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EFFECTIVE FINANCIAL GOVERNANCE

FINANCE PART 2

Learning Outcomes: What does success look like?

By the end of this workshop you should be able to:

- List the main types of income and expenditure for schools
- Interpret financial statements and identify potential concerns
- Explain the conditions that must be met when employing staff above the school's staffing entitlement
- Describe the mechanisms your school should have in place to ensure the accuracy of payroll reporting
- Describe the features of long-term financial planning
- Identify common areas of risk for schools and strategies that can be put in place to minimise these risks

Contents

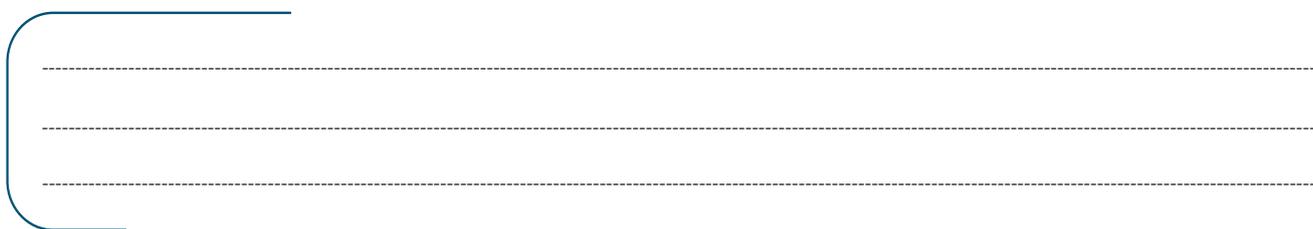
What do I already know about this topic	3
Workshop overview	4
Interpreting financial statements	5
Staffing paid from operations funding	6
Staffing paid from staffing entitlement (MoE)	7
Banking staffing	8
Payroll reporting and internal controls	9
Balance sheet key components	11
Cash vs accrual accounting	15
Kiwi Park model	16
Financial indicators	17
Long-term financial planning	18
Managing financial risk	23
Financial difficulties	26
Glossary of finance terms	27
Reflection and next steps	32
Personal action plan	33
Notes	35

WHAT DO I ALREADY KNOW ABOUT THIS TOPIC

The purpose of this activity is to link existing and new learning. There are no incorrect answers!

Spend 5 minutes brainstorming the following:

1. What are the main types of income and expenditure for schools?



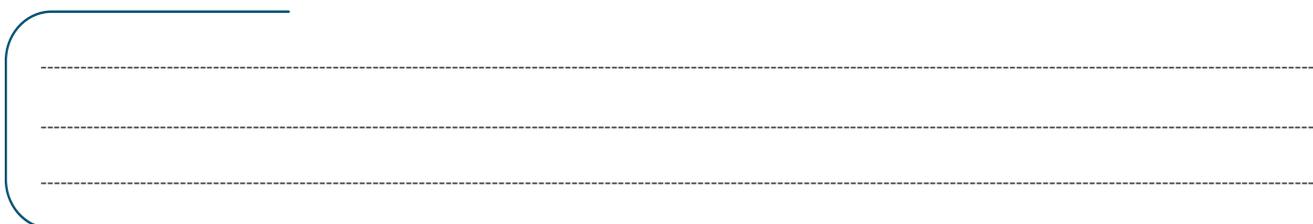
2. How familiar are you with your own school's financial statements?



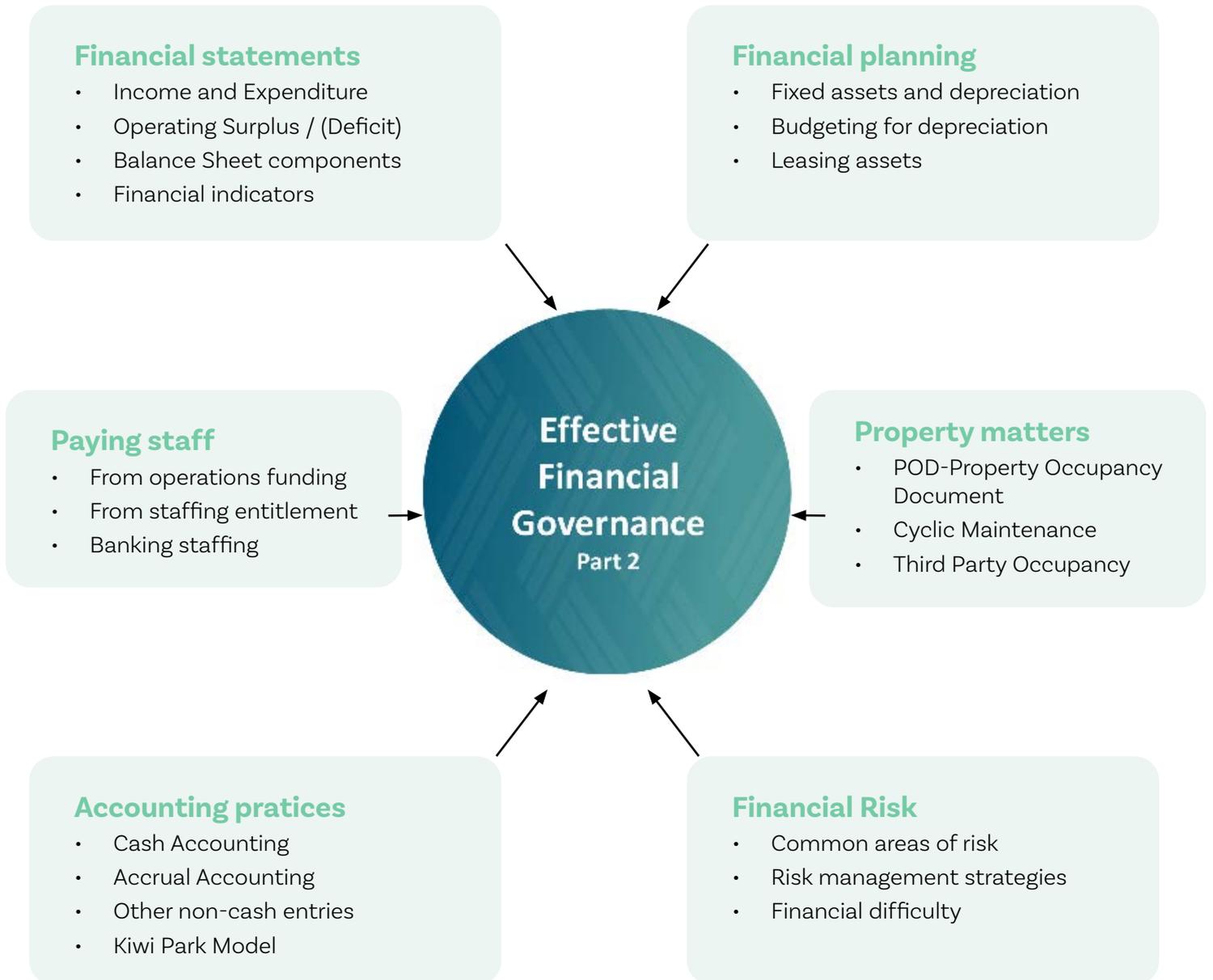
3. What are the four conditions that must be met before the board can employ teaching staff above their Ministry of Education (MoE) staffing entitlement?



4. What are the key factors to consider when financial planning for the long term?



WORKSHOP OVERVIEW



INTERPRETING FINANCIAL STATEMENTS

The main forms of income and expenditure for schools.

“Don’t tell me where your priorities are. Show me where you spend your money and I’ll tell you what they are” - James W Frick

INCOME

Ministry

- Operational funding
- “Tagged” e.g. special education

Other government

- Oranga Tamariki
- Gateway
- Property funding

Locally raised funds

- Trading income
- Family contributions
- International student fees

EXPENDITURE

Trading expenditure

Learning resources

- Wages
- Wages “tagged”
- Curricular

International programme

- Wages
- Costs

Administration

- Wages
- Overheads

Property

- Wages
- Cyclical maintenance expense
- Minor maintenance

Overheads

Depreciation (monthly accrual)

INCOME – EXPENDITURE OPERATING SURPLUS / (DEFICIT)

While each school may have a different reporting format, the same general principles apply. The board needs to ensure that:

- realistic budgets are assessed for each account
- expenses relating to a specific income stream are not directly charged against that income ledger. This is called ‘netting’ and is not good accounting practice. Income should be directed to an income ledger and the expenses directed to a separate expense ledger.
- reporting is transparent for “tagged” funding i.e. separate budgets for special education income, special education wages and cluster funds
- variances to budgets are analysed monthly so corrective action can be taken

STAFFING PAID FROM OPERATIONS FUNDING

Staff wages and salaries are a school's biggest expense. From the operations grant and other funding, schools employ support staff such as caretakers and cleaners, teacher aides and administration officers. Schools receive their operations grant on a quarterly basis.

Using the operations grant or other funding to employ teachers above the MOE teacher staffing entitlement comes with financial risks and conditions that must be met before proceeding.

Condition	Met	Note
Ability to finance	✓	Can meet ongoing salary costs and other costs of employment
Fulfil other obligations	✓	Only if sufficient funds are available after allowing for: <ul style="list-style-type: none"> • Painting • Asset replacement • Other commitments & contingencies
Long term consequences of employing staff considered	✓	<ul style="list-style-type: none"> • Fixed Term vs Permanent • HR implications of fixed term agreements
Proper documentation	✓	<ul style="list-style-type: none"> • Forms and templates for appointing employees • Minute decisions

Important:

Boards do not have the discretion to make additional payments to teachers or principals. Any such payments must have prior approval from the Secretary for Education.

An example would be Ministry of Education approval (concurrence) for a principal's extra duties related to a school hostel or RTLB cluster.

Are these conditions met by your school or kura?

STAFFING PAID FROM STAFFING ENTITLEMENT (MOE)

Banking staffing

What is it?

An MOE system that allows a school to decide when they'll use their **teacher staffing entitlement**. This allows schools to be flexible in staffing to their students' needs.

Within the banking staffing year, a school may choose to:

- Anticipate up to 10% of staffing entitlement – use it in advance (go into overdraft)
- Save up teacher staffing entitlement to use later in the year – under-use it (bank it)
- Operate staffing usage on a full-year basis – no saving and no overdraft in each pay period.

Example

A school has a large group of new entrants starting in Term 3. They choose not to use their full staffing entitlement in Terms 1 and 2 so they can employ additional hours in Term 3 when the new entrants start.

Risks of getting it wrong

Poorly managed banked staffing can lead to significant overuse, which can result in a school having to **repay the MOE in cash** from their operations grant funding the following year.

This can be a nasty surprise to the board if the over expenditure was not planned or reported!

What happens when your banking staffing doesn't balance?

Overuse

- If you have overused your entitlement at the end of the balancing period, the overused full-time teacher equivalents (FTTEs) will be taken out of your operations grant funding at an averaged annual salary rate per FTTE.

Underuse

- If you have underused your entitlement at the end of the balancing period, the underused FTTEs will be paid into your operational funding at a weighted midpoint average annual salary rate per FTTE.

Reflection space

What are the implications of this for the Board?

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BANKING STAFFING

How to check your banking staffing usage

Your banking staffing balance is shown on the summary page (the last page) of your fortnightly banking staffing report, which your principal can download from Novopay Online. This summary indicates your school's current position for the year and should be checked at each pay period.

Banking Staffing Report, (12345) Example School										Page 3 of 3
Period: 201505, Pay Day: 27-MAY-14, As at Period Ending: 27-May-2014										Generation Date: 27-May-2014, 08:51am
Summary FTTE Details										
Pay Period No	23	24	25	26	1	2	3	4	5	YTD Total
Total staffing usage for period	5	5	5	3	4	4	5.77	5.2	5.34	42.31
Entitlement for period	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	45.45
Ministry adjustment for period	-	-	-	-	-	-	-	-	-	-
Year End Automatic Adjustment for period	.05	.05	.05	2.05	-	-	-	-	-	2.2
Difference for period	-	-	-	-	1.05	1.05	(-.72)	(-.15)	(-.29)	.94
Estimated \$ value of staffing (YTD)	\$0	\$0	\$0	\$0	\$2,706	\$5,412	\$3,556	\$3,170	\$2,422	
Required average staffing level to finish year with zero balance (FTTE)	5.05	5.05	5.05	5.05	5.1	5.16	5.12	5.12	5.11	

Check this number

Note: At the end of the banking staffing year, there is a balancing period from pay period 23 to 26 (February and March) to help you manage any under or overuse at pay period 22.

Online resources

The Ministry of Education (MoE) has excellent online resources to support you with the process, rules and responsibilities around banking staffing.

Ministry of Education
Te Tāhuhu o te Mātauranga

0-6 YEARS Early Learning | 5-19 YEARS School | 16+ YEARS Tertiary Education | OUR WORK Ministry of Education

Home / School / Funding and financials / Resourcing - operational funding and staffing entitlements / School staffing

[Click to view online](#)

Banking staffing

This page explains the process, rules and responsibilities around banking staffing as well as guidance on how to process adjustments.

LEVEL OF COMPLIANCE	MAIN AUDIENCE	OTHER
Required 	<ul style="list-style-type: none"> Principals and Tumuaki Administrators 	<ul style="list-style-type: none"> Boards

Boards are responsible for the financial management of their schools and need to understand how to manage their banking staffing.

Key Questions :

- How is the school currently tracking in terms of salary expenses for this banking staffing year?
- What is the rationale/explanation for any variance from the planned staffing budget?

PAYROLL REPORTING RESPONSIBILITIES

The board needs to be confident of the accuracy of payroll reporting as it is their responsibility to sign off the fortnightly and annual payroll reports. The principal has a responsibility to provide adequate information to keep the board informed.

Remember the different responsibilities of management and governance? Let's apply this to the following scenario.

Management	Governance
Plan staffing usage budget	Approve staffing budget
Maintain modelling spreadsheet (available from Novopay)	Monitor management report
Establish procedures for checking banking staffing	Question variances
Sign off fortnightly payroll	Finance committee or board member with the delegation, reviews and signs off the payroll reports and includes an affirmation of the monthly finance report to the board.
Report banking staffing to board	Adopt management report

PAYROLL INTERNAL CONTROLS

Sample internal control schedule for the fortnightly payroll

Pay Period : XXXX	Period Ended : XXXX	
	Yes	No
Total Payment per Staff Usage and Expenditure (SUE) Report		
Total Payment per bank statement		
SUE Report matches bank statement		
Relievers / changes checked & correct		
No identified errors		
Banked Staffing balance consistent with school model (how staffing will be used)		
Banked Staffing - no major underuse /overuse		
Support staff annual leave checked and correct		
No support staff with over 20 days annual leave		
Support staff increments checked and up to date		

For NO answers, record the error (or variance) and the corrective action, for example:

Error <#>: Teacher on leave continues to be paid despite school notification on <date> to Novopay

School action: email to Novopay

Signed / dated by (as appropriate to school):

Preparer (Payroll Administrator)

Authoriser/Checker (Principal/Board)

Key Questions :

- What mechanisms does the board have in place to ensure the accuracy of payroll reporting?

BALANCE SHEET KEY COMPONENTS

Balance sheet – key components

Current assets

- Cash
- Short term deposits
- Debtors / GST

Current liabilities

- Creditors / GST
- Income in advance
- Funds held in trust
- Provision for cyclical maintenance (due within 12 months)

Non-current assets

- Investments
- Fixed assets

Non-current liabilities

- Provision for cyclical maintenance (beyond 12 months)

Net working capital

Current assets less current liabilities

- **A key financial indicator: can we meet our short term obligations?**

Key Question :



- **Can we meet our longer term obligations?**

Negative working capital is a sign of financial difficulty

Negative working capital >20% of operations grant suggests serious financial difficulty. Consider seeking external advice if your school has a working capital deficit.

Key Questions :



- **Is there enough cash to cover current liabilities?**
- **Are all balance sheet accounts correctly reconciled each month-end?**
- **Are movements in balance sheet accounts monitored by the board?**
- **Are sufficient funds available for commitments and contingencies?**

Several factors need to be considered when determining future requirements: -

- Roll trends/projections
- Maintenance commitments
- Future asset replacement
- Contingency plans

BALANCE SHEET EXAMPLE

Sample Statement of Financial Position (Balance Sheet)

		YTD Actual \$		Last Year \$
Current Assets				
Cash and Bank	235,000		355,689	
Short Term Deposits	450,000		504,103	
Accounts Receivable	15,000		16,000	
Inventories	7,515	707,515	7,515	883,307
less Current Liabilities				
Accounts Payable	120,000		80,000	
GST Payable	30,000		15,200	
Income in Advance	105,984		99,541	
Second Language Cluster Fund	25,000		30,000	
MOE Property Projects	350,365		450,000	
Cyclical Maintenance (full school paint)	126,000		15,899	
Finance Lease	5,985	763,334	4,568	695,208
Working Capital		(55,819)		188,099
add Non-Current Assets				
Fixed Assets	500,000		525,000	
Shares-Term Assets	2,000		2,000	
		502,000		527,000
less Non-Current Liabilities				
Finance Lease	1,500		2,000	
Cyclical Maintenance	4,000		130,000	
		5,500		132,000
Net Assets		440,681		583,099
Represented By:				
Opening Equity		583,099		593,066
Addition to Equity		10,000		-
Operating Surplus/(Deficit)		(152,418)		(10,000)
Closing Public Equity		440,681		583,099

BALANCE SHEET ACTIVITY KEY QUESTIONS

FAQs	Suggested/Potential Response/s
<p>1. What do YTD (year to date) Actual and Last Year asset and liability figures mean?</p>	<p>The 'YTD' balance sheet shows the asset and liability position of the board at the end of a month within the current reporting year. For example at 30 June, the actual bank account balances will reconcile to those in the June balance sheet report. Similarly the 'Last Year' balance sheet figures will show the asset and liability position of the board at the end of the last financial year (31 December) from the school's audited annual report. The important consideration for a board is the comparison of any trends from the end of 'Last Year' to the current 'YTD' figures. The main focus should be any significant Working Capital changes and understanding the reasons for this.</p>
<p>2. What is the Income in Advance Current Liability?</p>	<p>This will relate to funds for a specific project or activity that have been received in a school's bank account, but the project or activity has not started or is incomplete. The funds can only be used for the designated activity. The liability in the balance sheet is used to record the unused funds and clearly show that they cannot be used for other purposes. A common example is fees from International Students. Often payment for student fees will be received in November/December (or earlier) but the payment relates to enrolment/tuition at the school in the following year. Therefore, the school cannot treat the funds received as income until the next year when student actually arrives at the school and commences study.</p>
<p>3. What is the MOE property project liability?</p>	<p>This will relate to funds received from MOE for a property project for improvements/ refurbishment to existing MOE building/s or construction of a new building. Therefore, the funds do not belong to the board and the liability on the balance sheet is used to record that. The funds will likely be part of the board 5YA funding from MOE.</p>
<p>4. What is the second language cluster liability?</p>	<p>The school is the fundholder for cluster activities for a group of schools. Again, the funds are effectively tagged and can only be used for cluster activities. The liability in the balance sheet is used to record the unused funds and clearly show that they cannot be used by the board for other purposes.</p>

BALANCE SHEET ACTIVITY

Activity	Suggested/Potential Response/s
What 'red flags' are there in this statement?	
Is there anything that the board should act upon immediately?	
What are the implications of the changes to the Cyclical Maintenance Provision from the last year to the current year to date?	
What other governance questions might the board raise with the Principal/Finance Committee?	

CASH vs ACCRUAL ACCOUNTING

Generally Accepted Accounting Practice (GAAP)

Schools must prepare financial statements that comply with Generally Accepted Accounting Practice (known as GAAP and formalised under the New Zealand International Financial Reporting Standards - IFRS).

Cash Accounting is recording transactions only when the cash flows i.e. on a cash in, cash out basis. GAAP requires that schools' financial statements are prepared using the accrual basis of accounting.

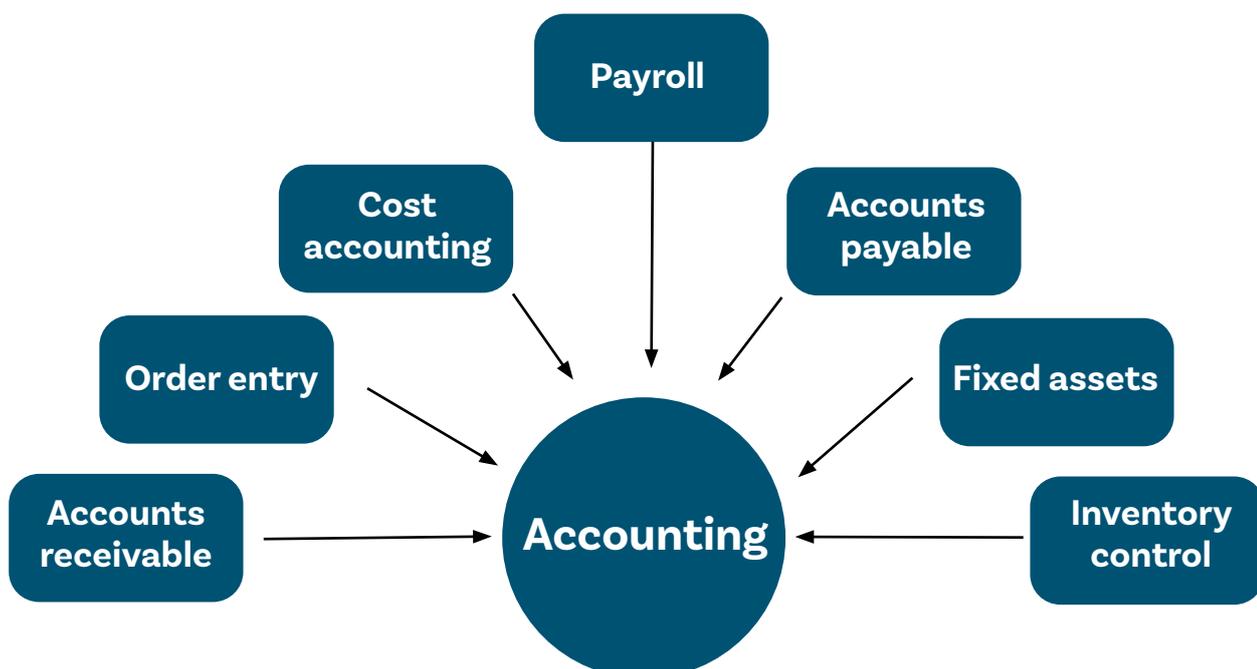
Accrual Accounting recognises income and expenses that have been incurred for the financial year, regardless of whether any cash has changed hands.

Common accruals at schools

- Debtors owing but not yet received
- Creditors owed but not yet paid
- Banked staffing
- Personnel costs (e.g. support staff annual leave, long service, retirement leave)
- Tagged funds annual financial report for boards.

Other non-cash accounting entries in GAAP

- Cyclical maintenance expense
- Depreciation



KIWI PARK MODEL

Kiwi park model financial statement

Since 2015 every school is required to present annual financial statements in a format called the Kiwi Park Model. There are different models for different sizes of schools.

The monthly financial report should also follow the Kiwi Park format so there are no surprises in the annual financial report for the board.

Online resources

The Ministry of Education (MoE) provides online resources to support the preparation of Kiwi Park Model statements (see below).

The screenshot shows the Ministry of Education website. The header includes the Ministry of Education logo and name. Below the header are navigation links for '0-6 YEARS Early Learning', '5-19 YEARS School', '16+ YEARS Tertiary Education', and 'OUR WORK Ministry of Education'. The breadcrumb trail reads 'Home / School / Funding and financials / Managing school finances'. A button labeled 'Click to view online' is on the left. The main heading is 'Schools annual report (annual financial statement) resources'. Below this is a paragraph: 'Training module videos to support the preparation of your Kiwi Park Model statements, which complete your annual report.' A table follows with three columns: 'LEVEL OF COMPLIANCE', 'MAIN AUDIENCE', and 'OTHER'. The 'LEVEL OF COMPLIANCE' cell contains the word 'Required' and a red warning triangle icon. The 'MAIN AUDIENCE' cell lists 'Boards' and 'Principals and Tumuaki'. The 'OTHER' cell lists 'Administrators'. Below the table is a paragraph: 'The Annual report contains your school's audited annual financial statements. These show how the Board has used its funds to achieve its charter goals. Your annual report must be submitted to the Ministry of Education by 31 May each year. The Kiwi Park Model statements are a requirement and found at the bottom of this page.'

LEVEL OF COMPLIANCE	MAIN AUDIENCE	OTHER
Required 	<ul style="list-style-type: none">BoardsPrincipals and Tumuaki	<ul style="list-style-type: none">Administrators

FINANCIAL INDICATORS

For many non-accountants understanding school financial reports can be a daunting task. The trick is to extract and monitor key account balances and indicators.

This Year		School A	School B	School C
Roll	#	80	400	950
Government grants	\$k	128	720	1900
Local funds	\$k	22	200	475
Overhead expenses	\$k	45	460	520
Board paid wages	\$k	75	280	1700
Depreciation	\$k	20	160	150
Surplus/(Deficit)	\$k	10	20	5
Asset purchases	\$k	22	150	10
Working capital	\$k	75	1200	40
Equity	\$k	410	2020	300

Last Year		School A	School B	School C
Roll	#	78	450	900
Government grants	\$k	125	810	1800
Local funds	\$k	20	200	600
Overhead expenses	\$k	40	410	750
Board paid wages	\$k	75	300	1500
Depreciation	\$k	20	150	180
Surplus/(Deficit)	\$k	10	150	(30)
Asset purchases	\$k	20	80	20
Working capital	\$k	70	1300	100
Equity	\$k	400	2000	295

Key Questions :



- What do these figures suggest about the financial viability of each school?
- Can you tell a story about each of the school's key indicators?

LONG TERM FINANCIAL PLANNING

Fixed assets & depreciation

Fixed assets defined

Fixed assets include physical goods with useful lives in excess of 12 months, which provide a benefit during each year of their lives and are generally replaced – computers, office equipment, library and curriculum resources, grounds-keeping equipment etc.

Record keeping checklist

- Fixed asset register kept up to date
- Asset stocktake and assessment of any asset impairment undertaken at least annually
- Donated assets accounted for
- Video record

Linking depreciation to budgeting and financial planning

Schools must budget for depreciation and should set aside the cash equivalent to the depreciation expense for asset replacement.

If a school budgets for a small surplus including depreciation, the resulting cash surplus can be used for asset replacement.

LONG TERM FINANCIAL PLANNING

Depreciation - budgeting

Annual budget: Cash vs accrual

- Depreciation is an accounting entry and should be in the budget
- Gives a more complete picture of cost of running a school or kura
- Enables the school to plan for asset replacement
- Makes monthly accrual for depreciation

Rule of thumb – annual budget for depreciation same as lasts year's audited accounts

Depreciation

- An accounting entry that spreads the cost of an asset over its expected useful life.

For example:

Computer	Macbook Pro	Cost: \$3500.00
Expected life:	5 years	
Annual 'cost' of asset	\$700 = depreciation	

All schools should have a long-term fixed asset replacement plan

Key Questions :



- What is your school's long-term fixed asset and replacement plan?

LONG TERM FINANCIAL PLANNING

Leasing assets

Rather than buying outright, many schools choose to lease equipment, usually computer equipment and photocopiers.

Key Questions :

- Is leasing equipment the right choice for your school?
- What factors should be considered when deciding whether to lease or buy?

Factors to consider

- Available cash and/or funding
- Impact on working capital
- IT strategy
- Expected student enrolment/roll
- Obsolescence of equipment
- Servicing of equipment
- Contract risk
- Compliance with Ministry of Education borrowing limits. Note: leases are financing arrangements and should be considered as a form of borrowed money.

Key Questions :

- Does your school lease assets - which ones?
- Has your school considered the above factors?
- What is the school's rationale for leasing equipment?
- Has the cost of lease installments been fully factored into the school's budget? Are the ongoing expenses affordable?
- Does the proposed leasing arrangement fall within the Ministry of Education's borrowing guidelines?

LONG TERM FINANCIAL PLANNING

Property matters

Property Occupancy Document (POD)

Property management is an important part of a school's finances. Every board must comply with the Property Occupancy Document (POD) which sets out the terms and conditions of a school occupying government property.

Included in the POD are rules for:

- Capital funding programmes – 5 Year Agreement (5YA)
- The 10 Year Property Plan (10YPP)
- Operational expenditure, including maintenance
- Building warrants of fitness
- Third party occupancy (outside users of school premises)

Provision for cyclical maintenance

One of the most significant maintenance costs for schools is painting, especially external painting. Because it is done on a cyclical basis, for example every seven years, it is called cyclical maintenance.

Scheduled in the 10YPP

Schools' operations grant funding includes a component for maintenance of school property. A school must **set aside money each year** from its operations grant to cover cyclical maintenance.

Key Questions :



- Where does money come from to finance ongoing maintenance?
- What is the purpose of a 10 year property plan?
- Have you seen your school's plan?

LONG TERM FINANCIAL PLANNING

Important terms

Cyclical maintenance expense

- An accrual to spread the cost of major maintenance over 10 years
- The amount to set aside each year
- This should be a budget item

Provision for cyclical maintenance

- Balance sheet liability (current/ non-current)
- The amount that has built up on the Balance Sheet to meet the cost of the next big paint (or other major maintenance)
- Sufficient cash reserves should match this obligation

A note on third party occupancy (outside users of school premises)

Under certain conditions a school can allow outside users of its premises. This is commonly shown in the accounts as “hall hire” or similar.

What is less commonly known is that boards must comply with MOE rules for Third Party Occupancy, including the use of the Ministry’s standard use agreements.

[Click here](#) to view this information on the Ministry of Education (MoE) website.

Key Questions :

- Are you familiar with the terms and conditions in the Property Occupancy Document (POD)?
- Is the POD considered when reviewing policies and procedures?
- Is your 10YPP regularly reviewed?
- Is painting done as scheduled in the 10YPP?
- Are there agreements in place with all users of school premises? Do the agreements comply with MoE guidelines?

Consider:

Board funded capital works (potentially high risk):

- MOE approval required
- Impact on working capital
- Project management
- Cost over-runs
- Ongoing board responsibilities including maintenance and insurance

MANAGING FINANCIAL RISK

“Risk comes from not knowing what you’re doing” - Warren Buffett

Managing financial risk

It is not possible for schools to avoid all financial risks. It is possible, however, to manage and govern the school in such a way that it is well placed to cope with adverse events.

There are a number of common financial risks faced by schools:

- School roll changes
- Reliance on locally raised funds, including international fees
- Cash
- Borrowing
- Other contractual risks
- Hostels
- Fraud

Let us look at a couple of common risk areas for schools and kura

Identified risk	Event	Risk management
Reliance on international tuition fees to fund operations	Christchurch earthquake – loss of international fees causes financial difficulty	<ul style="list-style-type: none">• Adequate cash reserves• School operations funded by government funding• Clear monthly reporting of all income and costs of programme• Careful controls of marketing, travel budgets• Staff on fixed term contracts where appropriate
Cash misappropriated	Major school gala with auction	<p>Compliance with cash management policies and procedures e.g.</p> <ul style="list-style-type: none">• Limit cash• Reconciliation of cash to auction records• Cash count agreed by 2 people

RISK MANAGEMENT STRATEGIES

Role	Areas of risk	Risk Management Strategies
Roll	<ul style="list-style-type: none"> • Challenging area if rapid change of student roll up or down • Impact on roll generated funding • Impact on roll generated teacher staffing entitlement • Primary v Intermediate v Secondary 	
Local funds	<ul style="list-style-type: none"> • International student fees • Donations • Fundraising • Activities/Recoveries 	
International students	<ul style="list-style-type: none"> • Compliance with Code of Pastoral Care • Fees received in advance • Homestay funds & costs • Accounting for all expenses correctly – Do you know the real cost? • Staffing 	
Cash	<ul style="list-style-type: none"> • Cash risk high with fundraising e.g. galas • Must comply with school's cash management policies & procedures • Protection for staff handling cash • Plan early to reduce cash • Budgeting / reporting • Ideas to reduce cash • Eftpos • Vouchers • Single point of sale 	

RISK MANAGEMENT STRATEGIES

Role	Areas of risk	Risk Management Strategies
Borrowing	<ul style="list-style-type: none"> • Borrowing restrictions • Repayments (P+I) equal or less than 10% of annual operations grant • Above 10% requires Ministerial approval • Borrowing is not just bank lending; it includes other contracts e.g. PPS painting contracts and hire purchase contracts 	
Other contractual risks	<ul style="list-style-type: none"> • Property Occupancy Document (POD) with Crown • Third party occupancy of property (outside users of school premises) • Finance leases • Terms & conditions of grant funding • Terms & conditions of special project funding 	
Hostels/school houses	<ul style="list-style-type: none"> • Need separate financial reporting • Good debtor collection processes • Long term property maintenance/ upgrades planning essential 	
Fraud/ inappropriate spending	<ul style="list-style-type: none"> • Unfortunately it does happen from time to time • Never get complacent • “Tone at the Top” • Systems and processes – separation of incompatible duties 	

FINANCIAL DIFFICULTIES

Financial difficulty

“Annual income twenty pounds, annual expenditure nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pound ought and six, result misery”
- Charles Dickens.

Common reasons that schools get into financial difficulty are:

- Large property projects paid in full or part from local funds, or poorly managed property projects running over budget.
- Unsustainable levels of staffing (including teachers) paid out of operational funding and local funds.
- Unplanned acquisitions and large commitments to ongoing expenditure i.e. long-term painting contracts, ICT leases etc.
- Declining student roll and failure to adapt to lower levels of funding.
- Inadequate cash reserves to meet asset management and property obligations, or unexpected contingencies that arise.

Key Questions :



Are any of these factors present at your school or kura?

What finance policies and practices do you have in place to help avoid these or other problems?

Where can boards get further support with financial issues?

GLOSSARY OF FINANCE TERMS

Finance Term	Definition
Accrual	Accrual accounting recognises income and expenses that have been incurred for a financial period or year, regardless of whether any funds have been received or paid from a school's bank account. A common example is where a school receives an invoice for power for the month of June. The invoice is dated 30 June and is received after the end of June. The cost should be recognised in the June period despite actual payment not being made until the following month i.e. July.
Audit	Inspection of an entity's financial accounts by an auditor/audit team while also physically checking the accuracy of inventory, internal controls, and systems in place to record financial transactions. An audit is completed to ascertain the accuracy of a school's financial statements. Appointed by the Auditor-General, auditors prepare their report on the school's financial statements. 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.
Audit Management Letter	At the end of the annual audit process, the auditor will send a management letter to the board. The letter is for the board's information only and may include areas of focus for the audit, outcomes of the assessment of internal controls, matters arising from the audit that require a response from the board and any other communications.
Balance Sheet or Statement of Financial Position	<p>The balance sheet is a financial statement that represents a school's financial position at a point in time, normally the end of a month and end of a financial year. The balance sheet should show a school's:</p> <ul style="list-style-type: none"> • current assets, current liabilities and working capital • non-current assets and liabilities, and • equity position or net assets which is total assets less total liabilities
Banking Staffing	<p>A system that allows schools to decide when and how they use their teacher staffing entitlement. Within the banking staffing year, a school may choose to:</p> <ul style="list-style-type: none"> • use funds in advance up to 10% of total staffing entitlement • under use their teacher staffing entitlement, or • use staffing entitlement in full across pay periods for the year
Concurrence	Ministry of Education approval (concurrence) is required if a board wants to offer different employment terms or conditions from those set out in employment agreements. Examples include additional pay, allowances, or benefits. Any additional payment or benefit is not lawful without Ministry of Education concurrence.

GLOSSARY OF FINANCE TERMS

Finance Term	Definition
Conflicts of Interest	A conflict of interest arises where a board member (or an employee) has an interest or duty that conflicts (or might conflict or might be perceived to conflict) with the interests or responsibilities of the board itself. That interest or responsibility may relate to money or any other interest that may reasonably be regarded as likely to influence a board member (or an employee) in carrying out his or her duties. All school boards should have a Conflicts of Interest policy that will guides the board in managing any conflicts of interest that arise.
Control Environment	The policies and procedures in place to ensure there are appropriate checks and balances for a school to conduct its business in an orderly manner, safeguard its assets and produce accurate financial information. At a higher level it is also sets a school's general ethical climate and shows a board's support/expectations for internal controls and adherence to approved policies and processes.
Current Assets	All assets within a school at a point in time that are expected to be sold, used, or exhausted through normal business operations within one year. Examples include balances of bank accounts and amounts owing to the board (accounts receivable).
Current Liabilities	A school's short-term financial obligations at a point in time that are due (payable) within 12 months during a regular operating cycle. Examples include accounts payable, current portion of the cyclical maintenance provision and income in advance.
Cyclical Maintenance Expense	Property maintenance that is done on a set cycle. For schools this most commonly refers to the painting of the school's buildings and is a significant expense. Schools receive property maintenance funding in their operations grant and must set aside money each year to provide for its cyclical maintenance. A school's 10YP will inform the amount to be set aside each year.
Depreciation	The overall reduction in an assets monetary value over time due to wear and tear or obsolescence. When a physical asset worth a \$1,000 or more is purchased, it is recognised as a fixed 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.
Fixed Assets	Physical goods with useful lives in excess of 12 months, which provide a benefit during each year of their lives and are generally replaced. For schools these are property, plant and equipment including board owned buildings, school houses, computers, furniture and equipment, library, curriculum resources, property, and grounds equipment.

GLOSSARY OF FINANCE TERMS

Finance Term	Definition
Fixed Assets continued...	Typically, only items over a certain amount are recorded as fixed assets. The board sets the trigger amount which is recommended to be not less than \$1,000. Items purchased for less than that amount are treated as an operating expense in the year of purchase.
Income and Expenditure Statement; Operating Surplus/Deficit	The income and expenditure statement shows all of a school's income and expenses incurred during the financial year or part year, resulting in an operating surplus (income more than expenses) or an operating deficit (expenses more than income).
Ledger	A ledger is the record keeping system for an organisation's financial information. A ledger records all transactions with all schools now using computerised systems.
Minor Maintenance	Any small items of expenditure that are required for repairs and maintenance of a school's buildings, fixtures, fittings, and grounds e.g. replacing or repairing a door handle/lock, repairing a chair.
Netting	Expenses relating to a specific income stream should not be directly charged against that income ledger. This is called 'netting' and is not good accounting practice. Income should be directed to an income ledger and the expenses directed to a separate expense ledger.
Non-Current Assets	An asset that is not expected to be converted to cash within one year. For schools, the most common example are fixed assets and bank investments with a term longer than 12 months.
Non-Current Liabilities	A liability that is not expected to have to be paid for/met within the next 12 months. However, there is a recognised commitment to future expenditure. For schools, the most common examples are long term cyclical maintenance provision, loans, and finance leases.
Operations Grant	Operational funding is received quarterly in advance and is the money the board receives from the Government to run their school and to achieve the objectives specified in their charter. While the operations grant entitlement notice details the components of the funding received, it is not 'tagged' and the board has discretion over what the funds are used for.
Overheads	Regular or ongoing operating expenses which do not directly relate to creating a product/service. For schools, the latter would be learning resource costs. Most property and administration costs would be regarded as overhead expenditure.

GLOSSARY OF FINANCE TERMS

Finance Term	Definition
Probity/Prudence	All money received by boards, whatever the source, automatically becomes public funds and boards are accountable for all of their expenditure. Boards are responsible for prudent financial management and appropriate financial decision-making. A board should not spend money on activities that are extravagant or wasteful. Expenditure should relate to the effective operation of the school.
Reconciliations	Is a process of making sure two sets of records match each other. An important example is for bank reconciliations which are used to compare bank balances recorded in a school's accounting system to those recorded in the bank account at a set point in time.
Sensitive Expenditure	School boards and management have a responsibility to ensure that all funds received by a school are safeguarded and spent in the best interests of students. Boards are dealing with public (taxpayers') funds and therefore must be seen to spend funds prudently. Common examples of areas of expenditure that can be highly sensitive are overseas travel and principal's expenditure. A board should have a Sensitive Expenditure policy.
Tagged Funding	Funding a school receives that has a specific purpose and cannot be used for any other school activities/expenditure. The funds would have to be returned to the funder if they cannot be used for the purpose stipulated.
Teacher Staffing Entitlement	The Ministry of Education provides a teacher staffing entitlement for all schools and this enables a board to employ teachers up to this entitlement. The teachers are paid directly by the Ministry of Education via Novopay and not through a school's bank account. A number of factors are used to calculate the entitlement with the main factor being a school's student roll.
Variance to Budget	Where the actual income or expenditure for a budget area at a set point in time is under or over to what the budget projected e.g. On 30 June, the power costs for the year to date were \$31,000 but the budget for that period was only \$23,000. There will always be variances to budget and boards need to ensure that they are provided with the explanations for significant variances so they can take appropriate action if required.
Working Capital	Working capital is calculated by deducting total current liabilities from total current assets. An important indicator of a school's financial health, if a school has a working capital deficit i.e. current liabilities exceed current assets, it means a school may not be able to meet its liabilities as they fall due.

GLOSSARY OF FINANCE TERMS

Finance Term	Definition
Year to Date (YTD)	The reporting of income and expenditure from the start of a reporting period to a point of time during the reporting period. This is relevant to schools' monthly financial reports where you would expect to see both income and expenditure for the year to the end of the month being reported on. See also related 'Variance to Budget' definition.
5YA (5 Year Agreement)	<p>The Ministry of Education gives each board a capital funding budget to use over a 5-year period to upgrade Ministry of Education buildings. This enables a board to plan for capital upgrades as part of the 10YP process.</p> <p>All eligible schools receive a minimum 5YA budget so that they have funding to do essential work. The Ministry of Education reviews a board's 5YA funding 3 years into the five-year programme.</p>
10YP (10 Year Property Plan)	As part of a board's Property Occupancy Agreement with the Ministry of Education, schools are required to develop a 10 Year Property Plan (10YPP) to ensure that their school is well maintained, and the physical environment supports teaching and learning within the budgets provided by the Ministry. A new 10YPP is required every five years and sets out the property work to be completed over a 10-year timeframe.



What did you learn from the workshop?

What did you find surprising?

What now? Write an action plan outlining what will you do, ask or look for as a result of this workshop. Remember to use SMART goals.

- S** - Specific
- M** - Measurable
- A** - Achievable
- R** - Relevant
- T** - Time-bound

SUPPORT AND RESOURCES

New Zealand School Trustees Association

Te Whakaroputanga Kaitiaki Kura o Aotearoa

www.nzsta.org.nz

0800 782 435

NZSTA Advisory and Support Centre, Governance

govadvice@nzsta.org.nz

NZSTA Advisory and Support Centre, Employment

eradvice@nzsta.org.nz

NZSTA Professional Development

pdadvice@nzsta.org.nz

NZSTA Governance Framework

www.nzsta.org.nz/governance-framework-2018

Trustee election website

www.trustee-election.co.nz

Ministry of Education

Te Tāhuhu o te Mātauranga

www.education.govt.nz

<https://www.education.govt.nz/school/funding-and-financials/school-finances/>

<https://www.education.govt.nz/assets/Documents/School/Running-a-school/Financial-Information-for-Schools-Handbook/Financial-Information-for-Schools-Handbook-2019.pdf>

<https://www.education.govt.nz/school/funding-and-financials/resourcing/school-staffing/>

<https://www.education.govt.nz/school/funding-and-financials/resourcing/school-staffing/banking-staffing/>

https://www.novopay.govt.nz/Site/Tools_to_help_you/default.aspx

<https://www.education.govt.nz/school/funding-and-financials/resourcing/operational-funding/>

<https://www.education.govt.nz/school/property-and-transport/roles/>

Te Kete Ipurangi (TKI)

www.tki.org.nz

Education Review Office

Te Tara Arotake Matāuranga

www.ero.govt.nz

Education and Training Act 2020

<https://www.legislation.govt.nz/act/public/2020/0038/latest/LMS170676.html>



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