

MINISTRY OF EDUCATION

Te Tāhuhu o te Mātauranga

# Education circular

DATE	29 October 2009
TO END DATE	29 October 2010
CIRCULAR	2009/08
CATEGORY	Finance

## Annual Reporting Circular

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**THIS CIRCULAR IS ABOUT:** Preparation of your 2009 Annual Report.

**THIS CIRCULAR REPLACES:** This circular replaces Circular 2008/14 issued October 2008.

**THE ACTION REQUIRED IS:** Ensure your school incorporates all financial reporting requirements into its 2009 Annual Report.

**IT IS INTENDED FOR:** Chairpersons of boards of trustees and principals of all state and integrated schools.

All those preparing school annual financial statements.

Appointed auditors of schools.

**FOR FURTHER INFORMATION:** Direct any enquiries about this circular to your school accountant, financial service provider, your local Ministry of Education Financial Advisor (listed at the end of this circular), or your school auditor.

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### Introduction

This circular provides information, advice and guidance on the preparation of schools' annual reports for 2009.

## Annual reports

### Content of annual reports

Annual reports are a statutory requirement for boards of trustees. They allow boards to account for how they have used resources provided by the Government and the local community for the educational needs of its students. It can also be used to reflect on your board's achievements and how information gathered over the previous year will shape activities in the future.

Boards of trustees should use the report to communicate performance and objectives to stakeholders such as the Ministry, Members of Parliament and, most importantly, parents and the wider school community.

### Minimum requirements

The information that must be included in your annual report, along with model financial statements, can be found at [www.minedu.govt.nz/kiwipark](http://www.minedu.govt.nz/kiwipark)

All information on school financial management (including the link above) can be found on the school finance contents page [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance). In particular the Financial Information for Schools Handbook issued in February 2009 (see [www.minedu.govt.nz/fish](http://www.minedu.govt.nz/fish)) lists a number of resources and references that may be useful for technical advice and to help prepare your annual report.

### Timeframe for completion of 2009 annual reports

- **31 March 2010** - Your draft annual report must be provided to your auditor. If a financial service provider completes your annual accounts it is still the board's responsibility to ensure that the service provider meets this deadline.
- **31 May 2010** - Your annual report, including audited financial statements, signed by your board chair **must** be **filed** with your local Ministry office by this date. It is the **board's responsibility** to submit these reports, not your auditor's or your financial service provider.

### How to file your 2009 annual report (see also the checklist on the last page)

You must send **four paper copies** of your board's annual report to your **local Ministry office** (see addresses on the last page of this notice) by 31 May 2010. The Ministry retains two copies of your report and forwards one to your Electorate MP and one to your local Māori Electorate MP.

The Ministry recommends that you agree upon a timetable with your auditor to ensure that audited accounts are with the Ministry by **31 May 2010**. This timetable should allow for sufficient time to submit draft accounts plus the variation report and work through any issues identified through the audit.

Note that your charter is not part of the Annual Report and should be sent to your local Ministry office separately.

## **2009 annual accounts – key items to note**

### **Financial Information for Schools Handbook**

The Ministry published the most recent version of the Financial Information for Schools Handbook (also known as 'FISH') for schools, auditors and financial service providers in February 2009. FISH is an authoritative guide on the financial management of schools and should be your first point of reference for all guidance and instructions on good financial management.

FISH continues to be revised and further details on selected topics, clarifications and updates to FISH can also be found at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance).

### **Related party disclosures**

The definition of a 'related party' under New Zealand International Financial Reporting Standards (NZIFRS) includes key management personnel of the school and any of their close family members. Refer to Related parties disclosure New Zealand International Accounting Standards (NZIAS) 24 at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance)

Boards providing their principal or other senior staff member with the use of a house need to disclose this benefit via a suitable note disclosure in their accounts (specifying whether it is a board or Ministry owned house).

Boards must identify and disclose each related party transaction as separate notes in their financial statements (refer to [www.minedu.govt.nz/kiwipark](http://www.minedu.govt.nz/kiwipark) for examples).

### **Related party disclosures – state-integrated schools**

From 2009, state-integrated boards must include a note disclosure stating that their proprietor is a trustee on the board of trustees. A template disclosure note is included in the Kiwi Park Model Financial Statements.

### **Accounting for gifts and bequests**

All gifts and bequests should be accounted for as income when they are received, except in the rare circumstance where there is a specific obligation to return the money to the donor if it is not used as specified.

Guidance on accounting for gifts and bequests is included in the Financial Information in Schools Handbook (FISH).

For many years the receipt of gifts and bequests that were provided for specific purposes was initially accounted for by the recipient school as a liability in the statement of financial position. This accounting treatment is not consistent with financial reporting standards.

The correct accounting treatment for such gifts and bequests is to recognise them as income as soon as the school has control over the assets.

The full value of donated assets can be transferred from accumulated funds to a separate reserve, if the school wishes, and disclosure about the purpose of the reserve made in the financial statements.

Some possible scenarios and example note disclosures for gifts and bequests can be found in the document *Accounting for Gifts and Bequests* found at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance).

### **Accounting for locally raised funds**

There are many different interpretations of what should be included as locally raised funds in schools. Some boards have categorised local funds as any money coming into the school which is not provided directly by the Government. Others have just included fundraising and donations. This variation in practice has made it difficult to compare the amount of locally raised funds raised between schools or between years.

The Ministry has, therefore, made changes to the locally raised funds section of the Kiwi Park School Model Accounts to identify these two categories more consistently. A detailed description on accounting for locally raised funds is available on the Ministry's website at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance).

### **School transport direct resourcing**

Note that this section only applies to those schools directly resourced for school transport.

As at the end of 2008 all separately operated school transport networks should have been wound up and the funds distributed to the network's member schools. From the beginning of 2009 the fundholder school should account for money in its own name and manage the transport network themselves or with assistance from a service provider.

There are some residual networks which were not wound up as required at the end of 2008 and they are now required to do so by the end of 2009. A model liquidation statement for this purpose can be found at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance).

School networks which were not wound up at December 2008 will require their accounts to be audited for 2009. The Office of the Auditor General will contact each of these old networks to continue the current audit appointments.

The new fund holder boards must account for the transport operation from the date of closure of the old network to December 2009 and to show the assets of the old network.

All fund holder schools should now (or from the beginning of 2010) be following the proper processes for accounting for funds provided by the Ministry under the Directly Resourced funding arrangement. If your board or service provider needs further information it should refer to the guide on accounting for shared funds available at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance)

## **2009 annual accounts - some reminders**

### **Bank accounts**

The Crown Entities Act 2004 sets out the rules controlling the operation of school bank accounts. Circulars 2005/1 and 2005/7 provide more detail and are available on the Ministry's website. Acting in contravention of the requirements of the Act could result in your school being in breach of the legislation.

The main requirements are:

- The bank accounts for your board must be established, maintained and operated by the board and not by another third party.
- Your board may grant a power of attorney to a service provider to use the bank account but your board must still be responsible for that account (ie receive bank statements). This power of attorney must clearly specify the authority that has been delegated. Note that the power of attorney must not allow the service provider to open or close accounts.
- Bank accounts must be in your board's name. Bank accounts held and maintained by service providers in trust type arrangements are not allowed under the Act. Note that this also applies to any third party organisation providing services to schools operating school transport.
- Boards must ensure that all money received by their school is paid as soon as practicable into the board's bank account. No board income, regardless of its source, can be paid directly to a service provider, proprietor or any other third party.

### **Capital works – state schools**

State schools receive funding from the Ministry of Education for capital works in accordance with their five year capital funding programme (5YP). This money must be separately accounted for in the board's accounting package so that revenue and expenditure can be kept separate from the board's other expenditure.

The funds received for property projects under the 5YP should not be treated as income. This money is held on behalf of the Ministry until spent and should be accounted for as follows:

- Funds should be credited to a liability account on receipt.
- Separate ledger accounts should be maintained for each capital works project to assist with financial management and control.
- Financial statements should include a disclosure note on the amounts received and spent during the year for each project, even where there is no liability at year end.

When funds provided by the Ministry have not all been spent the balance must be returned to the Ministry. There is no threshold for this - it is down to the last dollar.

For further detail, see Capital Works Projects at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance)

### **Capital works – state-integrated schools**

Capital works at state-integrated schools are the responsibility of proprietors, who collect funding from attendance and from the Government. In some rare instances, boards of trustees at state-integrated schools are permitted to undertake capital works which are over and above the minimum obligations of proprietors. State-integrated boards that wish to spend money over and above these obligations must seek prior approval from their proprietors and the Ministry. More information can be found at [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance)

### **Recognition of sick and annual leave**

The Ministry is liaising with the Office of the Auditor General over whether schools should recognise a liability for sick and annual leave accrued by non-teaching staff.

From 2011 (for 2010 annual accounts) schools should be aware that an accrual for leave is likely to be required due to the improved information available from the new payroll system

(see [www.schoolpayroll.govt.nz](http://www.schoolpayroll.govt.nz)). Schools will receive information and guidance in 2010 on how to establish this accrual.

### **Sensitive expenditure**

Several cases of inappropriate expenditure, such as board funded overseas trips for staff and students, have highlighted the need for care in areas of potentially sensitive expenditure.

The Ministry expects that no Crown funds will be used to fund overseas trips (or expensive domestic travel) for students and only in very rare circumstances for senior staff. Schools are entitled to fundraise specifically for overseas travel but the purpose of this fundraising should be clear.

Boards should consider the following before approving proposed expenditure – (refer to FISH Section 2.5.1):

- Does the expenditure benefit student outcomes?
- Could the board justify this expenditure to a taxpayer, parent or other interested party?
- How would the public react if this expenditure was reported by the media?
- Would there be perceived to be 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?

The Ministry has drafted template policies for boards including a policy regarding sensitive expenditure. This is available to download from [www.minedu.govt.nz/finance](http://www.minedu.govt.nz/finance).

### **Use of land and buildings**

The notional lease value for inclusion in 2009 annual accounts for state schools is available on the Property Management Information System (PMIS) as a field on the 'Property Information' tab. This page should be printed and included with your working papers for the auditor.

For state-integrated schools the notional lease value will be calculated each year by the proprietor and provided to each school. You should obtain a copy of the advice from your proprietor for your auditor.

## Advice and support

If you have questions about preparing annual reports or the requirements of this Circular, ask your board's accountant, financial service provider or auditor. You can also speak to financial advisors in the Ministry who are experienced in schools' financial matters and who can provide advice and support. See below for contact details.

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## Annual Report Checklist

Make sure that you can check off each of the items below before you send your annual report to the Ministry.

Analysis of Variance

List of board of trustee members (refer Kiwi Park)

Financial statements attached (all pages – please check)

Statement of Responsibility is signed and dated

Audit report (not the management letter) signed and dated


**ISSUED BY**    **Jeremy Wood**  
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