Kindergarten Education Scheme (The Scheme)
Financial Matters—Questions & Answers (Q&As)

[The following Q&As aim to provide answers to questions that are commonly asked by Scheme-KGs for reference. With the implementation of the details of the Scheme, the Q&As will be updated regularly for kindergartens’ (KG) reference.

“KG Scheme Funds” and “School Funds” mentioned in the Q&As refer to “Government Subsidy” and “Non-government Funds” mentioned in Education Bureau (EDB) Circular No.7/2016 and other circulars relevant to the Scheme.]

[I] Separate bank accounts

1. Q: It is mentioned in the EDB circulars that KGs are required to keep separate bank accounts for “KG Scheme Funds” and “School Funds”. Does it mean that KGs need to have two new bank accounts for handling their income and expenditure?

A: With reference to the relevant requirements on Direct Subsidy Scheme (DSS) schools in receiving government subsidies and the operations, the EDB specifies in EDB Circular No.7/2016 that Scheme-KGs are required to keep separate bank accounts and ledger accounts for “KG Scheme Funds” and “School Funds”.

In response to the difficulties that KG faced in opening accounts and the additional administrative and manpower costs for keeping of separate bank accounts, the EDB has decided to relax the requirement on bank accounts but KGs are still required to keep separate ledger accounts for handling the income and expenditure relating to “KG Scheme Funds” and “School Funds”.

A KG may open a bank account under the name of KG to handle the income and expenditure relating to both “KG Scheme Funds” and “School Funds”. However, the EDB reiterates that all the transactions recorded in the bank account should be related to the operations of the KG. The income and expenditure of the KG should not be handled through any bank accounts other than the one bearing its own name.

All subsidies from the EDB would only be paid to the bank account under the name of the KG. The name of the bank account should be tallied with the name of the KG.

2. Q: If a KG operating both half-day and whole-day sessions plans to set up new bank account for “KG Scheme Funds”, does it need to set up two separate accounts for its half-day (HD) and whole-day (WD) sessions? Is a third account necessary for long whole-day (LWD) classes?

A: No. KG may set up bank accounts according to their needs. The EDB does not require KGs to handle income and expenditure of HD and WD sessions with separate bank accounts. In other words, it is the KGs’ options to handle income and expenditure of different classes with one or multiple bank accounts. However, all income (including all types of KG Scheme-related subsidies, school fees (if applicable), interests received, etc.) and operating expenditure must be clearly recorded in their books of accounts, while each KG Scheme-related subsidy received and the related expenditure incurred must be reflected clearly in the annual audited accounts submitted by the KG.
3. **Q:** Is the separate bank account set up only for receiving the basic unit subsidy? Can it be used for receiving subsidies for rental, rates, cooks and support to non-Chinese speaking (NCS) students?

**A:** KG may choose one or more bank accounts to receive all KG Scheme-related subsidies according to their needs. For details, please refer to the answer for Question 2.

4. **Q:** How should the signatory instructions for bank account be arranged?

**A:** Expenditure of KG should be paid by cheques or bank transfers that are signed or approved jointly by two signatories/individuals authorised by the school management committee. The KG should determine the composition of authorised signatories/individuals to operate the KG’s bank account according to its operational needs. In general, one of the authorised signatories/individuals should be the Supervisor of the KG.

KG with more than two authorised signatories/individuals may assign several signatory groups according to their ranks, with various approval limits. Signatory groups of higher ranking staff may be authorised to sign cheques or bank transfer of larger amount.

### Ledger accounts

5. **Q:** If a KG receives subsidies from other government departments, quasi-government organisations or funds, apart from the EDB, should such income be recorded under “KG Scheme Funds” or “School Funds”?

**A:** Subsidies that KG received from other government departments, quasi-government organisations or funds and the related expenditure should neither be recorded under “KG Scheme Funds” nor “School Funds”. Also, all income and expenditure related to such subsidies should not be dealt with under the bank account for “KG Scheme Funds”.

In general, each of such subsidies has its designated ambits to be observed by the KG. The KG must maintain separate accounting records of the relevant income and expenditure as required by these subsidising organisations/funds.

6. **Q:** It is mentioned in the EDB circulars that KGs are required to keep separate ledger accounts for “KG Scheme Funds” and “School Funds”. How should income and expenditure be apportioned and reported in their accounts for different sections (KG and child care centre (CCC) classes), streams (local and non-local curriculum) and sessions (HD, WD and LWD)?

**A:** KG should record all EDB subsidies received for KG local curriculum under the Scheme and related expenditure recognised by the EDB under “KG Scheme Funds”. Other income and expenditure items such as school fees for WD/LWD sessions, income and expenditure of CCCs and KG non-local curriculum, and income and expenditure items for KG local curriculum which are not recognised by the EDB should be recorded under “School Funds”.
Based on the above principles, KG should keep ledger accounts for respective income and expenditure under “KG Scheme Funds” and “School Funds”. (A template of the ledger accounts is in Appendix 1 for reference.)

(i) Income items under “KG Scheme Funds” include:
   (a) 60% of the basic unit subsidy, i.e. the portion relating to teaching staff salary and related expenses;
   (b) 40% of the basic unit subsidy, i.e. the portion relating to other operating expenses;
   (c) Rental subsidy/Premises maintenance grant;
   (d) Reimbursement of rates and Government rent;
   (e) Other school-specific grants and subsidies, including tide-over grant, grant for a cook, grant for support to NCS students and one-off start-up grant; and
   (f) The amount of school-based income apportioned to KG local curriculum on a pro-rata basis, including bank interest, etc.

(ii) Expenditure items under “KG Scheme Funds” include:
   (a) Salary and related expenses of teaching staff (including the principal) apportioned to the KG local curriculum according to their duties assigned by KG;
   (b) Daily operating expenses apportioned to the KG local curriculum by student enrolments ratio, e.g. salary of non-teaching staff/supporting staff and utility charges;
   (c) Rental (capped by the market rent as assessed by the Rating and Valuation Department) or maintenance expenses apportioned to the KG local curriculum by student enrolments ratio;
   (d) Rates and Government rent apportioned to the KG local curriculum by student enrolments ratio;
   (e) Expenditure chargeable to school-specific grants/subsidy; and
   (f) Depreciation of fixed assets recorded under “KG Scheme Funds” and recognised by the EDB.

(iii) Income items under “School Funds” include:

   Income items other than those specified in (i) above, e.g. school fees from parents, application fees, forfeited registration fees, surplus of trading operations, donations, meal charges and subsidy from Child Care Centre Subsidy Scheme. These items also include the amount of school-based income apportioned to CCC and KG non-local curriculum by student enrolments ratio, including bank interests.

(iv) Expenditure items under “School Funds” include:

   Expenditure items other than those specified in (ii) above, which mainly include -
   (a) Salary and related expenses of teaching staff (including the principal) apportioned to CCC and KG non-local curriculum according to their duties assigned by KG;
   (b) Daily operating expenses apportioned to CCC and KG non-local curriculum by student enrolments ratio;
   (c) Rental (capped by the market rent as assessed by the Rating and Valuation Department) or maintenance expenses apportioned to CCC and KG non-local curriculum by student enrolments ratio;
(d) Depreciation of fixed assets recorded under “School Funds” and recognised by the EDB; and
(e) All expenditure of KG local curriculum not recognised by the EDB, e.g.
   - Salary and related expenses of teaching staff falling outside the teacher to pupil (TP) ratio approved by the EDB, which cannot be covered by teacher salary related subsidy and other operating expenses related subsidy (if any); or
   - the difference between the actual rent and the market rent as assessed by the Rating and Valuation Department.

As specified in (i)(f), (ii)(c)&(d), (iii) and (iv)(a)&(b)&(c) above, school-based income and expenditure items, such as salary of non-teaching staff/supporting staff and utility charges, have to be apportioned by student enrolments ratio or other defined apportionment basis. Taking into account the difficulty involved in apportioning these items for each transaction, KG may record them in full amount first and perform the apportionment when prepare financial reports (e.g. annual accounts).

When preparing the financial reports, KG should apportion all income and expenditure incurred for the whole school in accordance with the student enrolments ratio or other defined apportionment basis among the KG local curriculum, CCC and/or the KG non-local curriculum as appropriate. If there is lack of objective and specific principles to apportion the amounts of income or expenditure, the KG should apportion the amounts based on the number of students, and then further apportion the expenditure of KG local curriculum between HD and WD/LWD sessions based on their student enrolments and the ratio of student unit cost (the ratio of HD to WD/LWD expenditure per pupil ranges from 1:1.6 to 1:2), to calculate the surplus/deficit of the basic unit subsidy and premises-related subsidy for each session and curriculum. (A template is in Appendix II for reference).

The EDB will organise a number of identical workshops in February 2017 for KGs to facilitate their understanding of ledger accounts and apportionment basis.

7. Q: Should items (i.e. individual reserve, assets and liabilities) in the balance sheet be apportioned among different sections, streams and sessions?

A: KG is required to prepare only one set of balance sheet for the whole school. Separate recording for their assets, liabilities and reserves of different sections, streams and sessions is not required. However, specific assets (if applicable) and accumulated surplus under “KG Scheme Funds” should be recorded separately.

Based on the above principle, the balance sheet accounts to be created by KG are summarized as follows:

(i) Reserves
   (a) Accumulated surplus (including basic unit subsidy, premises-related subsidy and other school-specific grants/subsidies) of each subsidy/grant under the Scheme; and
   (b) Accumulated surplus/deficit of School Funds.
(ii) Assets
(a) Fixed assets and their accumulated depreciation;
(b) Bank account balances of “KG Scheme Funds” and “School Funds” (if applicable); and
(c) Other current assets (e.g. inventory, deposits, account receivables, etc.) should be reported on a school basis. No separate classification is required for “KG Scheme Funds” and “School Funds”.

(iii) Liabilities
Current liabilities (e.g. school fees received in advance and account payables) and non-current liabilities (e.g. long-term loan) should be reported on a school basis. No separate classification is required for “KG Scheme Fund” and “School Funds”.

A template of the ledger accounts is at Appendix 1 for reference.

8. Q: Is a KG required to keep specific accounts to record expenses related to the basic unit subsidy, premises maintenance grant and other school-specific grants/subsidies under the “KG Scheme Funds”?
A: Yes. For details, please refer to the answer of Q5.

9. Q: If a KG only keeps one bank account, how should the interest income be split between the accounts of “KG Scheme Funds” and “School Funds”?
A: KG should fairly apportion the interest income between the related ledger accounts as far as practicable. They may refer to the apportionment basis mentioned at Q6, i.e. apportionment by student enrolments ratio. The income should be apportioned appropriately among KG local curriculum, CCC and/or KG non-local curriculum. The income for KG local curriculum will be further apportioned between HD and WD/LWD sessions based on their student enrolments and the ratio of student unit cost (the ratio of HD to WD/LWD expenditure per pupil ranges from 1:1.6 to 1:2). If the amount of interest income is not substantial, KG may consider recording it in the account of “School Funds” only.

[III] Surplus /Deficit under the Scheme

10. Q: Is there a ceiling set for the accumulated surplus of “KG Scheme Funds”? If yes, is it necessary for KG to return the surplus?
A: KG may accumulate a surplus of “KG Scheme Funds” up to one-year provision of the respective grants (except premises maintenance grant, rental subsidy, reimbursement of rates and Government rent). The surplus includes:

(i) subsidize for teaching staff salary and related expenses, i.e. 60% of the basic unit subsidy and the tide-over grant. The reserve ceiling is the current year provision of the total amount of these subsidy and grant; and
(ii) for the surplus of the remaining portion of the basic unit subsidy (i.e. the portion other than teaching staff salary and related expenses), the reserve ceiling is the current year provision of the subsidy.
For the premises maintenance grant, the disbursement of the grant will be suspended once the accumulated surplus reaches 500% of the current year provision until the surplus falls under 100% of the current year provision.

In principle, there should be no surplus for rental subsidy and the rates and Government rent are disbursed on reimbursement basis. Hence, the arrangement of accumulating subsidy surplus is not applicable to rental subsidy and reimbursement of rates and Government rent.

Upon accumulation of surplus under “KG Scheme Funds” to the ceiling mentioned above, the EDB will deduct the exceeded amount of accumulated subsidy surplus from the provision payable to the KG or demand for repayment directly.

11. Q: Is cross-subsidisation of surplus/deficit allowed for various subsidies/grants under “KG Scheme Funds” and for different sections (KG and CCC classes), streams (local and non-local curriculum) and sessions (HD, WD and LWD)?

A: No. Surplus/deficit for various subsidies/grants under “KG Scheme Funds” and for different sections, streams and sessions of KGs shall be calculated separately.

Under “KG Scheme Funds”, some items (such as rental subsidy, maintenance grant, grant for a cook, and grant for support to NCS students) are “fund-for-dedicated-use” and cross-subsidisation of other expenses is not allowed. For basic unit subsidy, KG may cover the deficit of current year for teaching staff salary and premises maintenance grant/rent subsidy by surplus (if any) from the portion of the basic unit subsidy for other operating expenses (i.e. 40% of the basic unit subsidy). If there is a deficit in the portion of the basic unit subsidy for other operating expenses or its surplus cannot fully subsidise the deficit of other designated subsidy accounts under “KG Scheme Funds”, the difference shall be borne by “School Funds”.

[IV] Audited Annual Accounts

12. Q: When will the new format of the annual audited accounts be available? Does KG only need to submit one copy of annual audited accounts covering “KG Scheme Funds” and “School Funds”?

A: The draft of the new format of the annual audited accounts had been published on 17th January 2017 and a number of identical workshops will be arranged in February 2017 to facilitate KGs’ better understanding.

A KG shall submit one set of audited accounts in respect of the whole school year in the format and at a date as specified to the EDB at the end of each school year or after its closure (if applicable). Generally, if the financial year ends at the end of July/August each year, the KG concerned shall submit its annual accounts in February of the next year.

The transactions under “KG Scheme Funds” and “School Funds”, the balances of individual subsidies/grants and the financial results of the KG as at the balance sheet date should be reflected in the audited accounts respectively.
13. **Q:** It is stated in the EDB circular that annual audited accounts in respect of the whole school year should be submitted. Can KG submit its’ annual audited accounts with non-school year as financial year (e.g., as at 31st of March), to match with the reporting arrangement of their school sponsoring bodies/operators?

**A:** The KG should apply in writing to the EDB. Upon the EDB’s written consent, it may submit the annual audited accounts with non-school year as financial year in the format and at a date as specified in Q12.

[V] **Surplus/Deficit before joining the Scheme**

14. **Q:** How should the surplus or deficit of KGs accumulated before the 2017/18 school year be handled? Should they be carried forward to the new accounts?

**A:** Upon joining the Scheme, KG should carry forward their surplus or deficit to the “School Funds” accounts in the new school year. Such amount carried forward shall not be included in the “KG Scheme Funds”. If there are any deficits, the school sponsoring bodies should ensure the continued effective operation of KG. No ceilings shall be set for the accumulated surplus carried forward by KG in the 2017/18 school year. However, the EDB encourages KG to fully utilise the grants and substantial surplus is not expected. Therefore, when handling fee applications, the EDB shall take into consideration whether the accumulated surplus of KG is kept at a reasonable level and shall freeze the school fee levels of KG with excessive surplus.

[VI] **Monitoring**

15. **Q:** Will the EDB examine and monitor the accounts of “School Funds”?

**A:** Both “KG Scheme Funds” and “School Funds” are parts of the accounts of KG. Their income and expenditure statements should be separately reflected in the annual audited accounts. KG is required to observe the requirements as stipulated in the relevant circulars and letters calling for submission of annual audited accounts for the EDB’s review. Auditors are required to send to the EDB a copy of the management letter, if any, they issued to school supervisors on the weaknesses they observed in the internal control of KG for EDB’s reference. The EDB may require KG and their auditors to provide supplementary information, if necessary.

The EDB will also select certain number of KG for audit inspection every year. The aims of audit inspection are to review whether KG has put in place sufficient internal control and appropriate financial management and procurement arrangements, and whether their financial and accounting operations comply with relevant letters, circulars and guidelines issued by the EDB.
16. Q: Will KG be allowed to use their non-operating cash to invest in stocks or funds?

A: Under no circumstances will KG be allowed to use the subsidies drawn from the “KG Scheme Funds” or “School Funds” for speculative investment, and they should comply with EDB Circular No. 14/2015 “The Choice of Bank Counterparties in Investment” when handling surplus. Any surplus funds which are not immediately required may be placed under fixed or savings deposits with banks licensed under the Banking Ordinance.

[VII] Other Matters

17. Q: If a KG is located in a property belonging to its school sponsoring body and that a major overhaul will be given, can the KG share the maintenance expenses on a pro-rata basis? Is it feasible to include such expenses under “School Funds”?

A: If the KG is receiving premises maintenance grant, the portion of maintenance expenses that should be shared by the KG could be included in “KG Scheme Funds”. Any shortfall could be covered by the portion of basic unit subsidy on other operating expenses (i.e., 40% of the basic unit subsidy). Further shortfall should be borne by “School Funds”.

For KG that is eligible for rental subsidy, it should not share the expenses of any major overhauls which are under the property owner’s responsibility.

Finance Division
January 2017