



# 'Accounting' is not a dirty word

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**D**o you groan as the deadline approaches for the preparation or approval of your school's annual budget? After all, you're an educator, not a 'bean-counter'!

Do you have accounting questions which you're too afraid to ask, in case you appear to be a financial imbecile?

The good news is that accounting doesn't have to be scary. After all, financial statements contain just 10 numerals, arranged in a variety of ways and presented to tell helpful stories about profit and financial position.

Educational institutions, like any other businesses, have to make an accounting profit (surplus of revenue over expenditure) and be good stewards of the available assets. Education is big business in Australia. According to the Australian Bureau of Statistics<sup>1</sup>, National education expenditure is over 7% of Australia's total Gross Domestic Product (GDP).

Whether you're part of a private or public school, finance is important, yet it should never drive educational goals (more about this later). Independent and Catholic schools now make up 35% of total school enrolments<sup>2</sup>, and their boards and councils will want their organisations to be profitable in the long term, with healthy cash flow. State schools too, are now becoming increasingly accountable for their budgets and financial reporting.

Here are some tips to help you better understand your school's financial statements, and to assist you in reaching your financial goals.

The main report worthy of your close scrutiny is the *Income Statement* (also known as the *Profit and Loss Statement*). It identifies the revenue made during the year, less the expenses, and indicates whether you have made a profit or a loss. *Key Performance Indicators* (KPIs) relevant to educational institutions, which can be discovered from the Income Statement, are such things as:

- The percentage increase in revenue (e.g. Fees, grants) from the current

year, compared with the prior year

- Specific expenses, expressed as a percentage of overall revenue
- The percentage increase in various expenses from the current year, as compared with the prior year. The key expense for most schools will be wages and salaries.

The other report needing your clear understanding is the *Balance Sheet*. It contains details of the assets (items which your school owns), less liabilities (amounts owed to external parties). This is then represented by the retained earnings (accumulated profits, year to year so far). KPIs related to this report could include the following:

- The percentage return on assets (how efficiently are your assets working for you, in terms of the profits which they generate?)
- The number of days in which accounts receivable (debtors) are outstanding, on average (that is, how 'overdue' are the debts owed to your school, generally from parents' fees?)
- The percentage increase or decrease in the school's long term assets (such as land, buildings, equipment, furniture). Are you depreciating assets appropriately? Have you acquired new assets during the year?
- The percentage increase or decrease in borrowings (such as bank loans to finance asset expansion?)

You might find it helpful to ask your school accountant the following questions:

*Have we considered using the short-term money market to invest surplus funds?*

For example, many schools receive quite large revenue allocations at certain regular intervals, (such as quarterly, or at the end of each month), yet expenses are more evenly spread throughout the year. Are you potentially missing out on some interest income, by having cash sit idle in a low-, or no-interest account?



***Have we considered offering a prompt payment discount, as an incentive for the payment of tuition fees by parents?***

You would be surprised how motivating even a small percentage discount can be in ensuring that your invoices are paid on time. This is generally a more effective method of ensuring payment, than imposing a penalty for late payment. Alternatively, do you encourage weekly direct debit arrangements for tuition fees? Do you follow up slow payers and suggest a payment plan, in order to recover outstanding fees? Be persistent. Some of the parents who say they can't afford to pay the overdue school fees, may somehow have managed to find the funds for their recent overseas family holiday.

***Have we considered reducing our printing costs, by emailing newsletters, information bulletins etc?***

This strategy can be more effective than relying on students retrieving crumpled newsletters from the bottom of school backpacks, days after they were produced. Not only will you save on paper and toner, but email is a much more cost-efficient option than using the postal system. Some correspondence, such as academic reports, should still be posted directly to parents.

*Have we reviewed our staffing mix and considered whether any savings can be made by employing new appointees to the teaching profession?* Keen, engaged and enthusiastic newly credentialed professionals, are a lot cheaper to employ. Having the right mix of experienced mentors and recently graduated teachers can assist not only the school's financial bottom line, but also the culture and 'feel' of the school. If your school only employs teachers with five or more years' experience, you

might be missing out on the innovative ideas and the keen exuberance of a new teacher.

***Have we investigated some ways to generate additional revenue from our assets?***

Perhaps a local church group might be persuaded to hire your hall each Sunday; a swimming squad rent the pool for evening training; or the Basketball Association hire the courts for night fixtures.

***What security and controls do we have over our stationery and printing stocks?***

Many schools would be surprised to find out just how much stationery is pilfered by teachers, filling their own children's school stationery list requirements each January. The cost of the theft of many small items can be significant to an organisation. Auditors recommend that you nominate an administrative staff member to be the 'stationery dragon'. Ensure that stationery supplies are kept in a locked cabinet with staff members only accessing items with the approval of this nominated employee. Toner for printers is also expensive. Some schools no longer have numerous small printers in staff rooms, but have instead replaced them with larger dual-function machines, which are less expensive per-page to run. You could also consider converting to a 'paperless' school, by saving files electronically, rather than incurring printing, filing and storage costs. Such a move would obviously require a review of your computer security and back-up procedures.

***What controls do we have over our sporting and music equipment?***

A friend of mine was selected as the Volleyball Court Official at the 2000 Sydney Olympics. The reason for his success was that out of all

those who tried out for the position, he was the only one who, at the end of a trial match, had been able to retrieve all 20 of the warm up balls (costing \$85 each at that time) and returned them safely to their storeroom. All of the others who tried out for the job had been unable to locate some of the errant balls. My friend was the Head of Sport at a Queensland High School and he knew how important it is to look after and account for the expensive equipment which is lent out at lunchtimes, afternoon sports, weekend tournaments or for PE classes. Do you need to provide a gentle reminder about this to your staff?

***How can we manage our most unpredictable expense – wages and salaries?***

A local (private) school noticed that the total wages and salaries bill had greatly exceeded the budget, due to the employment of casual and short-term staff to cover sickness, injury and long service leave. A financial 'dashboard' was developed with some key charts covering major cost and revenue groups. The dashboard compared 'year to date' against 'current budget' and 'previous year' and if a predetermined variance calculated that automatically triggered further investigation.

Every school has to be accountable for the income it receives and the expenditure it incurs. Profits are important and they allow a school to remain financially healthy and grow. A strong asset base is vital in supporting the educational outcomes you desire. As the leader of an educational institution, your focus should be on teaching and learning, and the personal growth and pastoral needs of your students. You should not be driven by financial goals, but rather, controlled finances should support your goals. When a school loses sight of its key educational purpose and mission, and becomes fixated only on financial bottom lines, long-term educational success is compromised. However, having an understanding of financial statements, budgets and key financial indicators will allow you to make the best decisions for your school, given the available resources.

**Further reading**

Australian Bureau of Statistics, Year Book Australia – 2012, Education and Training, [www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Financing%20education~111](http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Financing%20education~111) [accessed Dec 22, 2014]

Independent Schools Council of Australia, Independent Update, Issue 1, 2014, <http://isca.edu.au/wp-content/uploads/2011/07/2014-Independent-Update-1-Core-Messages.pdf> [accessed 22 December, 2014]

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