Partnership Schools Kura Hourua
Analysis of 2017 Financial Statements

Ministry of Education

August 2018

pwc

Private & Confidential

Ministry of Education
PO Box 1666
Wellington 6140

Attention: Simon Laube

14 August 2018

Partnership Schools Kura Hourua – Analysis of 2017 Financial Statements

Dear Simon

Please find enclosed our report: *Partnership Schools Kura Hourua – Analysis of 2017 Financial Statements*. This report outlines our analysis of the performance of the operating partnership schools based on financial statements for the schools and sponsors for the year ended 31 December 2017.

This report is subject to the Restrictions in Appendix B and should be read in conjunction with our Contract for Services with the Ministry of Education dated 14 May 2018, under which this report is delivered.

Please let us know if you have any questions regarding this report.

Yours sincerely

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Introduction

Background and purpose

The Ministry has engaged PwC to undertake analysis of currently operating partnership schools' financial statements for the year ended 31 December 2017.

The Authorisation Board of the Partnership Schools Kura Hourua programme considered PwC's advice in relation to its analysis of existing partnership schools' financial statements for the year ended 31 December 2016 in May 2017. PwC provided a report, *Analysis of 2016 Financial Statements of Partnership Schools* (the Previous Report), to the Ministry of Education (the Ministry). While the Authorisation Board accepted the analysis, it did not carry out many of the recommendations.

The Ministry has also requested that PwC review its recommendations from the Previous Report and provide further advice on whether there are high-level approaches available for managing performance, other than the interventions currently available under the existing partnership agreements between the Minister of Education and the sponsor of each partnership school.

Further, the Ministry is interested in understanding if there were any recommendations from the Previous Report that warrant further consideration, either as follow up to the analysis of the 2016 financial statements process or as part of the 2017 financial statement analysis.

The Ministry is currently engaged in a process of terminating partnership agreements and transitioning the schools to a different operating model. Many of the recommendations that we would make in an ongoing "business as usual" situation are therefore likely to be superseded by the termination process; others remain relevant in that they highlight situations that potentially create risk for the termination process. For clarity, this report therefore provides recommendations on a "business as usual" basis, and then highlights those likely to be resolved through the termination process. Recommendations from the Previous Report are treated in the same manner.

Performance assessment

The Ministry's performance assessment examines each partnership school's results using financial measures outlined in each partnership agreement. The financial performance measures outlined in schedule 6 of the partnership agreements are:

- **Profitability** – tests sustainability of a school's operation on a standalone basis using net operating surplus as a fraction of revenue (net margin) with a target range of two to five per cent.[1]
- **Balance sheet** – tests a school's capability to meet current or maturing financial obligations using:
  - Liquidity – Working capital ratio with a range of two or greater
  - Leverage – tests the robustness of a school's financial position using a debt-to-equity ratio, with a target 0.5 or less.
- **Cash flow** – net operating cash flow is required to be positive.

[1] The Ministry's intention is to hold the sponsor to account under the partnership agreement and not encourage them to generate large surpluses. Accordingly, net margins above five percent are considered not to have met the performance target.

Report structure

The following sections present our findings and recommendations and are structured as follows:

1. General recommendations – in this section, we make general recommendations that the Ministry should action with respect to every school.
2. Specific recommendations –outlines five recommendations that the Ministry could undertake in relation to specific schools if they were in a business-as-usual environment. These largely align with the Previous Report's recommendations, but have mostly been overtaken by the events surrounding the termination of partnership agreements.
3. School financial performance – in this section, we outline whether each school met the financial performance targets outlined in schedule 6 of their partnership agreements, and revisit the recommendations made specific to each school.

General recommendations

Many recommendations from the Previous Report, arising out of the 2016 financial statements, would warrant further consideration as follow up to the 2017 assessment process, but for the termination process currently being managed by the Ministry.

There has been little change in the way sponsors are reporting the financial performance and position of their partnership school operations. Below, we bring to the Ministry's attention key considerations that would need to be taken into account for ongoing performance assessment of partnership schools under the partnership agreement.

Disparate results

There are discrepancies between the results from the performance reports and those from audited financial statements. Appendix A shows the variance between financial and management reporting.

These discrepancies may reflect a wider issue around what and how sponsors perceive they should be reporting, as part of their quarterly performance disclosures, to meet their disclosure obligations under the partnership agreements. This is especially prevalent in the interim reporting of operating cash flows, where almost all sponsors did not report their operating cash flow correctly.

The large variance casts doubt on the reliability of financial data provided by the sponsors about the schools during the interim reporting periods, and highlights a potential risk area for the Ministry. It may also signal general misunderstanding of the key financial metrics that are required to be disclosed during the interim reporting period.

Accordingly, in the ordinary course of business, we would recommend the Ministry investigates the reasons for the variances and develops a plan to improve the reporting of interim results. This could include understanding from each sponsor:

- the management accounting systems in place to record transactions
- the process each sponsor undertakes to report its quarterly financial performance
- if there is any misunderstanding about what should be recorded in the interim performance reporting.

Performance measures and targets

The performance measures appear to be appropriate for understanding the profitability, liquidity and leverage of each school as a division of the sponsor. However, there is a question of whether the target for each performance target is set at the right level.

For example, schedule 6 of the partnership agreements specifies the working capital ratio must be two or above. The sponsor must be able to show each quarter that the school has twice the amount of current assets than current liabilities on its balance sheet. This means the school must have $2 of current assets for every $1 of current liabilities.

Generally, a working capital ratio of greater than one is necessary to maintain sufficient liquidity. A working capital ratio that is too high signals inefficient management of working capital, including practices such as holding too much cash, delaying collection of accounts receivable, and too quickly paying accounts payable.

As a general observation, the target of 2× appears high, in the context of a business that has very low levels of risk in relation to its revenues (regular fixed payments from the Crown).

If the partnership agreements continued, we would recommend the Ministry review the performance measures and targets to ensure they are help properly managing the risk of the school becoming an unviable operation.

Interim reporting

Interim reporting is an appropriate procedure to understand how each sponsor and school is performing. Quarterly reporting is undertaken using spreadsheets provided by the Ministry, that sponsors are required to complete.

The spreadsheets used to report should have checks and balances embedded to minimise the possibility of misreporting financial performance to the Ministry. For example, assets could be balanced to liabilities and equity, and operating, investing and financing cash flows could be reconciled with the beginning and ending cash balance. This should be reviewed as part of performance management for the 2018 financial year.

Level of reporting

Reporting is done at the partnership school level. However, the school is not the legal entity that is capable of owning assets and for meeting obligations and paying the debts. These rights and obligations belong to the sponsors. The school is simply the operation or a division of the sponsor by virtue of the partnership agreement, even if it is the sponsor's only operation or division.

For the sponsors with multiple operations and divisions, this poses operational risk for the Ministry for the following reasons:

- There are close linkages between the sponsors, the schools and related parties. This creates potential to distort the analysis of school KPIs and can misrepresent the true position of each school.
- The other operations or divisions managed by the sponsor could impact the ability of the sponsor to meet its obligations under the partnership agreement. For example, an insolvency event of the sponsor may not be anticipated from reviewing the school accounts, but will impact on the sponsor's ability to meet its obligations in relation to the partnership agreements.

We note that the Ministry does not have significant oversight over the financial performance or position of sponsors. We recommend the Ministry require disclosure of sponsor-level financial accounts and identify any potential risks that arise from the sponsor's wider financial performance. This information will also be useful in assessing committed costs and payments the Ministry may make as part of the termination process.

Specific Recommendations

Table 1 sets out the assessment of the financial performance and five recommendations for each school. The sections after Table 1 explain each recommendation and whether it is superseded by the termination process. The highlighted rows in Table 1 show the recommendations that are superseded by the termination process. The dots in the clear rows remain relevant, and the Ministry should consider implementing these recommendations as part of the termination process.

Table 1 Summary of financial performance and recommendations, by school

	The Rise UP Academy	SAMS	Vanguard	Terenga Paraoa	PASS	TKW (Teina)	Waatea	MSWA	Te Aratika Academy	Te Kōpuku High
Net margin	Not met	Exceeded	Almost met	Almost met	Almost met	Exceeded	Not met	Not met	Exceeded	Not met
Working capital ratio	Exceeded	Exceeded	Not met	Exceeded	Almost met	Exceeded	Not met	Not met	Not met	Almost met
Debt-to-equity ratio	Exceeded	Exceeded	Not met	Exceeded	Almost met	Exceeded	Not met	Almost met	Not met	Exceeded
Net operating cash flow	Met	Exceeded	Not met	Not met	Met	Met	Not met	Not met	Exceeded	Exceeded
Overall assessment	**Met**	**Exceeded**	**Not met**	**Met**	**Almost met**	**Exceeded**	**Not met**	**Not met**	**Almost met**	**Met**
Performance targets			•				•	•	•	
Contingency planning		•					•	•		
Cash accounts		•						•		
Statement of cash flows		•	•	•		•		•		
Unexpected transactions			•	•		•	•			

Performance targets

This relates to where a school did not meet its financial performance targets and it is questionable whether the sponsor can sustain the respective school operation into the foreseeable future. The main concern is whether the school has sufficient assets or cash flow to meet its short-term liabilities as they fall due. For the schools where this applies, we would recommend the Ministry further investigates and engages with the sponsor to understand whether the school is sustainable and if the sponsor is able to meet its future contractual obligations with the Ministry and creditors generally. Given partnership schools are expected to terminate at the end of 2018, we recommend the Ministry engages with the relevant sponsor to understand if they will have enough operational funding to cover maturing liabilities this year.

Contingency planning

This recommendation relates to financial statements where auditors have noted the support required by the sponsors and reliance on Ministry funding to sustain the school operation. The going concern assumption, upon which the financial statements are prepared, is highly likely to be compromised if the sponsor withdraws its support or the Minister terminates the partnership agreement. In the ordinary course of business, we would recommend that the Ministry establish a contingency plan for if the sponsor can no longer support the school operation. Given the Ministry has engaged in a termination process, the school is no longer a going concern and the contingency planning is superseded by planning under the termination process.

Cash accounts

Sponsors may not have set up separate cash accounts for the schools. The intermingling of cash increases the risk that Ministry funding is used for purposes other than fulfilling the sponsor's obligations under the partnership agreement. Where this is the case, in the ordinary course of business, we would recommend the Ministry requires the sponsor to keep a separate cash account for each school. We recommend the sponsors set up separate cash accounts as part of the termination process so they can more transparently account for payments towards committed costs and other items for which the Ministry may agree to pay the sponsor.

Statement of cash flows

Some sponsors did not provide statements of cash flows for their schools. Although it may not be a legal requirement for sponsors to disclose a statement of cash flows, it creates transparency around where cash is being applied over the financial year, including net operating cash flows (which factor into performance measures). Accordingly, in the ordinary course of business, we would recommend the Ministry requires sponsors to provide a separate statement for cash flows for each school. Because the school operation is no longer a going concern, there may be little point in the sponsors providing separate statements of cash flows for future performance reporting.

Unexpected transactions

Some schools had line items in their accounts that were the result of transactions we would not expect to see on their financial statements. Such unexpected transactions include:

- **Related party transactions**– we note there are a number of schools that have undertaken transactions with related parties, be it sponsors, shareholders or other entities related to the sponsor.
- **Shareholder and inter-company debt**– cash has been drawn out by sponsor shareholders and related companies that result in overdrawn current accounts. Overdrawn current accounts are debts owed by the shareholder or related party to the sponsor, and are registered as current assets on the balance sheet. The current account forms part of the working capital ratio, although the collectability of the current accounts may be doubtful. The drawing out of cash contributes to negative net operating cash flows.
- **Establishment funding** – Some schools have establishment funding with unfulfilled obligations, recorded as current liabilities on the balance sheet. In this case, the cash balance may be lower than the unspent portion of the establishment funding, suggesting the establishment funding has been applied to other purposes. Where this is the case, we further recommend that the Ministry seek an accounting of the unspent portion of the funding and the purpose to which it has been applied.

We would recommend the Ministry seek further information to understand the nature of these items, they are ultimately beneficial for the long-term viability of the school. The Ministry should proceed with this action in the termination process, as the nature of these transactions could affect the outcome of the current termination process.

School financial performance

1. The Rise UP Academy

Table 2 shows the financial performance measures for the Rise UP Academy based on financial statements for the Rise UP Trust and the Rise UP Academy for the year ended 31 December 2017.

The Rise UP Academy met most of its financial performance targets for the 2017 financial year. Assessing all measures together, we consider the Rise UP Academy met its financial performance requirement for the 2017 financial year.

Table 2 Financial performance measures for the Rise UP Academy

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	(1.2%)	Not met
Working capital ratio (excl. 2017 IIA)	2 or above	4.59	Exceeded
Debt-to-equity ratio (excl. 2017 IIA)	0.5 or less	0.15	Exceeded
Net operating cash flow	Positive	(144k)	
Adjusted for IIA		22k	Met
Overall assessment			**Met**

Notes:

1. Working capital and debt-to-equity ratio calculations exclude the impacts of income in advance (IIA).
2. Adjusted net operating cash flow and net cash flow are estimated based on information from the audited financial statements. It includes 2016 IIA and excludes 2017 IIA.

Profitability

The Rise UP Academy had a recorded net loss of around $14k and net margin of negative 1.2 per cent for the 2017 financial year. This decreased from the previous year's net margin of positive 1.2 per cent and does not meet the performance target.

Balance sheet

The Rise UP Academy had net working capital of $273k and a working capital ratio of 4.59, after excluding income in advance of $67k. This exceeds the performance target.

The Rise UP Academy's debt-to-equity ratio is 0.15. This exceeds the performance target. The majority of the Rise UP Academy's liabilities are annual leave accruals.

Cash flow

The Rise UP Academy's cash balance decreased from $549k to $403k in the 2017 financial year.

The Rise UP Academy recorded a negative net operating cash flow of $144k in its financial statements. The net operating cash flow deficit is mostly attributable to the timing discrepancy between receiving Ministry operating funding in advance of the 2017 financial year.

If this funding was received in the 2017 financial year, the Rise UP Academy would have a positive net operating cash flow of $22k, which meets the performance target. Accounting for this income in the period in which it was used provides a more accurate reflection of this financial performance target.

2. South Auckland Middle School

Table 3 shows the financial performance measures for South Auckland Middle School (SAMS) based on financial statement extracts from the sponsor, Villa Education Trust (VET) for the year ended 31 December 2017.

Assessing all measures together, we consider the SAMS exceeded its financial performance requirements for the 2017 financial year.

Table 3 Performance measures for South Auckland Middle School

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	3.9%	Exceeded
Working capital ratio	2 or above	0.03	
Incl. cash balance		3.28	Exceeded
Debt-to-equity ratio	0.5 or less	0.78	
Incl. cash balance		0.22	Exceeded
Net operating cash flow	Positive	(224k)	
Adjusted for IIA		297k	Exceeded
Overall assessment			**Exceeded**

Notes:

1. Working capital and debt-to-equity ratio calculations include the cash balance as a current asset and equity.
2. A statement of cash flows is not provided. Adjusted net operating cash flow is calculated based on information from the audited financial statements. It includes 2016 IIA.

SAMS is one of the two partnership schools operated by VET. The other partnership school is Middle School West Auckland (MSWA), the analysis of which is outlined in section 8 of this report. We observed similar transactions in the balance sheets of MSWA and SAMS.

Profitability

SAMS had a recorded net surplus of around \$84k and a net margin of 3.9 per cent for the 2017 financial year. The net margin decreased from the previous year's result of 5.5 per cent to within the performance target range. The net margin is within the performance target and therefore exceeds the Ministry's requirement.

Balance sheet

SAMS's working capital ratio was 0.03 and debt-to-equity ratio was 0.78 at the end of the 2017 financial year. However, these ratios do not reflect the financial position of SAMS because, as with the 2016 financial statements, the cash balance is recorded as nil on SAMS's balance sheet.

Note 12 to the financial statement states that VET holds the bank account for SAMS, so the payments and collections relating to SAMS's operations go through VET. The net effect is the cash balances are recorded at the sponsor level, and operating and investing cash flows are financed by VET. The effective cash balance of SAMS of \$624k is recorded in a 'Sponsor account' in Equity.

This negatively affects SAMS's working capital ratio and debt-to-equity ratio:

- Working capital ratio – if the cash balance was recorded as a current asset for SAMS, it would have a net working capital surplus of \$439k and a working capital of 3.28, which exceeds the performance target and suggests SAMS has sufficient liquidity to meet its maturing debts.
- Debt-to-equity ratio – if the cash balance was recorded as an asset for SAMS, it would have a debt-to-equity ratio of 0.22, which exceeds the performance target.

We note, the working capital and debt-to-equity ratios including the effective cash balance are substantially similar to the ratios reported in SAMS's annual performance reports. This suggests VET included the cash balance as an asset at the school level for performance reporting purposes.[2]

Cash flow

As discussed above, the cash balance is held by VET on behalf of SAMS. The effective cash balance held for SAMS decreased from $1 million to $624k in the 2017 financial year.

A cash flow statement is not provided for SAMS. We estimate that SAMS had a negative net operating cash flow of $224k. The negative net operating cash flow is attributable to receiving Ministry funding in advance of the 2017 financial year. If this funding was received in 2017, SAMS would have a positive net operating cash flow of $297k, which exceeds the performance target.

[2] We note VET did not include the overdraft cash balance as a current liability (or contra-current asset) in its performance reporting for another partnership school, Middle School West Auckland.

3. Vanguard Military School

Table 4 shows the financial performance measures for Vanguard Military School (Vanguard) based on Vanguard Military School Limited's (VSML) financial statements for the year ended 31 December 2017. We understand from reviewing the partnership agreement that VMSL is not the sponsor of Vanguard, but has been operating the school either as a sub-contractor or as if it were the sponsor.

We understand, from reviewing the financial statements of VMSL, that VMSL's financial statements represent the financial performance and position of Vanguard. Accordingly, we have analysed Vanguard's operation by referring to the financial statements of VMSL.

Assessing all measures together, we consider the Vanguard did not meet the financial performance requirements for the 2017 financial year.

Table 4 Financial performance measures for Vanguard Military School

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	1.3%	Almost met
Working capital ratio (excl. IIA)	2 or above	0.65	Not met
Debt-to-equity ratio (excl. IIA)	0.5 or less	9.80	Not met
Net operating cash flow	Positive	(835k)	
Adjusted for IIA		(179k)	Not met
Overall assessment			**Not met**

Notes:

1. Working capital and debt-to-equity ratio calculations exclude the impacts of income in advance (IIA).
2. Adjusted net operating cash flow is calculated based on information from the audited financial statements. It includes 2016 IIA and excludes 2017 IIA.

Profitability

VMSL recorded a net surplus of around $38k and a net margin of 1.3 per cent for the 2017 financial year. The net margin improved from the previous year's result of 0.6 per cent but does not meet the performance target. However, the net margin of 1.3 per cent is positive, so almost meets the performance target

We note staff salaries have risen nearly 11 per cent between the 2016 and 2017 financial years. Further, there was $406k of related party expenses between VMSL and the Vanguard's sponsor, Advance Training Group Limited (ATG), expensed on the income statement. The Ministry may want to investigate the reason for the increase in expenses.

Balance sheet

VMSL had a net working capital deficit of $263k and a working capital ratio of 0.65 at the end of the 2017 financial year. The working capital ratio of 0.65 does not meet the performance target. The majority of its current liabilities come from Ministry establishment funding held in advance of $690k. Excluding this amount from current assets and current liabilities gives a working capital ratio of nil. Accordingly, we recommend the Ministry monitor VMSL's liquidity position on an ongoing basis to understand whether VMSL is meeting its short-term liabilities.

VMSL's debt-to-equity ratio was 9.80 at the end of the 2017 financial year. The debt-to-equity ratio of 9.80 does not meet the performance target. Excluding the Ministry's establishment funding in advance from liabilities, significantly improves the debt-to-equity ratio to 0.82. This is lower but still outside of the performance target range.

We note several aspects of VMSL's balance sheet, of which the Ministry should seek further information:

- **Establishment funding** – VMSL's cash balance is $220k, which is lower than the unspent portion of the establishment funding in advance of $690k. Further, we estimate the investing cash outflow of $44k is less than the decrease in establishment funding of $140k, suggesting the establishment funding has been used to fund the operations of Vanguard. The Ministry should request VMSL and ATG provide an account of what the establishment funding has been spent on.

- **Shareholders' current overdrawn accounts** – shareholders, Wayne Hyde and Frances Hyde, have drawn cash out of VMSL resulting in an overdrawn current account. This is a debt owed by the shareholders to VMSL and recorded as a current asset in VMSL's financial statement. We note the shareholders' overdrawn current accounts increased by $31k, contributing to the negative net operating cash flow (see below). The Ministry should query VMSL's use of current accounts to account for cash flows between VMSL and the shareholders, and understand whether the shareholders intend to repay this debt.
- **Inter-company current account** – cash has been drawn out by ATG, in addition to the related party transactions expensed in the income statement. This has resulted in an overdrawn current account between VMSL and ATG. It is a debt owed by ATG to the VMSL and recorded as a current asset in the financial statements. We note the current account increased by $24k, contributing to the negative net operating cash flow. The Ministry should query VMSL's use of current accounts to record cash flows between VMSL and ATG, and whether ATG intends to repay this debt.

Cash flow

VMSL's cash balance decreased from $1.1 million to $220k in the 2017 financial year.

VMSL's financial statements do not include a statement of cash flow statement. We estimate that VMSL had a negative net operating cash flow of $835k for the 2017 financial year. The net operating cash flow is attributable to a timing discrepancy from obtaining income in advance of the 2017 financial year. If Ministry funding for 2017 is included, we estimate VMSL would have a negative net operating cash flow of $179k. This does not meet the performance target.

4. Te Kura Hourua O Whangarei Terenga Paraoa

Table 5 shows the performance measures for Te Kura Hourua O Whangarei Terenga Paraoa (Terenga Paraoa) based on analysis of He Puna Marama Charitable Trust's (He Puna Marama) financial statements for the year ended 31 December 2017.

Assessing all measures together, we consider that Terenga Paraoa met the financial performance requirements for the 2017 financial year.

Table 5 Financial performance measures for Terenga Paraoa

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	0.4%	Almost met
Working capital ratio	2 or above	9.25	Exceeded
Debt-to-equity ratio	0.5 or less	0.12	Exceeded
Net operating cash flow	Positive	(964k)	
Adjusted for IIA		(173k)	Not met
Overall assessment			**Met**

Note: A statement of cash flows is not provided. Adjusted net operating cash flow is calculated based on information from the audited financial statements. It includes 2016 IIA.

Terenga Paraoa is one of the two partnership schools operated by He Puna Marama. The other partnership school is Te Kāpehu Whetū (Teina), the analysis of which is outlined in section 6 of this report. We observed similar transactions in the balance sheets of Terenga Paraoa and Te Kāpehu Whetū (Teina).

Profitability

Terenga Paraoa had a recorded net surplus of $13k and a net margin of 0.4 per cent for the 2017 financial year. The net margin improved on the previous year's net margin of negative 3.1 per cent. The net margin is below the performance target range, but is positive. Accordingly, Terenga Paraoa almost met the performance target.

We note that wages and salaries increased by $339k and lease costs increased by $137k. The Ministry should enquire into the reason for the increased staff and property costs.

Balance sheet

Terenga Paraoa had a net working capital of $2.6 million and a working capital ratio of 9.25, which exceeds the performance target. We note, the largest portion is made up of related party receivables of $2.3 million, of which no further information is provided in the financial statements. Excluding this item from current assets gives a net working capital of around $227k and a working capital ratio of 1.73.

This related party receivable was a significant change in Terenga Paraoa's asset base in the 2016 financial year and we recommended in the Previous Report that the Ministry request information on the nature of this receivable. We also recommended the Ministry seek further information as to whether the transaction, which resulted in an increase in rental expense, was ultimately beneficial for the long-term viability of Terenga Paraoa. These two recommendations remain in place.

Terenga Paraoa's debt-to-equity ratio is 0.12, which exceeds the performance target. As stated above, the largest portion of equity is attributable to related party receivables. Excluding this item from the equity yields a debt-to-equity ratio of 0.96, which is outside the performance target.

Cash flow

Terenga Paraoa's cash and cash equivalents balance decreased from $1.5 million to $469k in the 2017 financial year.

He Puna Marama did not provide a cash flow statement for Terenga Paraoa. We estimate that Terenga Paraoa had a negative net operating cash flow of $964k. The negative operating cash flow is mainly attributable to receiving income in advance for the 2017 financial year. If this funding was received in 2017, Terenga Paraoa would have a negative net operating cash flow of $173k, which does not meet the performance target.

5. Pacific Advance Senior School

Table 6 shows the financial performance measures for Pacific Peoples Advancement Trust (PPAT) based on financial statements for the year ended 31 December 2017. Pacific Advance Senior School (PASS) is the main division of PPAT and Ministry funding the main source of revenue. PPAT did not provide separate financial information for PASS.

The lack of information on PASS's financial performance, financial position and cash flows prevents the Ministry from properly assessing the school's performance separately from the sponsor. There is no indication of the strength of PASS's liquidity, profitability or cash flows. This poses operational and governance risks for the Ministry. We recommend that the Ministry works with PPAT to establish a solution to provide greater transparency between the school's financial performance and the financial performance of the sponsor. This could include the preparation of a set of audited financial statements for PASS as a division separate from the sponsor.

Assessing all measures together, we consider the PPAT almost met the financial performance requirements for the 2017 financial year. However, we have insufficient information to assess whether the financial performance requirements were met at the school level.

Table 6 Financial performance measures for Pacific Peoples Advancement Trust

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	6.5%	Almost met
Working capital ratio	2 or above	1.97	Almost met
Debt-to-equity ratio	0.5 or less	0.69	Almost met
Net operating cash flow	Positive	(446k)	
Adjusted for IIA		97k	Met
Overall assessment			**Almost met**

Notes:

1. Working capital and debt-to-equity ratio calculations exclude the impacts of income in advance (IIA).
2. Adjusted net operating cash flow is calculated based on information from the audited financial statements. It includes 2016 IIA and excludes 2017 IIA.

Profitability

PPAT recorded a net surplus of $152k and a net margin of 6.5 per cent for the 2017 financial year. The net margin decreased from the previous year's net margin of 20.5 per cent. The net margin was not within the contracted performance range, but almost met the target.

Balance sheet

PPAT had net working capital of $739k and a working capital ratio of 1.97 after correcting for the inclusion of a GST receivable being recorded as a contra-current liability. This working capital ratio almost meets the performance target. The majority of PPAT's current assets is made up of cash and the majority of its current liabilities are from Ministry (non-operation) funding held in advance. PPAT appears to have sufficient liquidity to meet its liabilities, including accounts payable and accrued expenses.

PPAT's debt-to-equity ratio is 0.69. This almost meets the performance target.

Cash flow

PPAT posted a negative net operating cash flow of $446k for the 2017 financial year. The negative net operating cash flow is attributable to receiving operational income of $543k in advance of the 2017 financial year. If this funding was received in 2017, PPAT would have a positive net operating cash flow of $97k, which meets the performance target.

6. Te Kāpehu Whetū (Teina)

Table 7 shows the financial performance measures for Te Kāpehu Whetū (Teina) (TKW (Teina)) based on analysis of He Puna Marama's financial statements for the year ended 31 December 2017.

Assessing all measures together, we consider that TKW (Teina) exceeded the financial performance requirements for the 2017 financial year.

Table 7 Performance measures for TKW (Teina)

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% – 5%	3.4%	Exceeded
Working capital ratio	2 or above	5.90	Exceeded
Debt-to-equity ratio	0.5 or less	0.19	Exceeded
Net operating cash flow	Positive	(217k)	Met
Adjusted for IIA		16k	
Overall assessment			**Exceeded**

Note: A statement of cash flows is not provided. Adjusted net operating cash flow is calculated based on information from the audited financial statements. It includes 2016 IIA.

TKW (Teina) is one of the two partnership schools operated by He Puna Marama. The other partnership school is Terenga Paraoa, the analysis of which is set out in section 4 of this report. We observed similar transactions in the balance sheets of Terenga Paraoa and TKW (Teina).

Profitability

TKW (Teina) had a recorded net surplus of $35k and a net margin of 3.4 per cent for the 2017 financial year. The net margin slightly decreased from the previous year's net margin of 3.5 per cent. The net margin is within the performance target and therefore exceeds the Ministry's requirement.

Balance sheet

TKW (Teina) had net working capital of $578k and a working capital ratio of 5.90, which exceeds the performance target. We note that over half of TKW (Teina)'s current assets are made up by related party receivables of $381k, of which no further information is provided in the financial statements. Excluding this item from current assets gives net working capital of $196k and a working capital ratio of 2.67, which still meets the performance target.

Similar to Terenga Paraoa, this related party receivable formed a significant change in TKW (Teina)'s asset base in the 2016 financial year and, we recommended in the Previous Report that the Ministry request information on the nature of this receivable. We also recommended the Ministry seek information as to whether the transaction, which resulted in an increase in rental expense, was ultimately beneficial for the long-term viability of TKW (Teina). These two recommendations remain in place.

TKW (Teina)'s debt-to-equity ratio is 0.19, which exceeds the performance target. As stated above, the largest portion of equity is attributable to related party receivables. Excluding this item from the equity gives a debt-to-equity ratio of 0.46, which also meets the performance target.

Cash flow

TKW (Teina)'s cash and cash equivalents balance decreased from $528k to $303k in the 2017 financial year.

A cash flow statement was not provided for TKW (Teina). We estimate that TKW (Teina) had a negative net operating cash flow of around $217k. The negative net operating cash flow is attributable to receiving income from the Ministry in advance of the 2017 financial year. If this funding was received in 2017, TKW (Teina) would have a positive net operating cash flow of $16k, which meets the performance target, but with only a small buffer.

7. Te Kura Māori o Waatea

Table 8 shows the financial performance measures for Te Kura Māori o Waatea (Waatea) based on analysis of the financial statements for Te Whare Wānanga o MUMA Limited for the year ended 31 December 2017.

The sponsor of Waatea is the Manukau Urban Māori Authority. We understand from reviewing the partnership agreement that Te Whare Wānanga o MUMA Limited is not the sponsor of Waatea, but has been operating the school either as a sub-contractor or as if it were the sponsor. Te Whare Wānanga o MUMA Limited is a wholly-owned subsidiary of the Manukau Urban Māori Authority.

The financial statements of Te Whare Wānanga o MUMA Limited represent the financial performance and position of Waatea. An income statement and balance sheet for Waatea are contained in the appendix to the financial statements of Te Whare Wānanga o MUMA Limited. In particular, operational funding of $843k for Waatea was recorded in the income statements for the 2017 financial year. Accordingly, we have analysed Waatea's operation by referring to the financial statements of Te Whare Wānanga o MUMA Limited.

We note that, although the financial statements appear to be audited, this appendix identifies that the school-level financial statements are not audited.

Waatea did not meet any of the performance targets for the 2017 financial year.

Table 8 Financial performance measures for Waatea

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	(13.9%)	Not met
Working capital ratio (excl. IIA)	2 or above	0.55	Not met
Debt-to-equity ratio (excl. IIA)	0.5 or less	16.26	Not met
Net operating cash flow	Positive	314k	
Adjusted for IIA		(218k)	Not met
Overall assessment			**Not met**

Notes:

1. Working capital and debt-to-equity ratio calculations exclude the impacts of income in advance (IIA), including establishment funding for Waatea High.
2. A statement of cash flows is not provided. Adjusted net operating cash flow is calculated based on information from the audited financial statements. It excludes 2017 IIA.

Profitability

Waatea had a recorded net deficit of $126k and a net margin of negative 13.9 per cent for the 2017 financial year. The net margin decreased from the previous year's net margin of 2.1 per cent, and it does not meet the performance target. There appear to be large increases in administration expenses, interest expense and depreciation.

Balance sheet

Waatea had a net working capital deficit of $61k and the working capital ratio was 0.55 excluding Waatea High establishment funding which is recorded as a current liability. Waatea did not meet the performance target and the financial statements suggest it does not have sufficient current assets to meet its short-term liabilities, unless it is generating significant cash from operations on an ongoing basis.

Waatea's debt-to-equity ratio is 16.26, excluding Waatea High establishment funding. This does not meet the performance target. We note, a shareholder contribution of $100k was made in the 2017 financial year which offset the net deficit effect on equity.

Cash flow

Waatea's cash balance increased from $93k to $475k. However, without the establishment funding for Waatea High, the cash balance for the school was in overdraft at the end of the 2017 financial year. This suggests the school operation has been partially funded from the establishment funding for Waatea High.

There is no cash flow statement for Waatea. We estimate Waatea had a net operating cash flow of around $314k. However, we note that this cash flow includes establishment funding for Waatea High. The net operating cash flow is negative $218k after excluding the Waatea High establishment funding. The net operating cash flow does not meet the performance target.

8. Middle School West Auckland

Table 9 shows the financial performance measures for Middle School West Auckland (MSWA) based on financial statement extracts from the sponsor, Villa Education Trust (VET) for the year ended 31 December 2017.

Assessing all measures together, we consider the MSWA did not meet its financial performance requirements for the 2017 financial year.

Table 9 Financial performance measures for Middle School West Auckland

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	(12.8%)	Not met
Working capital ratio	2 or above	0.04	
Incl. cash overdraft		0.03	Not met
Debt-to-equity ratio	0.5 or less	0.57	
Incl. cash overdraft		1.05	Almost met
Net operating cash flow	Positive	(593k)	
Adjusted for IIA		(89k)	Not met
Overall assessment			**Not met**

Notes:

1. Working capital and debt-to-equity ratio calculations include the cash overdraft as a current liability.
2. A statement of cash flows is not provided. Adjusted net operating cash flow is calculated based on information from the audited financial statements. It includes 2016 IIA.

MSWA is one of the two partnership schools operated by VET. The other partnership school is SAMS, the analysis of which is set out in section 2 of this report. We observed similar transactions in the balance sheets of MSWA and SAMS.

Profitability

MSWA had a recorded net deficit of around $295k and a net margin of negative 12.8 per cent for the 2017 financial year. The net margin improved from the previous year's result of negative 20.7 per cent, but remained significantly below the performance target range.

Balance sheet

MSWA's working capital ratio is 0.04 and its debt-to-equity ratio is 0.57. However, these ratios do not reflect the financial position of MSWA because the cash is not in the balance sheet.

Note 12 to the financial statements states that VET holds the bank account for SAMS, so the payments and collections relating to MSWA's operations go through VET. The net effect is the cash balances are recorded at the sponsor level. The effective cash balance of MSWA is a $70k overdraft, which is recorded in the 'Sponsor account' in Equity.

This impacts MSWA's working capital ratio and debt-to-equity ratio:

- Working capital – if the cash overdraft was recorded for MSWA, it would have a net working capital deficit of $238k and a working capital ratio of 0.03, which does not meet the performance target. This suggests MSWA would not have sufficient liquidity to meet its short-term liabilities, unless it is generating sufficient cash from operations on an ongoing basis.
- Debt and equity – if the cash overdraft was recorded for MSWA, it would have a debt-to-equity ratio of 1.05, which almost meets the performance target.

We note, unlike VET's other partnership school SAMS, the working capital and debt-to-equity ratios including the effective cash balance are not similar to the ratios reported in MSWA's annual performance reports. This suggests VET included the SAMS's cash balance as a current asset, but did not include MSWA's cash overdraft as a current liability in the school performance reports.

Cash flow

As discussed above, the cash balance is held by VET on behalf of MSWA. The effective cash balance held for MSWA decreased from $593k to a $70k overdraft in the 2017 financial year.

We estimate that MSWA had a negative net operating cash flow of $593k. The negative operating cash flow is mainly attributable to receiving income in advance of the 2017 financial year. If this funding was received in the 2017 financial year, MSWA would have a negative net operating cash flow of $89k, which does not meet the performance target.

9. Te Aratika Academy

Table 10 shows the financial performance measures for Te Aratika Academy based on analysis of financial statements for the nine months ended 31 December 2017.

Te Aratika Academy changed its balance date from 31 March to 31 December in the 2017 financial year. Accordingly, the financial statements have only been stated and audited for nine months of the financial year. On this basis, we have been unable to analyse the net margin and net operating cash flow for the 2017 financial year and have undertaken analysis over a full period of establishment and year-one operation: 1 April 2016 to 31 December 2017.

Assessing all available measures together, we consider Te Aratika Academy almost met its financial performance requirements over the period from 1 April 2016 to 31 December 2017.

Table 10 Performance measures for Te Aratika Academy

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	2.2%[1]	Exceeded
Working capital ratio	2 or above	0.26	Not met
Debt-to-equity ratio	0.5 or less	6.35	Not met
Net operating cash flow	Positive	146k[1]	Exceeded
Overall assessment			**Almost met**

Notes:

1. Net margin and net operating cash flow are analysed for the period 1 April 2016 to 31 December 2017.

Profitability

We have been unable to assess the net margin for the 12 months of the 2017 financial year from the financial statements provided, because Te Aratika Academy changed its balance date.

Te Aratika Academy had a recorded net deficit of around $577k and a net margin of negative 174.1 per cent for the nine months to 31 December 2017. The net margin decreased from the previous financial year's result of 70.8 per cent, but is still below the performance target range.

There appears to be a timing discrepancy between the recognition of revenue and the recognition of expenses, which has generated a large surplus in the financial year to 31 March 2017 and large deficit for the nine months to 31 December 2017. Combining these results provides another representation of the operation since establishment (given the short-term operation of the school), with a net surplus of $25k and a net margin of 2.2 per cent. This net margin is within the performance target and therefore exceeded the Ministry's requirement.

Balance sheet

Te Aratika Academy had a net working capital deficit of $100k and a working capital ratio of 0.26 at the end of the 2017 financial year. This does not meet the performance target and suggests Te Aratika Academy does not have sufficient current assets to meet its short-term liabilities as they fall due, unless it is generating sufficient cash from operations on an ongoing basis.

Te Aratika Academy's debt-to-equity ratio is 6.35, which is substantially higher than the performance target and does not meet it.

Cash flow

We are unable to assess the net operating cash flow for the 12 months of the 2017 financial year from the financial statements provided, because Te Aratika Academy changed its balance date.

Te Aratika Academy's cash balance increased from nil to 534k in the year ended 31 March 2017 and then decreased from $534k in April 2017 to below $4k in December 2017.

Te Aratika Academy had a negative net operating cash flow of $460k. Part of the negative operating cash flow is attributable to receiving income of $70k in advance of the nine months to 31 December 2017. If this funding had been received in 2017, Te Aratika Academy would have had a negative operating cash flow of $390k. Te Aratika Academy had a positive net operating cash flow of $146k for the period 1 April 2016 to 31 December 2017. This exceeds the performance target, representing around 12.8% of total revenue over the period.

10. Te Kōpuku High

Table 11 shows the performance measures for Te Kōpuku High Charitable Trust, which is the trust that operates of the school. The Sponsor of Te Kōpuku High has provided the Ministry with draft financial statements for the 2017 financial year. Accordingly, we have only made an assessment of the school's performance based on unaudited financial statements.

Assessing all the measures together, we consider that Te Kōpuku High met its financial performance requirements for the 2017 financial year.

Table 11 Performance measures for Te Kōpuku High

Financial performance measure	Target	Financial statements	Assessment
Net margin	2% to 5%	8.4%	Not met
Working capital ratio	2 or above	1.07	Almost met
Debt-to-equity ratio	0.5 or less	0.21	Exceeded
Net operating cash flow	Positive	422k	Exceeded
Overall assessment			**Met**

Note: The financial performance metrics reported are based on unaudited financial statements.

Profitability

Te Kōpuku High had a recorded net surplus of around $165k and net margin of 8.4 per cent for the 2017 financial year. The net margin was outside the contracted performance target range by 3.4 percentage points. Accordingly, we consider the school did not meet its performance target.

Balance sheet

Te Kōpuku High had net working capital of $9k and a working capital ratio of 1.07. It almost met the performance target for working capital. Further, Te Kōpuku High had sufficient current assets to meet its short-term liabilities at the end of the 2017 financial year.

Te Kōpuku High's debt-to-equity ratio was 0.21. This exceeded the performance target.

Cash flow

Te Kōpuku High's cash balance increased from nil to $113k in the 2017 financial year.

Te Kōpuku High recorded a significant net operating cash flow of $422k in its financial statements, which around 21.4 per cent of its revenue. This exceeds the performance target.

Appendix A – Reconciliation

The following tables show the calculation of the three financial measurements according to each school's audited financial statements for the year ended 2017 and the reconciliation of these calculations to those included in each school's annual performance report prepared at the end of the fourth quarter of 2017. The annual performance reports are self-reported by the sponsors.

Note, the following tables are presented in thousands of dollars and there may be minor discrepancies due to rounding.

Table 12 Key financial information for the Rise UP Academy

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	1,174	1,209	36	3.0%
Expenses	1,188	1,158	(30)	(2.5%)
Net surplus/(deficit)	(14)	51		
Net margin	*(1.2%)*	*4.2%*		
Working capital				
Current assets	416	413	(3)	(0.8%)
Current liabilities	143	73	(70)	(48.6%)
Net working capital	273	339		
Working capital ratio	*2.91*	*5.62*		
Current assets excl. 2017 IIA	350			
Current liabilities excl. 2017 IIA	76			
Working capital ratio excl. 2017 IIA	*4.59*			
Debt-to-equity				
Liabilities	143	73	(70)	(48.6%)
Equity	510	576	66	12.8%
Debt-to-equity ratio	*0.28*	*0.13*		
Liabilities excl. 2017 IIA	76			
Debt-to-equity ratio excl. 2017 IIA	*0.15*			
Operating cash flow				
Operating net surplus/(deficit)	(14)			
Non-cash income	-			
Non-cash operating expenses	43			
(Increases)/Decreases in non-cash working capital	(173)			
Net operating cash flow	(144)	238	382	(265.0%)
Net operating cash flow, adjusted for 2016/17 IIA	22			
Cash flow statement				
Net operating cash inflow/(outflow)	(144)			

$000	Financial statements	Performance report	Variance	Variance (%)
Net investing cash inflow/(outflow)	(1)			
Net financing cash inflow/(outflow)	-			
Total net cash inflow/(outflow)	(145)			
Opening cash balance	549			
Change in cash position	(145)			
Closing cash balance	403			

Table 13 Key financial information for South Auckland Middle School

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	2,170	2,246	76	3.5%
Expenses	2,086	2,081	(5)	(0.2%)
Net surplus/(deficit)	84	165		
Net margin	*3.9%*	*7.4%*		
Working capital				
Current assets	7	634	628	9472.3%
Current liabilities	192	192	-	-
Net working capital	(185)	442		
Working capital ratio	*0.03*	*3.30*		
Current assets incl. cash balance	631			
Working capital ratio incl. cash balance	*3.28*			
Debt-to-equity				
Liabilities	192	192	-	-
Equity	246	874	628	255.0%
Debt-to-equity ratio	*0.78*	*0.22*		
Equity incl. cash balance	871			
Debt-to-equity ratio excl. IIA	*0.22*			
Operating cash flow				
Operating net surplus/(deficit)	84			
Non-cash income	-			
Non-cash operating expenses	76			
(Increases)/Decreases in non-cash working capital	(384)			
Net operating cash flow	(224)	235	459	(205.0%)
Net operating cash flow, adjusted for 2016 IIA	297			
Cash flow statement				
Net operating cash inflow/(outflow)	(224)			
Net investing cash inflow/(outflow)	(159)			
Net financing cash inflow/(outflow)	383			
Total net cash inflow/(outflow)	-			
Opening cash balance	-			
Change in cash position	-			
Closing cash balance	-			

Table 14 Key financial information for Vanguard Military School

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	2,886	2,853	(33)	(1.1%)
Expenses	2,849	2,793	(55)	(1.9%)
Net surplus/(deficit)	38	60		
Net margin	*1.3%*	*2.1%*		
Working capital				
Current assets	489	428	(62)	(12.6%)
Current liabilities	753	23	(729)	(96.9%)
Net working capital	(263)	405		
Working capital ratio	*0.65*	*18.43*		
Debt-to-equity				
Liabilities	753	23	(729)	(96.9%)
Equity	77	864	787	1024.9%
Debt-to-equity ratio	*9.80*	*0.03*		
Operating cash flow				
Operating net surplus/(deficit)	38			
Non-cash income	-			
Non-cash operating expenses	79			
(Increases)/Decreases in non-cash working capital	(953)			
Net operating cash flow	(835)	1,053	1,888	(226.0%)
Net operating cash flow, adjusted for 2016 IIA	(179)			
Cash flow statement				
Net operating cash inflow/(outflow)	(835)			
Net investing cash inflow/(outflow)	(44)			
Net financing cash inflow/(outflow)	-			
Total net cash inflow/(outflow)	(879)			
Opening cash balance	1,099			
Change in cash position	(879)			
Closing cash balance	220			

Table 15 Key financial information for Te Kura Hourua O Whangarei Terenga Paraoa

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	3,259	3,259	-	(0.0%)
Expenses	3,246	3,245	(1)	(0.0%)
Net surplus/(deficit)	13	14		
Net margin	*0.4%*	*0.4%*		
Working capital				
Current assets	2,885	2,885	-	(0.0%)
Current liabilities	312	310	(2)	(0.6%)
Net working capital	2,574	2,575		
Working capital ratio	*9.25*	*9.31*		
Debt-to-equity				
Liabilities	312	310	(2)	(0.6%)
Equity	2,673	2,674	1	0.0%
Debt-to-equity ratio	*0.12*	*0.12*		
Operating cash flow				
Operating net surplus/(deficit)	13			
Non-cash income	-			
Non-cash operating expenses	38			
(Increases)/Decreases in non-cash working capital	(1,015)			
Net operating cash flow	(964)	115	1,079	(111.9%)
Net operating cash flow, adjusted for 2016 IIA	(173)			
Cash flow statement				
Net operating cash inflow/(outflow)	(964)			
Net investing cash inflow/(outflow)	(79)			
Net financing cash inflow/(outflow)	-			
Total net cash inflow/(outflow)	(1,043)			
Opening cash balance	1,512			
Change in cash position	(1,043)			
Closing cash balance	469			

Table 16 Key financial information for Pacific Advance Senior School

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	2,361	2,268	(93)	(3.9%)
Expenses	2,209	2,171	(38)	(1.7%)
Net surplus/(deficit)	153	97		
Net margin	*6.5%*	*4.3%*		
Working capital				
Current assets	1,502	1,424	(78)	(5.2%)
Current liabilities	763	118	(646)	(84.6%)
Net working capital	739	1,307		
Working capital ratio	*1.97*	*12.11*		
Debt-to-equity				
Liabilities	763	196	(568)	(74.3%)
Equity	1,111	1,287	176	15.9%
Debt-to-equity ratio	*0.69*	*0.15*		
Operating cash flow				
Operating net surplus/(deficit)	153			
Non-cash income	-			
Non-cash operating expenses	117			
(Increases)/Decreases in non-cash working capital	(715)			
Net operating cash flow	(446)	1,492	1,937	(434.8%)
Net operating cash flow, adjusted for 2016 IIA	97			
Cash flow statement				
Net operating cash inflow/(outflow)	(446)			
Net investing cash inflow/(outflow)	(162)			
Net financing cash inflow/(outflow)	-			
Total net cash inflow/(outflow)	(608)			
Opening cash balance	2,032			
Change in cash position	(608)			
Closing cash balance	1,424			

Table 17 Key financial information for Te Kāpehu Whetū (Teina)

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	1,023	1,032	9	0.8%
Expenses	988	988	-	-
Net surplus/(deficit)	35	44		
Net margin	*3.4%*	*4.2%*		
Working capital				
Current assets	696	704	8	1.2%
Current liabilities	118	117	(1)	(0.5%)
Net working capital	578	586		
Working capital ratio	*5.90*	*6.00*		
Debt-to-equity				
Liabilities	118	117	(1)	(0.5%)
Equity	636	645	9	1.4%
Debt-to-equity ratio	*0.19*	*0.18*		
Operating cash flow				
Operating net surplus/(deficit)	35			
Non-cash income	-			
Non-cash operating expenses	13			
(Increases)/Decreases in non-cash working capital	(265)			
Net operating cash flow	(217)	91	308	(141.9%)
Net operating cash flow, adjusted for 2016 IIA	16			
Cash flow statement				
Net operating cash inflow/(outflow)	(217)			
Net investing cash inflow/(outflow)	(8)			
Net financing cash inflow/(outflow)	-			
Total net cash inflow/(outflow)	(225)			
Opening cash balance	528			
Change in cash position	(225)			
Closing cash balance	303			

Table 18 Key financial information for Te Kura Māori o Waatea

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	909	893	(16)	(1.8%)
Expenses	1,035	938	(97)	(9.4%)
Net surplus/(deficit)	(126)	(45)		
Net margin	*(13.9%)*	*(5.0%)*		
Working capital				
Current assets	607	101	(506)	(83.3%)
Current liabilities	668	77	(591)	(88.4%)
Net working capital	(61)	24		
Working capital ratio	*0.91*	*1.31*		
Current assets excl. 2017 IIA	75			
Current liabilities excl. 2017 IIA	136			
Working capital ratio excl. 2017 IIA	*0.55*			
Debt-to-equity				
Liabilities	668	116	(552)	(82.7%)
Equity	8	95	87	1040.7%
Debt-to-equity ratio	*80.01*	*1.21*		
Liabilities excl. 2017 IIA	135			
Debt-to-equity ratio excl. 2017 IIA	*16.26*			
Operating cash flow				
Operating net surplus/(deficit)	(126)			
Non-cash income	-			
Non-cash operating expenses	31			
(Increases)/Decreases in non-cash working capital	410			
Net operating cash flow	314	(76)	(391)	(124.3%)
Net operating cash flow, adjusted for 2017 IIA	(218)			
Cash flow statement				
Net operating cash inflow/(outflow)	314			
Net investing cash inflow/(outflow)	(33)			
Net financing cash inflow/(outflow)	100			
Total net cash inflow/(outflow)	382			
Opening cash balance	93			
Change in cash position	382			
Closing cash balance	475			

Table 19 Key financial information for Middle School West Auckland

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	2,299	2,299	-	-
Expenses	2,594	2,590	(4)	(0.1%)
Net surplus/(deficit)	(295)	(291)		
Net margin	*(12.8%)*	*(12.7%)*		
Working capital				
Current assets	6	-	(6)	(100.0%)
Current liabilities	174	174	-	-
Net working capital	(168)	(174)		
Working capital ratio	*0.04*	-		
Current liabilities incl. cash overdraft	245			
Working capital ratio incl. cash overdraft	*0.03*			
Debt-to-equity				
Liabilities	174	174	-	-
Equity	304	237	(67)	(22.0%)
Debt-to-equity ratio	*0.57*	*0.73*		
Liabilities incl. cash overdraft	245			
Equity incl. cash overdraft	234			
Debt-to-equity ratio incl. cash overdraft	*1.05*			
Operating cash flow				
Operating net surplus/(deficit)	(295)			
Non-cash income	-			
Non-cash operating expenses	111			
(Increases)/Decreases in non-cash working capital	(409)			
Net operating cash flow	(593)	17	609	(102.8%)
Net operating cash flow, adjusted for 2016 IIA	(89)			
Cash flow statement				
Net operating cash inflow/(outflow)	(593)			
Net investing cash inflow/(outflow)	(70)			
Net financing cash inflow/(outflow)	663			
Total net cash inflow/(outflow)	-			
Opening cash balance	-			
Change in cash position	-			
Closing cash balance	-			

Table 20 Key financial information for Te Aratika Academy

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	Unable to assess for financial year	399		
Expenses	Unable to assess for financial year	1,025		
Net surplus/(deficit)	Unable to assess for financial year	(626)		
Net margin	Unable to assess for financial year	*(156.9%)*		
Working capital				
Current assets	36	29	(7)	(18.9%)
Current liabilities	136	102	(34)	(24.9%)
Net working capital	(100)	(73)		
Working capital ratio	*0.26*	*0.28*		
Debt-to-equity				
Liabilities	160	126	(34)	(21.1%)
Equity	25	52	27	107.3%
Debt-to-equity ratio	*6.35*	*2.42*		
Operating cash flow				
Operating net surplus/(deficit)	Unable to assess for financial year	626		
Non-cash income	Unable to assess for financial year	-		
Non-cash operating expenses	Unable to assess for financial year	31		
(Increases)/Decreases in non-cash working capital	Unable to assess for financial year	36		
Net operating cash flow	Unable to assess for financial year	(414)		
Net operating cash flow, adjusted for 2016 IIA	Unable to assess for financial year			

Table 21 Key financial information for Te Kōpuku High

$000	Financial statements	Performance report	Variance	Variance (%)
Net surplus				
Revenue	1,970	1,354	(616)	(31.3%)
Expenses	1,805	1,505	(300)	(16.6%)
Net surplus/(deficit)	165	(151)		
Net margin	8.4%	(11.2%)		
Working capital				
Current assets	134	123	(11)	(8.4%)
Current liabilities	125	112	(13)	(10.6%)
Net working capital	9	11		
Working capital ratio	*1.07*	*1.10*		
Debt-to-equity				
Liabilities	133	61	(72)	(54.2%)
Equity	637	561	(75)	(11.8%)
Debt-to-equity ratio	*0.21*	*0.11*		
Operating cash flow				
Operating net surplus/(deficit)	165	(151)		
Non-cash income	-	-		
Non-cash operating expenses	158	145		
(Increases)/Decreases in non-cash working capital	99	(403)		
Net operating cash flow	422	(268)	(690)	(163.4%)
Cash flow statement				
Net operating cash inflow/(outflow)	422			
Net investing cash inflow/(outflow)	(781)			
Net financing cash inflow/(outflow)	472			
Total net cash inflow/(outflow)	113			
Opening cash balance	-			
Change in cash position	113			
Closing cash balance	113			

Appendix B – Restrictions

This report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

This report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this report and/or any related information or explanation (together, the Information). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the organisation for which work is completed. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report, was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in our Contract for Services dated 14 May 2018.

For more information go to pwc.co.nz