher sick leave is grant funded by the Ministry.

To calculate the accrual, refer to the summary SUE report provided to the school in mid-January.

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Ground staff wages</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Administration staff salaries</td>
<td>100</td>
</tr>
<tr>
<td>Credit</td>
<td>Salary accrual (liability)</td>
<td>200</td>
</tr>
</tbody>
</table>

Narrative: To accrue non-teacher salary and wage costs for the period xx December to 31 December.

**Employee entitlements – leave accrual:** Any holiday pay due but not paid will need to be accrued for at the end of the year. If a school has non-teaching staff who have been employed with the school for some time, they may be entitled to long service or retirement leave. It is important to check their personnel records,
calculate any liability that exists, set funds aside and record the liability in the school’s Balance Sheet. It can be difficult for a school to find unexpected, significant amounts to pay exiting staff.

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Ground staff wages</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Administration staff salaries</td>
<td>50</td>
</tr>
<tr>
<td>Credit</td>
<td>Staff payables (liability)</td>
<td>100</td>
</tr>
</tbody>
</table>

**Narrative:** To accrue holiday pay due at 31 December.

### 4.5.2 Borrowings

Some schools have received loans from the Ministry or borrowed funds from third parties with nil or below market interest rates.

These are disclosed as a liability in the financial statements under borrowings. They can be either current or non-current liabilities depending on when the loan is due for repayment.

If the loan is interest free or interest is being paid at a rate below commercial interest rates, a calculation will need to be performed to discount the loan amount to its fair value at balance date.

Please contact your financial service provider or financial advisor for advice.

### 4.5.3 Revenue received in advance

Any money that has been received but is not able to be recognised as revenue yet should be recognised as revenue received in advance liability. An example of this is the receipt of international student fees in December for the following school year. Refer to section 4.2.4 for journals.

### 4.5.4 Provision for cyclical maintenance

School operation grant funding includes a component for maintenance of school property. Although schools are not required to report directly how they have spent that money, they are required to keep their property well maintained, as part of their Property Occupancy Document.

One of the most significant maintenance costs for schools is painting, especially external painting. External painting is usually done on a cyclical basis, say every seven years. If a school does not set aside money each year from its operations grant then it can be a struggle to pay for the cost of external painting.

To support better planning for cyclical maintenance costs, like external painting, and to comply with generally accepted accounting practice (GAAP), schools are required to have a provision for cyclical maintenance as a liability in their balance sheets. Schools should set aside sufficient funds to match that liability.

**How is the cyclical maintenance provision calculated?**

Use your school’s 10-Year Property Plan to determine each major item of cyclical maintenance that should be provided for. The most common items are internal and external painting of the school, but may include other items like resurfacing sports areas, painting the swimming pool, replacement of curtains and resealing car parks.

The amount of the provision is split between current (to be carried out in the following year) and non-current (to be carried out in future years) annually.

You can use the cyclical maintenance calculation spreadsheet in the 10YPP template to help you calculate how much funding to set aside each year for each cyclical maintenance project. The spreadsheet can be
edited to include all of the major maintenance projects to be carried out in future years, the year each task is expected to be done and the estimated cost.

The assumptions used in the spreadsheet will need to be verified every five years by reference to the professionally reviewed 10-Year Property Plan (10YPP), a long-term painting contract or other reliable sources of evidence.

These assumptions will need to be reviewed more frequently if:
- a 5-Year Plan (5YP) has been agreed in a current year and some of the maintenance requirements are taken care of as part of the 5YP programme
- if the expenditure in the current year is not in accordance with the current provision in the previous year
- if there are any grounds to doubt the reasonableness of the provision.

It is important that the provision is correct and not influenced by any funding flows.

Please note the 10YPP will still include a maintenance component and needs to be professionally reviewed every three years. This spreadsheet simply calculates the provision for cyclical maintenance for inclusion in a school’s annual financial statements.

**Accounting for cyclical maintenance expenditure**

When cyclical maintenance work is carried out, the cost of that work will be charged against the provision for cyclical maintenance in the Statement of Financial Position.

It is possible that the maintenance cost incurred will not equal the provision for cyclical maintenance. This could be the result of:

2) changes in the nature of the school’s property – for example:
   a) completion of 5YP capital projects
   b) major roll change, resulting in the arrival or departure of re-locatable classrooms

3) changes in estimates – for example:
   a) signing of a 5YP with the Ministry, resulting in changes to the school’s 10YPP
   b) amendments to the nature and timing of maintenance tasks in the 10YPP

4) Differences between estimated cost and actual costs.

**Example – actual cost equal to provision**

Kiwi Park School has one classroom block that last had an exterior paint eight years ago. The school anticipates that it needs repainting every 10 years and the 10YPP shows a repaint due next year that is expected to cost $50,000. At 31 December year end, the school had a provision for cyclical maintenance liability of $40,000 ($50,000/10 x 8 years). The provision was increased each year by $5,000 ($50,000/10 years).

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Cyclical maintenance (property expense)</th>
<th>5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Provision for cyclical maintenance (liability)</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Narrative: To recognise the annual charge for cyclical maintenance and increase the provision

Two years later the repaint was done at the forecast cost of $50,000.

**Journal entry**
Kiwi Park School has a classroom block that last had an exterior paint eight years ago. The school anticipates that it needs repainting every 10 years and the 10YPP shows a repaint due next year that is expected to cost $50,000. At 31 December year end the school had a provision for cyclical maintenance liability of $40,000 ($50,000/10 x 8 years).

The following year the school noticed a rapid deterioration in exterior paint on their classroom block. Although the repaint was not due for another two years, the board decided to have the block painted that year.

The repaint was completed for a cost of $50,000. The school must now record the cost of the exterior repaint. With the balance of the provision for cyclical maintenance standing at $40,000, the cost of the repaint exceeds the amount provided. The additional cost must therefore be recorded as an expense.

**Journal entry**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Cyclic maintenance (property expense)</th>
<th>10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Provision for cyclical maintenance (liability)</td>
<td>40,000</td>
</tr>
<tr>
<td>Credit</td>
<td>Bank (asset)</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Narrative: To record the exterior repaint of the classroom block

At the end of that year, the school updates its 10YPP and recalculates its provision for cyclical maintenance. The only item of cyclical maintenance was the repaint of the classroom block, and since this has only just been completed, the school is in a ‘good order of repair’ and the next repaint is not due for another 10 years. Therefore, the current value of the school’s obligation to maintain Crown property is zero and no provision is required at year end.

**Example – actual cost is less than provision**

Kiwi Park School has a classroom block that last had an exterior paint nine years ago. The school anticipates it needs repainting every 10 years and the 10YPP shows a repaint due next year that is expected to cost $50,000. At 31 December year end, the school had a provision for cyclical maintenance liability of $45,000 ($50,000/10 x 9 years).

During the year, Kiwi Park School signed up to a new 5YA with the Ministry. As part of this agreement the sash windows in the classroom block were replaced with aluminium windows and the areas around the windows were painted once the job was completed.

The following year the school carries out the exterior repaint of the classroom block in accordance with the 10YPP. Because of the window painting work completed the previous year, the actual cost of the repaint was $40,000, $10,000 less than the amount estimated.
Journal entry

<table>
<thead>
<tr>
<th>Debit</th>
<th>Provision for cyclical maintenance (liability)</th>
<th>45,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Bank (asset)</td>
<td>40,000</td>
</tr>
<tr>
<td>Credit</td>
<td>Other revenue</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Narrative: To record the exterior repaint of the classroom block and charge the cost against the provision for cyclical maintenance. On completion of the exterior repaint, the value of the school’s obligation to maintain school property is zero and the balance of the provision is therefore transferred to revenue.

At year end the school updates its 10YPP and recalculates its provision for cyclical maintenance. The only item of cyclical maintenance was the repaint of the classroom block and since this has only just been completed, the school is in a ‘good order of repair’ and the next repaint is not due for another 10 years. Therefore, the current value of the school’s obligation to maintain Crown property is zero and no provision is required at year end. This means the balance of the provision at 31 December must be transferred to revenue.

4.5.5 Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards of owning an asset to the lessee (the person leasing the asset). The substance of the lease documentation (what it means) is looked at rather than the contractual form (the words used). Each lease should be considered on a case-by-case basis to decide whether it is a finance lease or an operating lease.

Factors that indicate a lease is a finance lease (as per paragraphs 15 and 16 of PBE IPSAS 13) include:

- ownership of the leased asset is transferred to the lessee by the end of the lease term
- the lessee can buy the asset at no or low cost at the end of the lease
- the lease is for the major part of the economic life of the asset
- at the beginning of the lease, the present value of the total minimum lease payments is at least substantially all of the fair value of the asset
- the asset is of a specialised nature so that only the lessee can use it without major modifications
- there are penalties for cancelling the lease
- the lessee gets any gains or losses in the value of the asset
- the lease can be extended when it finishes, at a lower than market rate.

In most cases, the Ministry believes that it should be possible for the school and financial service provider to make the decision about whether the lease is a finance or operating lease, without consultation with their auditor. However, the Ministry accepts that it can be difficult to make a decision on some leases and, therefore, where there is doubt, and the issue is material to the financial statements, the Ministry recommends that the school consults its auditor for advice.

Accounting for finance leases

According to PBE IPSAS 13 ‘Leases’:

“At the commencement of the lease term, lessees shall recognise assets acquired under finance leases as assets, and the associated lease obligations as liabilities in their statements of financial position. The assets and liabilities shall be recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

“The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee’s incremental borrowing rate shall be used.”
Fair values can usually be estimated based on the cost of buying the asset. The present value of the minimum lease payments is usually around fair value.

The depreciation policy for leased assets should be consistent with that for depreciable assets, which are owned, except where there is no reasonable certainty that the board will obtain ownership of the asset by the end of the lease term, in which case depreciation should be over the lease term (refer to paragraph 36 of PBE IPSAS 13). For example, if computer equipment is normally depreciated over five years, computer equipment obtained under a 4-year finance lease should be depreciated over four years rather than five years.

The finance charge is the total of the lease payments less the initial value of the capitalised asset. This charge should be allocated as an expense to the financial periods of the lease term to give a constant periodic rate of interest on the remaining balance of the liability (as per paragraph 36 PBE IPSAS 13) or a reasonable approximation.

**Treatment of TELA leases**

Due to the change in accounting standards, TELA leases are now classified as finance leases (as with any photocopier leases). Refer to Appendix A for further guidance released in 2016 on the treatment of TELA leases.

4.5.6 Funds held on trust

**Funds donated for specified purposes**

From time to time schools receive special donations, bequests and other sums of money. Where the donor states that the interest on the money is to be used for a specified purpose then the money received, or capital sum, must be held separately – ‘in trust’. (See also ‘Donations, bequests and gifts”).

The purpose of these donations or bequests may be:

- an annual prize
- a scholarship
- equipment purchase
- any other purpose specified.

Depending on the terms or conditions attached to the donation or bequest, the school may be required to:

- hold the capital sum intact as a cash deposit or investment
- only distribute interest earned on deposits.

If the conditions attached to the donation are complex, a written opinion should be obtained from a lawyer or chartered accountant. These opinions should set out precise details as to how the fund is to be administered and accounted for. These opinions must be made available to the school’s auditor.

When a donation, bequest or gift is to be held in trust, it is regarded as a liability until the conditions attached to the donation are met. At that time, the donation is transferred from a liability and recognised as revenue.

If the donation is to be held for a long time before it is paid out, or if the conditions require that only interest is paid, schools should consider setting up a separate bank account.

**Example**

Kiwi Park School receives $10,000 from the estate of M. Cooper, a former student. The bequest states that half of the interest earned each year is to be given as an award to the student who has made the most outstanding contribution to the school. In the first year $700 is earned in interest so that $350 can be paid as an award.
Journal entries

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit trust account</td>
<td>M. Cooper Trust</td>
</tr>
<tr>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Narrative: A bequest from M. Cooper is to be held in trust and a portion of the interest earned each year is to be given as an award to the student who has made the most outstanding contribution to the school.

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit trust account</td>
<td>M. Cooper Trust</td>
</tr>
<tr>
<td>700</td>
<td>700</td>
</tr>
</tbody>
</table>

Narrative: Interest earned by the M. Cooper Trust.

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. Cooper Trust</td>
<td>Donations</td>
</tr>
<tr>
<td>350</td>
<td>350</td>
</tr>
</tbody>
</table>

Narrative: Payment of a $350 award from the M. Cooper Trust and recognition of that amount as a donation to the school (as the conditions of the trust have been met).

International students – personal funds held on behalf of students

In certain circumstances, schools may look after international students’ personal funds, perhaps to ‘drip-feed’ this money to the student over the year. However, there are other options available, such as bank accounts with restrictions on access. Whatever the legal arrangement, any school looking after funds for international students needs to regard itself as being in a fiduciary relationship with the student. Therefore the school must behave in an exemplary manner regarding the use of the funds.

Schools should deposit the private funds held on behalf of students into a bank account separate to the school’s main bank account – schools are holding funds on trust and have a very high duty of care. Interest earned on the funds must be returned to the students rather than being treated as a windfall by the school. Schools should have written agreements with the students and/or their parents/guardians to outline the circumstances in which the funds can be used or accessed and by whom.

Funds held for capital works projects

Schools may receive funding advances from the Ministry for capital works projects, from their 5YA funding or other capital programme funding sources. The advances are not revenue, but funds held on behalf of the Ministry. The school should credit the funds to a liability account (funds held for capital works projects) when they are received. When the funds are spent, the liability account should be debited.

Example

Kiwi Park School received $50,000 from the Ministry for a gym upgrade. At balance date the school had not yet spent any of these funds received.

Journal entries

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank (asset)</td>
<td>Funds held for capital works projects (liability)</td>
</tr>
<tr>
<td>50,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Narrative: Journal to recognise receipt of money for capital works project on the gym.
Funds held on behalf of a cluster

Schools that are members of clusters, which share resources and funding to achieve a common purpose, are required to account for any balance of these funds at each year end. The lead school will account for any balance unspent and should identify each cluster member school’s share. The member schools should show their share of the balance as a current asset.

Refer to the Kiwi Park School model financial statements of how the note should look for funds for RTLB services and funds held on behalf of a cluster.

4.6 Notes to the financial statements

Notes are an integral part of a school’s financial statements, as they provide explanatory information and greater level of detail. Some note disclosure is compulsory, in accordance with PBE IPSAS, but schools may choose to include notes that will add value or understanding to the reader.

Kiwi Park School model financial statements include suggested wording for compulsory disclosure notes, most of which are self-explanatory, therefore additional information is provided below for only a few areas.

4.6.1 Related parties

Who is a related party?

An entity or person is considered a related party to a school if they can control or exert significant influence over the decisions made by the board, ie key management personnel at the school, close family of a board member.

1) Key management personnel

Key management personnel are those persons either directly or indirectly having authority and responsibility for planning, directing and controlling the activities of the school. Key management personnel include:

- board members
- committee members
- the principal.

Key management personnel may also include the:

- associate principal
- deputy principal
- assistant principal
- executive officer/business manager
- heads of departments and any senior staff with employing or contracting responsibilities.

In general, key management personnel will include the board plus all those employees who form part of the school’s ‘senior management team’ (or whatever name the group is called).

2) Close family members

Close family members include those family members who may be expected to influence, or be influenced by, that individual in their dealings with the school.
This includes:

- the individual’s domestic partner and children
- children of the individual’s domestic partner
- dependants of the individual or individual’s partner.

It may also include other family members.

**What is a related party transaction?**

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

**What should be disclosed in the related parties note?**

All related party transaction that have occurred that are non-arm’s length and not at market terms are required to be disclosed. Any transactions that have occurred with related parties within a normal supplier relationship on normal terms are not required to be disclosed.

It is not necessary to report related party transactions between entities that form part of the New Zealand public sector, despite the fact that they are subject to common control or significant influence by the Crown (if the transactions are carried out at arm’s length). For example, schools and New Zealand Post are entities within the Crown reporting entity. However, disclosure of information by a school about purchasing stamps from New Zealand Post does not provide users with useful information.

**Example of a non-arm’s length transaction**

Nicholas Reid is a member of the board of Kiwi Park School. Nicholas is also the general manager of Computer City Ltd that has been used to maintain and service the school’s computer hardware and software. The total value of transactions for the year is $10,000 and Computer City Ltd provided the services at a rate lower than market value.

This is a non-arm’s length related party transaction and therefore the board needs to disclose the payment of $10,000 with Computer City Ltd as a note in the financial statements.

**Example of an arm’s length transaction**

Angela Ashby is the principal of Kiwi Park School. In November the board purchased $24,000 of playground equipment from Big Fun Ltd. Angela’s husband, Tom, is the managing director of Big Fun Ltd. At 31 December $10,000 remained outstanding to Big Fun Ltd. All transactions have been on normal trading terms and will result in a fair market sales price.

This is an arm’s length related party transaction as the playground was purchased at a market value price and therefore no disclosure is required in the related party note.

**Key management personnel compensation**

All schools are required to disclose key management personnel compensation. All of the shown remuneration classifications should be disclosed even if the payment is nil.

Remuneration should include all pay and benefits, such as cars, insurance payments, subsidised housing, bonuses, etc. Most key management personnel will be teachers so will be unlikely to have benefits unless concurrence has been given. However, if a school has a business manager, they may be key management personnel and not be restricted by the collectives. If the cost of a benefit is not determinable, an estimate should be made. In most cases, if benefits are payable, the school should be paying FBT on these which will provide a reasonable estimate of the benefit received.

Schools are required to disclose the aggregate remuneration of key management personnel (which includes members of the board and committee) and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within each category, eg the full-time equivalent for board and committee
members has been determined based on the frequency and length of board and committee meetings and the estimated time for board members to prepare for meetings.

Refer to the Kiwi Park School model for how to calculate key management personnel compensation.

Find out more about applying for concurrence for employee benefits.

4.6.2 Commitments

Schools are required to include a note on commitments, disclosing their capital and operating commitments for up to five years in the future.

4.6.3 Contingencies

If the board is aware of any matters at 31 December that are unresolved and which may result in expenditure by the board but which is not otherwise allowed for in the accounts (such as a redundancy or severance payment), such potential for additional expense should be included as a note under contingencies.
Appendix A: Treatment of TELA leases

Treatment of TELA leases

The following information is provided to assist you when reviewing your TELA lease arrangements for your school for future years.

The TELA lease agreements have been assessed against current accounting standards and we have concluded that they are finance leases, not operating leases. In prior years, as required by Ministry guidance, these have been treated by all schools as operating leases. A change in accounting standards and a renewed focus on leasing arrangements has prompted this re-assessment.

The accounting standard requires that at the commencement of the lease term, a lessee recognise assets acquired under finance leases as assets, and the associated lease obligations as liabilities in its Statement of Financial Position. The assets and liabilities shall be recognised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

Please note that finance leases are classified as borrowing. Boards will be aware that clause 12 of the Crown Entities (Financial Powers) Regulations 2005 limits the annual debt servicing of a board’s borrowing to no more than 10% of the operations grants the school receives from the Ministry. If a school has breached its borrowing limit because of the reclassification of these leases, this must be disclosed in the school’s financial statements.

Treatment 2016

All TELA lease agreements entered into by schools in 2016 are to be treated as finance leases. The total amount of the lease needs to be recorded in the financial statements, as the school is the lessee. The Ministry portion of the lease payments is recognised as a ‘notional’ revenue and expense when paid.

Leases in place prior to 2016

Leases may continue to be treated as operating leases unless the outstanding asset and liability at 31 December 2016 (or 31 December 2015) would be material to the financial statements. While individual leases may not be material, you need to consider whether all leases taken together (including non-TELA leases that are finance leases) would be material.

2013 – All TELA leases that started in 2013 will be ending in the 2016 year, so no asset or liability will remain at 31 December 2016. However, you still need to consider the comparative figures but it is likely the remaining asset and liability, as at 31 December 2015 relating to these leases, will not be material for your school. Unless the lease payments are particularly large, you can continue to treat these leases as operating leases.

2014 – All TELA leases that started in 2014 will be two-thirds into the lease agreement and ending in the 2017 year. Again, the remaining asset and liability may not be material for your school at either the 2016 or 2015 year end. This will depend on when in 2014 the lease started and the size of the lease payments. If a significant lease, you should assess whether the remaining asset and liability could be material to the financial statements.
2015 – All TELA leases that started in 2015 will be one-third into the lease agreement and finishing in the 2018 year. The balances for these leases may be material for your school and should be assessed for materiality.

We have provided a TELA worksheet to help you determine whether the asset and liability for each of your TELA leases as at 31 December 2016 or 31 December 2015 would be material. It is likely that individual leases will not be material, so you must consider the total asset and liability from all lease agreements at each year end when making this assessment. If you determine that the asset and liability for all TELA leases as at 31 December 2015 would be material, you will need to record this as a prior period adjustment in your 2016 financial statements.

Journals

We have set out the journals required to account for the TELA lease agreements below. As noted above, the total asset and liability under the lease agreement should be recognised and the Ministry portion of the lease payment is accounted for as ‘notional’ revenue and expense.

1. To recognise asset and lease liability
   DR – PPE Leased Assets – Full Value of Asset
   CR – Finance Lease Liability

2. Annual cost of lease – school portion
   DR – Interest Expense
   DR – Finance Lease Liability
   CR – Cash

3. Annual cost of lease – Ministry portion
   DR – Interest Expense
   DR – Finance Lease Liability
   CR – Subsidy Income – Other Ministry Grants

4. Depreciation
   DR – Depreciation Expense
   CR PPE – Accumulated Depreciation

The worksheet will help you calculate the asset value (the present value of minimum lease payments) and to split the quarterly payments between the principal (finance lease liability) and the interest expense.

Download the TELA lease worksheet from our website.

You should create a copy of the TELA worksheet for each lease agreement. You need to enter the school and Ministry payments from your lease agreement into the yellow shaded boxes. As all the lease agreements have the same interest rate and term, the worksheet will calculate the value of the initial asset and liability and the split of the quarterly payments. The journals you will need to post to your financial statements are shaded blue.

If you enter the payment dates in column B, the balances in column I and J will show you the value of the asset and liability at 31 December in each year. You can see this in examples one and two. As noted above, you can use this worksheet to determine whether assets and liabilities for agreements entered into in prior years would be material to the financial statements for either the 2015 or 2016 years. If material, they would need to be recognised in the financial statements.
Appendix B: Model financial policies

We have developed a set of model financial policies for Kiwi Park School on the following topics for you to download and use:

- Asset management
- Cash management
- Credit cards
- Entertainment
- Finance
- Protected disclosures
- Schedule of delegations
- Sensitive expenditure
- Theft and fraud prevention
- Travel.

You can find Word versions on the managing school finances section of our website.
Appendix C: Decision Guide for Funding Overseas Travel Involving Students

This document is designed to assist a Board’s decision making when considering whether to approve Crown funding for overseas travel involving students. The questions listed here are not exhaustive. Please include all relevant information.

A completed and signed Decision Guide, and a copy of the relevant board minutes, should be kept and made available for audit purposes.

Further information, including guidelines for staff only travel, can be found in section 2.4.1 of the Financial Information for Schools Handbook (FISH).

<table>
<thead>
<tr>
<th>Information about the proposed trip</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the purpose of the travel?</td>
<td></td>
</tr>
<tr>
<td>Where to and for how long?</td>
<td></td>
</tr>
<tr>
<td>Who is attending?</td>
<td></td>
</tr>
<tr>
<td>What is the budget?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Curriculum and student achievement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How does the overseas travel support student achievement?</td>
<td></td>
</tr>
<tr>
<td>What curriculum outcomes is the experience likely to help students achieve?</td>
<td></td>
</tr>
</tbody>
</table>
Financial considerations

- How will this travel be paid for?
- Has this travel been considered alongside other competing priorities (e.g. curriculum expenses, asset replacement/maintenance) for the use of limited financial resources?
- How have you evaluated that the expenditure represents the best value for money?

Declaration

The trip for ______________________ to travel to ______________________ is

APPROVED/DECLINED

Signed:

Board Chairperson

with the authority of the board on (date) _________________
We shape an education system that delivers equitable and excellent outcomes