FINANCIAL ACCOUNTABILITY OF SOUTH AUSTRALIAN INDEPENDENT SCHOOLS TO EXTERNAL STAKEHOLDERS

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ABSTRACT

This paper explored independent schools of South Australia (SA)'s financial disclosures policies and the motivations behind them, prior to the Australian Government's establishment of the *My School* website in 2010 and the current not-for-profit (NFP) regulatory reforms in Australia. A qualitative approach was used with case studies of three independent schools, using data triangulation including interviews, documentation and direct observation. An iterative approach to the data analysis was used to provide insights into which competing theories between socio-political and economic-based theories can explain the voluntary financial disclosures. This study found a positive association between schools' performance and the level of voluntary financial disclosures as predicted by economic-based theories. Further to their contractual accountability, the nature of the information ('good' news) influenced the voluntary disclosures due to the promotional and signalling value of financial reporting. In addition, the schools viewed fee-paying parents as a powerful group of stakeholders, consistent with the stakeholder theory. However, contradictions were found between the schools' self perception of being willingly accountable and the lack of announcement and accessibility of the financial reports to parents. Limitations included limited access to certain financial data and the lack of opportunity to interview additional participants due to privacy constraints. Independent schools form an integral part of the communities they serve. This exploratory study contributes empirical evidence to the NFP reform regarding financial accountability to stakeholders. The author is not aware of any empirical research into the financial reporting and accountability of SA independent schools to fee-paying parents.

Key words

Not-for-profit; stakeholder accountability; voluntary financial disclosures; economic-based theories and socio-political theories

INTRODUCTION

The Australian Not-for-Profit (NFP) sector is experiencing unprecedented regulatory reforms. Following the establishment by the Australian Government of the NFP Sector Reform Council in 2010 and of the new NFP regulator, the Australian Charities and NFP Commission (ACNC) in late 2012, the NFP sector's approach of discharging its accountability to external stakeholders is changing. This paper looks at how one group of the NFP sector reported financial information to external stakeholders, prior to the reforms. The evidence in the paper allows for a more informed understanding of the significance of the upcoming NFP regulations on accountability and transparency.

Australian independent schools received recurrent government funding of $3.2 billion in 2009-10[1] (ISCA, 2012), making it a significant group of the NFP sector to investigate. The financial sustainability of Australian independent schools providing primary and/or secondary schooling is essential as they supply a valuable service to the community. If independent schools fail to maintain financial sustainability, their potential closure would result in pressure on the public school system and therefore on the community at large. Consequently, the need for financial accountability to their external stakeholders is crucial to ascertain the financial sustainability of independent schools. The issues associated with their financial accountability to external stakeholders is thus worthy of investigation.

The financial sustainability of independent schools depends largely on the government and fee-paying parents. Whilst independent schools provide financial accountability to government funding bodies, evidence generated from parents, as described later in this paper, has shown that the SA independent schools are inconsistent in their practices in providing financial accountability to the fee-paying parents. This study explored the financial disclosure practices of three SA independent schools and their motivations for these practices prior to the Australian Government's initiatives.

The next section will first look briefly at the Australian primary and secondary schooling system, and second the independent schools' current[2] legal structure and financial reporting requirements. This is followed by a brief review of the accounting literature on accountability as defined in general and in the context of the NFP sector leading to voluntary disclosures by the private NFP organizations. An overview is provided of the methodology used and of the theoretical perspectives, followed by a discussion of the results. The concluding section reviews the papers' contribution and provides suggestions for further research.

AUSTRALIAN PRIMARY AND SECONDARY SCHOOLING

Institutional Background

Australian primary and secondary schooling is provided through three distinct sectors: government (public) schools and two groups of non-government schools, the Catholic schools and the independent schools. In 2009, a total of 9,529 schools operated in Australia, of which 71.4% were government schools and 28.6% or 2,727 were non-government schools (Australian Bureau of Statistics, 2010), comprising the Catholic school system with 1,705 schools, and 1,022 non-government schools of other "religious or secular bodies or entirely independent" (Australian Bureau of Statistics, 2010, Glossary, p1). The 787 schools operating in SA comprised 588 government schools and 199 non-government schools. Of these non-government schools, 102 schools were under the Catholic school system and 97 were independent schools (Australian Bureau of Statistics, 2010).

In South Australia, on average, independent schools receive 48% of their funding from parents' fees and other community fundraising, 41% from the Commonwealth government and 11% from the State Government (AISSA, 2010), with large differences in funding sources between low-fee schools and high-fee schools based on their Socio-Economic Status (SES)[3]. Low-fee schools can receive up to a maximum of 70% of their total income from government funding, with the remaining 30% from fee-paying parents. In contrast, high-fee schools can receive a minimum of 13.7% from the government of their total income with the remaining 86.3% from fee-paying parents.

The financial sustainability of independent schools is important. For example, in 1998, the financial difficulties of one independent school[4] of SA only became public knowledge "after court documents were lodged to enable the sell-off of [one of the School]'s site[s]" (Advertiser, 11 July 1998, p33), which ended in the winding up of the school. More recently in 2010, one[5] of the oldest independent schools of SA reported that it may be "force[d] to close at the end of the year and merge with another school because of declining enrolments" (Keller & Hood, 2010, p15), with its future still uncertain. Parents need to have confidence in the financial viability of the school because of the long term nature of their engagement with the school typically up to 15 years, and of the financial investment[6], with many parents "going to extraordinary lengths to keep their children in private schools" (Hamer, 2009, p18). Therefore, fee-paying parents need to feel confident that their independent school will continue to be financially sound in the long term to provide continuity in the education of their children.

Independent Schools' Legal Structure and Financial Reporting Requirements

At the time of writing, the legal and financial reporting requirements differ among independent schools in Australia, depending on the legal structure under which each has been formed. This diversity results in varying regulations that require disclosure of both financial and non-financial information to schools' stakeholders. Independent schools are private NFP organisations and are registered in varying forms: either as a company limited by guarantee under the Corporations Act (Cwth), an incorporated association under their respective state legislation, an Act of Parliament or a Royal Charter[7]. In addition to the respective regulations under each legal structure, independent schools must comply with strict regulations from both federal and state governments' funding bodies. The majority of independent schools operate autonomously from any centralised bodies and from each other, and are "separately accountable to their parent and school communities" (ISCA, 2012, p2). Some independent schools share religious affiliations (for example Anglican, Baptist, Lutheran and Uniting) and other independent schools sharing educational philosophies (for example Montessori, Waldorf Steiner and Burc) (AISSA, 2010).

In South Australia, most independent schools are individually incorporated under the Associations Incorporation Act 1985 of SA (the Act). Under the Act, an incorporated association recognized as a prescribed association[8] must provide under Section 36(1) Regulation 9 an annual periodic return to the then[9] Office of Consumer and Business Affairs of SA (OCBA) (Associations Incorporation Act 1985). The statutory information includes, *inter alia,* financial and legal details such as the full name of the association, the annual financial accounts, the school's consolidated gross receipts (as defined by the Act), the names of the auditor and audit firm. This periodic return is available to any member of the public upon request at a specified fee. However, since 1985, a large group of SA independent schools have received an exemption from the requirement to provide financial reports in their annual periodic return. These exemptions were allowed due to a precedent which was "laid down by a private Act of Parliament under which an independent school was incorporated and was given such an exemption" (Minter Ellison, 1996, p1). Therefore, any SA independent school wishing to apply to the OCBA for a similar exemption could expect to receive it (Minter Ellison, 1996). These exemptions will remain in effect as long as "the objects of the relevant school are limited exclusively to school activities" (Minter Ellison, 2003, p3)[10]. If exempt, SA independent schools are not required to provide financial disclosure to the public. In essence, this exemption places these independent schools of SA in a unique position to decide whether or not to disclose financial information to any of their external stakeholders other than the government funding bodies. Evidence generated from parents, described later in this paper, shows of inconsistent practices among SA independent schools about how financial information was provided to fee-paying parents in 2009. Whilst some schools do not provide any financial information, other independent schools provide selective financial disclosures on a voluntary basis resulting in different levels of accountability from SA independent schools, including financial information. No empirical research has looked at the financial accountability of SA independent schools to their respective fee-paying parents prior to the launch of the *My School*[11] website and the NFP regulatory reforms. This paper, being exploratory in nature, examines the what, how and why SA independent schools provide or do not provide financial disclosures to the fee-paying parents, concentrating on schools legally incorporated under the Act and under the umbrella of the Association of Independent Schools of South Australia (AISSA).

LITERATURE REVIEW

Accountability in general

Originating from the latin word "computare" or 'to account', accountability primarily meant "for a person to produce 'a count' of either the properties or money that had been left in his or her care… through financial bookkeeping or budgetary records" (Castiglone, 2007, p2). Prior to the twentieth century, the word accountability was only used in relation to financial accounts, not in political nor administrative domains where the word responsibility was the preferred technical term to describe a person "to 'respond' in their conduct and actions as public officials" (Castiglone, 2007, p2); similarly, in law, the word 'liability' was preferred to explain a person's obligation to be answerable for his/her actions. Thereafter, accountability has been defined from the basic sense of giving account of one's actions and of being responsible to a person for a particular action (Macquarie Dictionary, 2004) or to render an account to an authority or principal (Woodward, 2009). In particular, accountability is defined (Gray *et al*, 1996, p38) as

> the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible.

This definition identifies two distinct tasks: the responsible party[12] must, first, carry out specific actions or abstain from taking certain actions; and second, give an account of these actions or non-actions to stakeholders, as determined either by society through law, by the entity's own corporate values, and by the stakeholders on ethical or moral grounds (Friedman, 1970; Gray, 2001). However, accountability has become as an "ever-expanding concept… beyond its core sense of being called to account for one's actions" (Mulgan, 2000, p555) having a chameleon quality where "accountability changes… exist[ing] in many forms and is sustained and given extra dimensions of meaning by its context" (Sinclair, 1995, p219). To define accountability, it is important to look within its specific context.

Accountability in the context of the NFP Sector

The NFP sector is heterogeneous and includes charities, hospitals, professional associations and educational institutions, to name a few; it also has many diverse stakeholders including legislative and regulatory bodies, clients and fee-paying service recipients, management, employees and volunteers, suppliers, donors, lenders and funding bodies, taxpayers and the community at large. Hence the accountability in the NFP sector is varied in regards to whom, what and how a NFP entity provides an account to its respective stakeholders. Over the last two decades, NFP accountability and financial disclosures have gain more attention from academic researchers (Chisolm, 1995; Glaeser, 2003; Laughlin, 1990; McCarthy, 2007; Raynard, 1998), more specifically about the current state of NFP accountability and transparency to stakeholders and the need for improvements (Aranoff, 2003; Flack and Ryan, 2003; Gray *et al*., 2006; Unerman and O"Dwyer, 2006a & 2006b). The NFP accountability is inconsistent due to the lack of specific NFP regulations, particularly the differences between the different states' legal structures and the onerous government funding reporting requirements and the different stakeholder requirements; recommendations followed setting up a specific regulatory framework to satisfy the special needs of the NFP sector (Industry Commission, 1995; Neville *et al.*, 2001; Productivity Commission, 2010; Senate Standing Committee on Economic Reports, 2008; Woodward & Marshall, 2004). Deficiencies also were also found in relation to consistency, efficiency and transparency at the stakeholders' level of satisfaction about the current financial reporting by the NFP organisations (Palmer, 2013).

Following Australian government's inquiries into ways to improve the NFP sector's financial accountability (refer to Appendix A), the Non-Profit Sector Reform Council was established in 2010 "to support the Office for the Non-Profit Sector to implement the Government's commitment to smarter regulation, reduced red tape and improved transparency and accountability of the sector" (Department of the Prime Minister and Cabinet, 2010, p1). In 2012, through an Act of Parliament, a new national regulator, ACNC, was implemented with the objective of achieving better public accountability of the NFP sector. Until new regulations come into place, the current state of the NFP sector's accountability remains inconsistent across entities.

Voluntary disclosures by private NFP organisations

Whilst NFP entities have mandatory disclosures to discharge their accountability to the various government bodies, many NFP entities provide voluntary disclosures including a variety of performance reports, being financial and non-financial (Kilcullen *et al.*, 2006) to accommodate users' different requirements and expectations from NFP financial reporting (Cutt *et al.*, 1996). For a long time, users were obliged to persuade their organisations to provide the financial information that they needed and to present it in a more consistent form by using private sector accounting standards (Anthony, 1991, p371) including financial condition, the management and organisational performance and cost of services provided. This persuasion was necessary as many NFP entities viewed their financial reports as "proprietary information and do not distribute or share [their] financial statements" (Fisher *et al*., 2008, p134). However, NFP entities are limited in regards to providing voluntary disclosures due to a lack of resources including time, money and skills (Irvin, 2005) and have been providing *ad hoc* performance reports, financial and non-financial, to their stakeholders.

Similarities exist between the motivations influencing the voluntary disclosures of for-profit companies and those of NFP organisations, as both experience stakeholder pressures. As such, both sectors face comparable challenges in regards to their reputation and legitimacy by discharging their accountability to their stakeholders because of their desire to legitimize their activities (Dhanani & Connolly; 2012; Raynard, 1998). By conforming to best practices and standards and by providing voluntary disclosures, a NFP entity indicates to its stakeholders 'its professionalism and responsibility in carrying forward its service or activity in accordance with public trust" (Sloan, 2009, p222). Another factor influencing the accountability by a NFP entity to specific groups of stakeholders is the levels of stakeholder salience, defined as "the degree to which managers give priority to competing stakeholder claims" (Mitchell *et al.*, 1997, p854). For example, Assad & Goddard (2010, p276) found that "overseas donors were the stakeholders with the highest salience as a result of which they significantly influenced accountability relationships and accounting processes and practices within NGOs". Other factors influencing voluntary disclosures by NFP entities include large debt levels, large contribution ratios (performance), large organisation size and higher compensation expense ratios[13] (Behn *et al*., 2007, 2010) as well as "vulnerability (concentration of sources of revenue), reliance on donated revenue, and size" (Behn *et al*., 2007, p42). Further research on the accountability and external financial reporting of the NFP sector awaits more consideration (Parker, 2007).

RESEARCH METHODOLOGY & THEORETICAL PERSPECTIVES

Research Methodology

This paper uses case studies involving three SA independent schools to enable the collection of data from the schools' perspectives. The methodology is qualitative, investigating what, how and why financial disclosure was provided voluntarily in 2009, representing a typical year of financial disclosures by SA independent schools before the Australian Government's initiatives. The advantage of case studies is that they provide an in-depth description of "a contemporary phenomenon within a real-life context" (Yin, 2009, p2) to best explore the 'how' and 'why' questions. Case studies allow the researcher to carry out an "inductive analysis focusing on processes in their social context" (Cassell & Symon, 2004, p323) and for enabling a better understanding of "longitudinal, processual data, and for generating policy/practice relevant theories and questions for larger scale empirical studies" (Parker, 2007, p49).

The study of a contemporary event in its real-life context obliges the researcher to follow strict ethical procedures similar to the ones applied in medical research (Yin 2009, p73). As such, participants were required to sign an informed consent form confirming their participation and their understanding of the study and their consent for the audio recording of interviews. In return, the researcher promised to grant anonymity in regards to details of the results by not relating them to any schools and individuals' names. In particular, as SA independent schools form a small group from which it would be easy to identify them, the author provided the characteristics of the participating schools in a comprehensive manner rather than very specific details to protect their identities.

Yin's three principles (2009), that is, multiple sources of data, the creation of a case study database and maintaining a chain of evidence among the data collected, were used to provide validity and reliability to the findings of this paper. Following the first principle, the data sources of interviews, documentation and direct observation provided data triangulation for each school. Face-to-face semi-structured interviews were done with key professional staff of each independent school. Using a conversational manner to facilitate drawing out their perceptions on the topic, participants answered a set of open-ended questions (Merton, Fiske & Kendall, 1990, cited in Yin, 2009). With the major source of documentation coming directly from the participating schools, it ascertained what level and type of financial information was disclosed and how it was disseminated to their members. Additionally the direct observation of the schools' Annual General Meeting (AGM) helped to corroborate the other sources of data, that is, the interviews and documentation, thus strengthening validity of the data overall.

The second principle is the creation of a case study database to provide "enough data so that the reader of the report can draw independent conclusions about the case study" (Yin, 2009, p119) including the audio recordings and transcripts of each interview, the documentation collected from various sources, and notes, tables and reports prepared by the author. Finally, in applying Yin's third principle, a notebook was kept detailing the development of the author's understanding of the topic through on-going analysis of the evidence, maintaining a chain of evidence from the initial research questions to its conclusions. These two last principles increase the reliability of the case studies.

Sample Selection

The sample selection represents a cross-section of SA independent schools, in relation to their size, age, degree of dependence on parents' fees (either high-fee or low-fee schools) and religious affiliation. The objective was to examine participating schools that exhibit, in addition to the above characteristics, diversity in the extent of their disclosure practices in a typical year prior to the Australian Government's initiatives starting in 2010. Of the 97 member schools of AISSA, 76 schools were selected based on their locations within a radius of up to two hours drive from Adelaide. These 76 schools were sent a letter addressed to their principal or head of school, inviting their school to participate in the research study on a voluntary basis. Upon acceptance, schools were contacted by phone, to make the first of two interviews with the key professional staff responsible for the preparation and dissemination of financial information to fee-paying parents, either titled for example the Business Director, Bursar or Administrator.

Obstacles encountered and overcome

Access to the SA independent schools was challenging. Out of the 76 schools approached, only 13 schools responded to the invitation. Three schools agreed to participate (referred thereafter as School 1, School 2 and School 3) and the other ten schools declined the invitation. The low response rate of school participants is consistent with previous research evidence that nonprofit schools are highly secretive (Lyons, 2001, p47) and is evidence of independent schools' reluctance to disclose financial information to the public.

Schools' characteristics

In accordance with the confidentiality agreement, the participating schools' characteristics are provided in a comprehensive manner, with some characteristics suppressed, to protect the identities of the participating schools (refer to Table 1). All three participating schools are located in the metropolitan area of Adelaide and offer education from Reception to Year 12. The schools are a mix of low-fee and high-fee schools, School 1 has higher fees than School 3 which has higher fees than School 2. Their sizes in student enrolment vary: School 2 is larger than School 1 which is larger than School 3. All schools had over 600 students enrolled in 2009. Whilst the three schools have a Christian background, their denomination and religious affiliations differ, and are a mix of systemic[14] and non-systemic schools. In regards to their regulatory aspects, all three schools are registered as an incorporated association, and are recognized as a prescribed association. Details regarding the year the schools were founded is intentionally withheld to protect the identity of the schools.

INSERT TABLE 1

Additional participants: fee-paying parents

To validate anecdotal evidence about the existing inconsistencies of financial information provided from SA independent schools to fee-paying parents, individual interviews were also conducted with four parents. Parent 1 has two children attending two separate SA independent schools: the school attended by the 1st child (referred thereafter as School 4) provided no financial information to fee-paying parents (even upon request) where as the school attended by the 2nd child (referred thereafter as School 5) made a great number of financial disclosures on a voluntarily basis to parents. Parent 2 has children also attending School 4 and similarly experienced the absence of financial disclosures by School 4. Parent 3 and Parent 4 together have a child attending School 1 which provided access to financial information upon request. Whilst these four parents were not part of the core research design (but covered by the same strict ethical procedures as described above), they were selected as willing participants to provide evidence regarding the differences of financial information provided to fee-paying parents by SA independent schools. For comparison purposes, details of the four parents and their relationship with SA independent schools are available in Table 2. Noticeably, Schools 4 & 5 declined to participate in this study.

INSERT TABLE 2

Data Analysis

The data analysis follows the analytic approach consisting of (1) data reduction, (2) data display and (3) conclusion drawing and verification (Miles & Huberman, 1994). The first step includes reduction of the data collected in interviews, documentation and direct observation into summaries and themes. As the data was organised and analysed, the author made analytical choices to yield some initial conclusions emerging from the themes. The second step was to organise the data using "matrices, graphs, charts, and networks" (Miles & Huberman, 1994, p11). Tables and figures were created to provide a visual aid and to validate the qualitative analysis of each case study, most importantly during the cross-analysis between the three sample schools. The third step was to draw conclusions from the data analysis whilst the author checked the validity of these conclusions by “testing for their plausibility, their sturdiness, their confirmability” (Miles & Huberman, 1994, p11). In essence, the qualitative data analysis was an on-going process until the conclusions were drawn and validated.

Theoretical Perspectives

Following an iterative approach, the data was analysed repeatedly to provide insights into which theoretical perspective or perspectives can explain the motivations behind the voluntary financial disclosures by the independent schools of SA to fee-paying parents. This research investigated competing theoretical approaches between socio-political theories and economic-based theories to explain the voluntary financial disclosures. This theoretical approach is similar to Clarkson, Li, Richardson & Vasvari (2008) who confirmed a positive association between corporate environmental performance and the level of environmental disclosures as predicted by economic-based theories (Clarkson *et al*, 2008, p305).

On the one hand, as socio-political theories, legitimacy theory and stakeholder theory (Adams *et al*, 1998; Clarkson, 1995; Cooper and Sherer, 1984; Deegan *et al*, 2002; Donaldson and Preston, 1995; Freeman, 1984; Guthrie & Parker, 1989; Lindblom, 1993 & 1984; Woodward *et al*, 1996) have similar perspectives, but at the same time are two distinct theories to explicate voluntary disclosures. First, the legitimacy theory assumes that a social contract exists between a company and the society as a whole in which “voluntary disclosures are part of a process of legitimation” (Van der Laan, 2009, p15). In particular, companies need to show that “they are responsible members of society that deserve the support they receive” (McMurtrie, 2005, p129). For example, companies have released environmental disclosures and reactive environmental press releases to legitimize themselves to the public (Aerts & Cormier, 2009). The voluntary financial disclosures could be a strategy for the SA independent schools to legitimize themselves to society, more specifically to their fee-paying parents, by disclosing information about their responsible financial management.

In contrast, the stakeholder theory assumes that there exist groups of stakeholders where their needs and demands may influence companies’ financial reporting. As early as the 1980s, many researchers believed that stakeholder theory was able to explain why companies provided corporate social disclosures to satisfy their various groups of stakeholders (Roberts, 1991; Ullman, 1985; Freeman, 1984). Some researchers believe that, “the more powerful the stakeholders, the more the company must adapt” (Gray *et al*, 1995, p53) as companies are compelled to satisfy their powerful stakeholders’ needs as their own existence depends on these stakeholders. With a variety of different stakeholders, companies will have to give priorities to certain groups of stakeholders, depending on “to whom and to what managers actually pay attention” (Mitchell *et al*, 1997, p854). Given that fee-paying parents have a large degree of choice in where their children attend school and given the high investments they make, parents can be seen as a powerful economic group of stakeholders which may create pressures for voluntary financial disclosures by SA independent schools.

On the other hand, economic-based theories such as agency theory and signalling theory (Fama, 1980; Fama & Jensen, 1983; Hossain *et al*, 1995; Jensen & Meckling, 1976; Morris, 1987; Watson *et al*, 2002) may explain the motivations behind these voluntary disclosures.

First, the agency theory focuses on the relationship between principals and agents and their related agency costs. In particular, Jensen and Meckling (1976, p308) defined an agency relationship as "a contract under which one or more (principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" for which agency costs result from this relationship. A similar relationship could exist between the SA independent schools (the agents) and the fee-paying parents (the principals) where parents expect the school to provide academic education and pastoral care to their children. Consequently, information asymmetry exists between the two groups where the agent (the school) has more knowledge than the principals (parents) about the financial activities of the school. The SA independent schools may be providing voluntary disclosures to their fee-paying parents to reduce this information asymmetry. Yet, in this regard, the schools' exemption from providing financial reports under the Act may result in parents being uncertain about the reliability and completeness of the information they receive.

In comparison, signalling theory predicts that companies will voluntarily disclose additional information to address "problems of information asymmetry in markets" (Morris, 1987, p48). Voluntary disclosures are sometimes made "at times when the financial statements of the firm otherwise look favourable to shareholders" (Mills and Gardner 1984, p407). Companies disclose good news to be seen in a better light than their competitors, to forecast positive future trends or to maintain a neutral position to avoid reporting bad results. More recently, reporting less favourable news has been seen to develop companies' credibility and image to their stakeholders, through managing the less favourable news in a controlled environment by first acknowledging the negative impact (the bad news) and second showing how the company had found a solution to remedy the situation (the good news) (Adam 2002). However, if companies decide to withhold information that may or may not be detrimental to themselves or their stakeholders, it seems that no disclosure at all either aggravates the bad news or leads stakeholders to become more concerned than perhaps they need be about the success of the organisation as a result. In particular, companies' voluntary disclosures are supplied either as useful information in addition to the mandatory disclosures or can be a strategy "to manipulate the perceptions and decisions of stakeholders" (Yuthas *et al,* 2002, p142). SA independent schools may choose to make selective financial disclosures either to reduce the information asymmetry, to signal good news to parents, or to control or hide bad news. As NFPs have limited financial resources, the costs of producing the signals should be outweighed by the credibility the SA independent schools gain by providing these voluntary financial disclosures.

RESULTS

Different levels and types of financial disclosures

Different levels and types of financial disclosures (refer to Tables 3 and 4) were presented to the sample schools' fee-paying parents, influenced by similar and different motivations. Schools 1 and 3 provided a higher level of voluntary financial disclosures than School 2. Both Schools 1 and 3 offered a complete annual financial report at their respective AGMs, consisting of the three major financial statements (Income Statement, Balance Sheet and Statement of Cash Flows) together with a Statement of Changes in Equity, notes to the financial statements, a detailed statement of income and expenditure, a report from the school council and a two-page auditor's report (School 1, 2009a; School 3, 2009a). In addition, the same annual financial report was included in their respective OCBA's annual periodic return, for public access[15] (School 1, 2009b; School 3, 2009b). In contrast, School 2 presented a summarised and aggregated four-page report excluding notes to the financial statements (School 2, 2009a), and a complete annual financial report was available only to fee-paying parents, and only upon request. Noticeably, both annual financial reports were not included in the OCBA's annual periodic return (School 2, 2009b). School 2 stated that the summarised and aggregated four-page report that was provided by that school was sufficient financial information for parents,

> it wouldn't really achieve anything with each knowing, or the parents of each school knowing what the difference between the [campuses] is. It makes no difference (2009, pers. Comm., 30 September).

When the issue was reopened at the second interview, School 2 justified the school's decision that "to send out a 15-page report… [would be] a waste of time and money" (2010, pers. Comm., 26 April), suggesting that School 2 may be reluctant to provide the full report to parents as it would prove more costly to send and as there was no guarantee the parents would read and/or understand it.

In regards to the type of financial reports presented, both Schools 1 and 3 expressed clearly that their financial statements were special purpose financial reports (SPFR) whilst School 2's position remained unclear. The analysis of the complete annual financial report of School 2 would have enabled the author to determine its nature but access to the report was denied by School 2, clearly stating that it is only available to members, "of which [the author] are not" (2010, pers. Comm., 26 April).

INSERT TABLE 3

INSERT TABLE 4

Accessibility to the financial disclosures

The level of accessibility differed between the three schools (refer to Table 5). The mode of delivery and announcement played an important role in the accountability of each school. School 1 provided the AGM Notice only in its weekly newsletter (four consecutive weeks), with a note advising that the financial reports were available prior to the AGM upon request from the main office. School 3 also advertised the AGM in its weekly newsletter, and also on its website; but it did not advise parents that the financial report was available prior to the AGM. In comparison, School 2 provided more accessibility than the other two schools by mailing out a concise 4-page financial report to all members of the school, prior to the AGM. School 2 explained that the school tries to "make sure everyone knows about it" (2010, pers. Comm., 26 April), allowing parents to review the information ahead of the meeting and to obtain the quorum at the AGM. As for the accessibility to the 15-page financial report, School 2 stated that only a small amount of copies were available at the AGM and only upon request (without announcing that it was available at any point in time).

Noticeably, School 1 recently changed the delivery of its newsletter from a hardcopy to softcopy, having an impact on the accessibility of the information. Parents 3 and 4 confirmed that, in the past, information about School 1's AGM had been more accessible when they were receiving a hardcopy of the weekly newsletter. A hardcopy on their desk would remind them to read it, whilst an email was easily missed or forgotten. School 1 explained that the annual financial report was not mailed out because,

> it may be a bit of missed information that goes out, and while we are happy for parents to have it, we feel that probably just to send it out as they are, for someone that is not an accountant… could make quite a few problems… and confusion (School 1, 2010, pers. Comm. 20 April).

Similarly, Parent 1 received a comparable response from School 4 when requesting a copy of the school's financial report. School 4 replied,

> there is a possibility of misinterpretation of the results [which] might lead to more problems, therefore … it's in your best interest that we don't tell you (Parent 1, 2009, pers. Comm., 26 October).

In essence, independent schools may be reluctant to provide freely their financial report in case of misinterpretation of the financial information by parents.

INSERT TABLE 5

In contrast, School 3 offered no explanation for not mailing the financial reports, stating, "It's not a financial reason. It's just something that was never done" (2010, pers. Comm., 4 May), suggesting that it had more to do with their reporting process than limiting the access to the financial report. School 3 further explained, "we feel that [the weekly e-newsletter] should be read" (2010, pers. Comm., 4 May), putting the responsibility on the parents as members to keep informed of the school's proceedings..

In conclusion, while School 2 provided higher accessibility to fee-paying parents about the financial information through a mail out, Schools 1 and 3 provided a higher level of financial disclosures in the financial statements than School 2. However, Schools 1 and 3 impeded accessibility to the complete financial report either through their method of announcing the AGM or the means by which the financial statements were made available to fee-paying parents, demonstrating a reluctance to disseminate the information to their fee-paying parents. Effectively, the sample schools showed reluctance in disseminating the financial information, either at the level and type of financial disclosure or by the diminish accessibility of the reports.

Motivations behind the level, type and accessibility of voluntary financial disclosures provided by the sample schools

The three schools acknowledged their accountability to parents to provide financial information, mainly confined by legal requirements or contractual arrangements. However, other motivations emerged from the interviews as depicted in Figure 1. The motivations are categorised as, first, based on the schools' perception of parents, second, based on marketing objectives, and third, based indirectly on the Australian Government launch of the *My School* website in 2010.

The sample schools considered parents (and staff and school councillors) as members of the school under their respective constitutions, and as such their accountability to parents was a legal obligation. School 2 also included past parents, past staff and past students upon satisfying certain conditions, whilst Schools 2 and 3 included members of the participating parishes of their respective Church. Schools 1 and 3 could also elect life members, whilst School 2 cannot. Finally, School 1 clearly stated that School Trustees were members of the school, while Schools 2 and 3 did not. Noticeably the inclusion of parents as members of the school was made voluntarily in their constitution, as not all SA independent schools include parents as their members. For example, one SA independent school included only their school council members as members of the school, excluding all parents (School 4, 2009).

INSERT FIGURE 1

However, the legal obligation to provide the annual financial accounts differed under each school's constitution. While the constitutions of Schools 2 and 3 clearly stated the requirement to provide financial accounts to their members at the AGM, School 1 did not; the only requirement under School 1's constitution was to hold an AGM. School 1 explained that it was not "seen as an issue either way, and I think we just carried on what was there before" (2010, pers. Comm., 18 May).

Under their respective constitutions, the schools had a contract with parents, with the decision making powers delegated to the school's management. By committing, *ex-ante*, to provide financial reports to parents, the management enables parents to monitor their contract in an efficient way. Otherwise, the costs would be that parents could remove their children from schools. Similar to corporate financial reporting, the three schools have voluntarily agreed to facilitate monitoring their performance and to reduce the information asymmetry by providing different level, type and accessibility of their annual financial reports to parents, as members under their constitution, notwithstanding that the quality of financial disclosures differ among the sample schools.

A second motivation behind the level, type and accessibility of financial disclosures to parents arose because the sample schools view parents not only as members but as their customers. The sample schools provided parents with an annual school fee schedule, the school's performance reports, individual student's reports to parents and an annual financial report to inform them of the overall school's performance. Therefore, the financial disclosures are influenced by value-relevant information to assist parents in their decision making process as customers, similar to the incremental information discussed by Merkl-Davies and Brennan (2007). Therefore the sample schools acknowledged parents as having a right to know about the financial affairs of the school, seeing parents as an important group of stakeholders to which they are accountable.

However School 1's view of parents went further, stating that the school is "effectively owned by parents" (School 1, 2009, pers. Comm., 10 September), bringing a strong sense of stewardship towards the parents beyond legal compliance. School 1 stated, "the only people who we really are accountable to is our parents and the government" (2009, pers. Comm., 10 September), implying that School 1 acknowledged parents as a powerful group of stakeholders along with the government, because they depend on parents for their survival (parallel to capital providers).

The sample schools also revealed that the financial report was used as self-promotion to signal good news to parents and maintain a favourable image. Whilst in control of what financial information was disclosed, the sample schools made the disclosures available to parents to help maintain a positive image. School 2 believed that the financial report was a way for the school to let parents know how the school was performing, "they're entitled to hear the reports from the Chairman and the [principal] … about what has happened during the last year" (School 2, 2009, pers. Comm., 30 September). School 3 also saw the financial report as a mode of self-promotion, as it "has nothing to hide, and … probably quite happy to share it really because they are quite strong figures" (2009, pers. Comm. 29 October), using it as an opportunity to disclose financial information to show "the results are pretty strong" (School 3, 2010, pers. Comm., 4 May). Similarly School 1 stated, "we don't have anything to hide, I mean, there's nothing wrong with the accounts" (2010, pers. Comm, 20 April).

Finally, a third and indirect motivation to disclose financial information to parents was the upcoming launch of the *My School* website on 28 January 2010. At the time of the interviews, held before and after the launch, only the first stage of the website had been released and it only included statistical and contextual information on approximately 10,000 Australian government and non-government schools. Stage two[16], proposing the public release of financial information, was being discussed at the time of the second interview. Whilst the three participating schools expressed concerns about the new website, they were resigned to the fact that it was here to stay. School 1 saw this initiative as reflecting demands for accountability and transparency, where "the government wants a lot more transparency in everything whether it's academic performance, curriculum" (School 1, 2010, pers. Comm., 20 April). Schools 1 and 3 saw the advantages of the new website as an opportunity to signal how well they were performing, with School 1 adding that the school had no issues with the new website, in principle, because their "reporting to the government is very open… show[ing] any income we get, when it's use[d] by the school" (2010, pers. Comm, 20 April).

However, Schools 1 and 3 were concerned about how the information would be presented. In particular, School 1's principal cautioned parents in a newsletter about using the new *My School* website, in that it is "a small snapshot of a school's life and should be considered carefully by parents in light of the restricted picture it is able to form of our school" (School 1, 2010, p1). The sample schools were concerned about how parents will interpret the publicly accessible financial information. Notwithstanding concerns about how information might be presented, School 3 saw the website as a positive outcome for the school, "we got very good academic results, and when it came out, we noticed that … we got an uplift in our prospectus requests when *My School* came out" (2010, pers. Comm., 4 May). In this regard, when a school has good news, it is more than happy to disclose the information, again consistent with signalling theory motivations.

In contrast to Schools 1 and 3, School 2 strongly disapproved of the new *My School* website, stating that it was an "absolute waste of time and money" (2010, pers. Comm., 26 April). When asked about the upcoming financial disclosures on all schools' sources of income, School 2 explained that "it's all smoke and mirrors… what does it achieve?" (2010, pers. Comm., 26 April). Expanding on the possibility that financial expenditures could be the next disclosures on the website, School 2 responded that "they can't put the detail in because everyone does things differently" (2010, pers. Comm., 26 April).

In summary, the sample schools acknowledged that they were accountable to parents based on similar and different motivations, including how they perceived parents as members, customers and/or owners, how they used the financial information as a marketing objective and finally how their disclosures may be indirectly influenced by the new *My School* website. These motivations can be best explained at two levels: first, that they were contracted to provide the financial disclosures to parents via their respective constitutions and, second, in how they complied with this contract with regard to the levels and types of disclosures. The sample schools did not identify a gap to fill between the schools' image and the parents' expectation. The sample schools did not identify a need to change parents' or society's perceptions or expectations.

Influences behind the level of financial disclosures to parents

Four factors were found to influence the level of financial disclosures to parents: the Reporting Entity Concept, the Regulator's Financial Reporting Requirements vs Exemption, the External Accounting Support, and the Stakeholders (Fee-Paying Parents), which are discussed next (refer to Figure 2).

INSERT FIGURE 2

The Reporting Entity Concept

School 1 explicitly stated in the notes to the financial statements that the school is not a reporting entity,

> the School is not a reporting entity as defined in the Statement of Accounting Concepts 1 "Definition of the Reporting Entity" … and therefore there is no requirement to apply all Australian Accounting Standards ("AASBs") and Urgent Issues Group ("UIGs") … in preparation of these financial statements (School 1, 2009a, p6).

School 1 (2009, pers. Comm., 10 September) acknowledged that the school chose not to be recognised as a reporting entity to avoid complying with all AASB standards (School 1, 2009b), which is inconsistent with best practices in accounting.

School 3 made a similar disclosure in the notes to its financial statements that it was not a reporting entity. Whilst School 1's motivation was to avoid certain AASB standards, School 3's motivation was to only apply only certain AASB standards excluding all others (School 3, 2009). When asked if there was any AASB standard School 3 did not wish to apply, School 3 said simply, "I don't think so. I tend to leave that to our auditors/accounting people" (2009, pers. Comm., 29 October), confirming School 3's reliance on external accounting support. In essence, Schools 1 and 3 did not recognise themselves as reporting entities, nor held their reports as GPFR, so as to maintain flexibility in their choice of financial disclosures.

However, for School 2, it is difficult to conclude if it recognized itself as a reporting entity or not as the author did not have access to the full financial report. When asked if the school recognised itself as a reporting entity or not, the discussion kept reverting to the OCBA's exemption, where School 2 related the reporting entity concept to whether a school reported or not to the OCBA. School 2's summarised and aggregated report makes no statement about the type of reports being presented.

Regulator's Financial Reporting Requirements vs Exemption

A link between the financial disclosures provided to the regulator (OCBA) and the level of voluntary financial disclosure to parents was looked at. Schools 1 and 3 provided exactly the same level of financial reports to both OCBA and parents. School 3 recognized that parents "could find out at [OCBA] if they wanted to…" (2009, pers. Comm., 29 October), confirming that "I don't see any problem in giving it" (2010, pers. Comm., 16 March). The availability of the OCBA exemption to provide financial reports did not affect School 1's disclosure level because the school was not aware of the exemption. School 1 stated, "we do report to the Office of Consumer and Business Affairs… because we're a prescribed organisation" (2010, pers. Comm., 20 April). In essence, School 1 believed that the school had to fulfil its legal requirements under the Act, the government funding bodies, and the school's constitution. School 1 seemed content to continue to do so, as there was no evidence that the school was considering applying for the exemption. In contrast, School 3 was aware of the OCBA exemption but was unsure about School 3's exemption status. School 3 stated that it was not an issue because the school intended to disclose the information as it had always done (2010, pers. Comm., 4 May).

However, School 2 did not have the same view. School 2 stated to have always been aware that a large group of independent schools, including School 2, took advantage of the OCBA's exemption to provide financial information,

> A lot of schools, this is probably going back to the 1980s almost, for whatever reason, got an exemption from having to supply their annual accounts to the [OCBA]. And it's continued on from here… I'm not going to question it. …some Schools at the time must have been on a list which were given exemption (2010, pers. Comm., 26 April).

Since receiving its exemption, School 2 has not provided a financial report in the school's annual periodic return, not because "there are secret men's business or anything like that, … but they don't require it so I don't do it" (School 2, 2010, pers. Comm., 26 April). Noticeably, School 2 seemed satisfied not to provide a financial report to OCBA, as there are "more copies of our accounts floating around in different government bodies than you could shake a stick at… but what's the value in having our accounts accessible to the public?" (2009, pers. Comm., 30 September). Notwithstanding the exclusion of a financial report to OCBA, School 2's decision to provide only a summarised report came from a joint decision between School 2 and its principal (School 2, pers. Comm., 30 September). No other explanation was given in relation to the level of financial disclosure.

Therefore, the sample schools' perception of the OCBA's reporting requirement and exemption may have influenced the level of voluntary financial disclosure to parents. Schools 1 and 3 provided the same level of financial disclosure to both OCBA and parents because the information was already public. School 2, which exercised its OCBA exemption, provided a lower level of voluntary financial disclosures to parents.

External Accounting Support

Access to internal or external professional accounting expertise may have affected financial disclosure decisions. In 2009, Schools 2 and 3 relied heavily on external support from accountants and auditors, acknowledging them as a major influence behind the presentation of the financial reports. School 2 stated, "[as] an incorporated body under the [OCBA]… we do need to follow accounting standards… and the auditors ensure that we are compliant" (2010, pers. Comm., 26 April), whilst School 3 confirmed, "I tend to leave that to our auditors/accounting people. They are happy with what we present" (2010, pers. Comm., 4 May). In contrast, School 1 relied more on their internal support to produce their annual financial reports, receiving external assistance only for auditing the accounts.

Stakeholders (Fee-Paying Parents)

The level of financial disclosures seemed also to have been influenced by the schools' perception of parents' lack of interest [17] assumed from the difficulty of reaching their respective quorum at the AGMs. In commenting on School 1's perception of parents' lack of interest in the financial affairs of the school,

> there's very few [parents] who actually look at our financial statements... They don't really think the school is a business… Their primary concern is the education of their children (2010, pers. Comm., 20 April).

School 2 also stated that "parents aren't really interested in the AGM, unless there's some sort of dogfight going on within the school and there's a power struggle" (2009, pers. Comm., 30 September). Similarly, School 3 stated that the parents "at the AGMs are not massively interested" (2009, pers. Comm., 29 October). Nevertheless, in 2009, all three participating schools confirmed that their AGMs made the quorum. To reach quorum, the sample schools used different strategies to increase the AGM attendance, with School 1 inviting their committee members and senior staff to make up the quorum, with School 2 being more proactive by mailing out the annual report, and School 3 being more interactive by combining it with a school event. Hence the sample schools presented their annual financial report to parents at the AGMs, with different level of disclosures influenced by the sample schools' perception of parents' lack of interest in schools' business affairs, as reflected from the low attendance at AGMs.

CONCLUSION

This paper presented a discussion on what financial information was disclosed, how it was disclosed, and why it was disclosed by three SA independent schools to fee-paying parents in 2009, prior to the Australian Government's *My School* website initiative and the NFP regulatory reforms. The study found that the sample schools differed in their practices in providing financial accountability to fee-paying parents. Whilst being exploratory in nature, conclusions can be drawn from this study. The sample schools provided different levels and types of financial disclosures to their fee-paying parents on a voluntary basis. Schools 1 and 3 provided a higher level and type of financial disclosures than School 2, both presenting a complete annual financial report at their respective AGM and included the same report in their respective OCBA's annual periodic return for public access; School 2 only provided a summarised and aggregated financial report at its AGM, with no financial report in its OCBA's annual periodic return.

The analysis revealed why SA independent schools voluntarily make financial disclosures to their fee-paying parents; namely due to the reporting entity concept, the regulator's financial reporting requirements, the level of external accounting support, and the school's perception of fee-paying parents' interest in the financial affairs of the schools. The sample schools acknowledged that they were accountable to parents based on how they perceived parents as members, customers and/or owners, how they used the financial information as a marketing tool and finally how their disclosures were an indirect result of the upcoming launch of *My School* website. These motivations can be best explained as follows: first, that the sample schools were contracted to provide the financial disclosures to their fee-paying parents via their respective constitutions which is consistent with the agency theory. Second, the way the sample schools complied with this contract in regards to the levels and types of financial disclosures showed their need to publish these financial reports to signal 'good' news which is consistent with signalling theory. Hence a positive association was found between school's performance and the level of voluntary financial disclosures as predicted by economic-based theories (Clarkson *et al*, 2008, Patten, 2002).

In regards to the socio-political theories, this study found, on the one hand, that the sample schools considered their fee-paying parents as a powerful stakeholder group influencing the level and type of voluntary financial disclosures, consistent with the stakeholder theory. However further research is required to determine if fee-paying parents perceive themselves as a powerful stakeholder group. On the other hand, the legitimacy theory was found less helpful in explaining voluntary disclosure by SA independent schools as these schools did not identify a legitimacy gap to fill between the schools' image and the parents' expectation, nor a need to change parents' or society's perceptions or expectations. Finally, contradictions were found between the schools' self-perception of being willingly accountable to fee-paying parents by providing adequate financial disclosures and the lack of announcement and accessibility of the financial reports (Schools 1 and 3), or between the significant cost of delivery compared with the limited amount of financial disclosures (School 2).

The limitations of this study include the incomplete access to financial data from School 2 and the lack of opportunity to interview parents associated with Schools 2 and 3 due to privacy constraints. This study does not claim sampling generalisation as it only researched three SA independent schools. Consequently the results of this paper require further exploration. Recommended future research from the schools' perspective would include (1) extending the research to a wider sample of SA independent schools; (2) retrieving all SA independent schools annual periodic returns for a specific year to identify how many schools took advantage of the exemption or not; and (3) a longitudinal analysis of voluntary financial reporting by SA independent schools. Finally, a further research could consider recipients' perspective in terms of how fee-paying parents perceive the accountability of the schools and whether these parents use the information to evaluate stewardship, to assess the financial stability of their respective schools, or for other decision making purposes.

In conclusion, this paper addresses a gap in the accounting literature regarding the financial disclosures policies of the SA independent schools to their fee-paying parents in a typical year before the launch of the *My School* website and the establishment of the NFP Sector Reform Council in 2010and of the ACNC in late 2012, presenting insights into one industry of NFP sector's financial reporting. This paper finds that some of the SA independent schools demonstrated more reluctance than others to disclose voluntary financial information to parents by the quality of the information and the ways to disclose. In light of these findings, the SA independent schools may need to reassess their current level and type of financial disclosures or to improve their delivery to parents thus providing fee-paying parents' information on SA independent schools' financial performance and longevity as education providers. The upcoming NFP reforms may provide a more consistent approach to disclose financial information and increase the level and type of financial disclosures provided to parents. Whilst future research is needed to expand the findings, this exploratory research study makes a valuable contribution to our knowledge and understanding in an area of increasing public scrutiny.

Appendix A

Inquiries/Consultation Papers/Discussion Papers/Exposure Drafts relating to the Not-for-profit Sector by the Australian Government since 1995

1995 Charitable Organisations in Australia – Industry Commission
2001 Definition of charities and related organisations
2003 Definition of Charity
2005 Giving Australia
2005 Harmonisation of legal systems within Australia
2006 The Use of a Sector Neutral Framework for the making of Australian Accounting Standards
2007 Financial Reporting by unlisted public companies
2008 Harmonisation of legal structure between Australia and NZ
2008 National Compact
2008 Disclosure Regimes for Charities - Senate Standing Economic Committee
2010 National Compact – 2^{nd} report
2010 Not-for-Profit Sector Contribution - Productivity Commission
2010 Regulation Growth Not-for-profit Housing Sector
2010 Review Funding for Schooling
2011 Mechanism and Options for the Development of a Capital Market for Social Economic Organisations
2011 Not-for-profit Sector Reform Council
2011 Scoping Study for a National Not-for-profit Regulator
2011 Better Targeting of Tax Concessions
2011 "In Australia" Special Conditions for Tax Concessions Entities
2011 A Definition of Charity
2011 Australian Charities and Not-for-profit Commission: Implementation Design
2011 Review of Not-for-profit Governance Arrangements
2012 ACNC Exposure Drafts and Bills
2012 Charitable Fundraising Regulation Reform
2012 Restating the "In Australia" Special Conditions and Defining "Not-for- Profit" for tax purposes
2012 Not-for-profit Sector Tax Concession Group
2012 Use of Standard Business Reporting (SBR) for Financial Reports
2012 Development of Governance standards
2012 ACNC Regulation 2012: Financial Reporting Requirements
2013 Regulatory Impact Assessment of Potential Duplication of Governance and Reporting Standards for Charities
2013 2014 Annual Information Statement (AIS)

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NOTES

[1] In 2009-10 Australian governments, both state and federal, spent on school education a total of $41.8billion with $32.9billion to government schools and $8.9billion to non-governments schools including independent schools (ISCA, 2013)

[2] The current regulatory framework under which independent schools operate is being revised with the establishment of the ACNC on 3 December 2012.

[3] In 2009 independent schools in Australia receive their government funding based on the Socio-Economic Status (SES) funding scheme involving a score calculated for each independent school based on its own SES communities. SES scores are determined by linking students' residential address "to Australian Bureau of Statistics (ABS) national Census data to obtain a socioeconomic profile of the school community and a measure of its capacity to support the school" (Australian Government, Department of Education, Employment and Workplace Relations, 2010). These SES scores are then placed on a scale in which level of funding will vary between 13.7% (minimum) and 70% (maximum) per student (Schools Assistance (Learning Together Achievement Through Choice and Opportunity) Act 2004; School Assistance Act 2008; ISCA, 2009). These SES scores are reviewed every four years.

[4] Woodlands School, Glenelg, SA

[5] Annesley College, Wayville, SA

[6] Based on Australian Scholarships Group website's calculator, the estimated cost of a child starting in 2010 (from Reception to Year 12) would amount to $248,242, excluding books & uniforms. (Australian Scholarships Group, 2010)

[7] If a school is not one of these legal entities, it must at least be registered under the Education Act 1972 (SA) (AISSA, 2010)

[8] A "prescribed association means an incorporated association (a) that had gross receipts in that association's previous financial year in excess of (i) $500,000; or (ii) such greater amount as is prescribed by regulation; or (b) that is prescribed or of a class prescribed by regulation" (Associations Incorporation Act 1985 Section 3(1) ; Associations Incorporation Regulations 2008, Section 4).

[9] In 2013, the Office of Consumer and Business Affairs (OCBA) merged with the Office of Liquor and Gambling Commissioner and is now known as the Consumer and Business Services.

[10] This exemption excludes any School Foundation or School Fund.

[11] *My School* website, an Australian Government initiative launched on 28 January 2010, began provided statistical and contextual information for approximately 10 000 Australian schools including government and non-government schools. Summarised financial information were added on 4th March 2011 (ACARA, 2012). The website is run by the Australian Curriculum Assessment and Reporting Authority (ACARA).

[12] The responsible party is the individual or individuals who run the business, not the business itself which is an artificial person (Friedman, 1970).

[13] These ratios could have been manipulated by increasing programs expenses and by decreasing administrative and fundraising expenses to demonstrate a higher efficiency and effectiveness (Krishnan *et al.*, 2002).

[14] A systemic school is a school falling under the legal jurisdiction of a church, where groups of schools are administered by a central body, for example Catholic parish schools. A non-systemic school is an independent school, with or without a religious affiliation.

[15] The public access to OCBA's annual periodic returns requires a written request accompanied with an initial fee to retrieve the files; an additional photocopying charge will be incurred thereafter, depending on the number of pages.

[16] Stage 2 was launched in March 2011, with the release of summarised financial information including the recurrent income and capital expenditure, by source of funding and how much money was spent per student (ACARA, 2010). In February 2012, Stage 3 released additional statistical and contextual information "about staffing, resources and student performance" over a four-year period (Arlington, 2012). After many controversies about the actual data, *My School* website's users seem to less challenge the data than to actually use the data for their personal decision making process (ACARA, 2013).

[17]The lack of parents' interests regarding schools 'financial business may not be limited to independent schools.

Characteristics	School 1	School 2	School 3
Participant	Yes	Yes	Yes
Location	Metropolitan area	Metropolitan area	Metropolitan area
Education	Reception to Year 12	Reception to Year 12	Reception to Year 12
Low-Fees / High Fees	Higher than School 3	Lower than both Schools 1 & 3	Higher than School 2 but lower than School 1
Student Enrolment (minimum 600)	Larger than School 3 but smaller than School 2	Larger than both Schools 1 & 3	Smaller than both Schools 1 & 2
Religion (of different denomination and affiliation)	Christian	Christian	Christian
Systemic schools	No	Yes	No
Legal Structure	Incorporated Association	Incorporated Association	Incorporated Association
Prescribed association	Yes	Yes	Yes

Table 1 **Participating schools' characteristics, presented in a comprehensive manner to protect their identity**

Characteristics	School 1	School 2	School 3	School 4	School 5
Parent’s school affiliation	Parents 3 & 4	Not available	Not available	Parents 1 & 2	Parent 1
Participating School in this study	Yes	Yes	Yes	No	No
Location	Metropolitan area	Metropolitan area	Metropolitan area	Metropolitan area	Metropolitan area
Education	Reception to Year 12	Reception to Year 12	Reception to Year 12	Reception to Year 12	Reception to Year 12
Low-Fees / High Fees	Higher than Schools 2, 3, 4 & 5	Lower than Schools 1, 3, 4 & 5	Higher than School 2, but lower than Schools 1, 4 & 5	Lower than Schools 1 & 5 but higher than Schools 2 & 3	Higher than Schools 2, 3 & 4 but lower than School 1
Student Enrolment (minimum 600)	Larger than School 3, 4 and 5 but smaller than School 2	Larger than Schools 1, 3, 4 & 5	Smaller than Schools 1, 2, & 5 but larger than School 4	Smaller than Schools 1, 2, 3 and 5	Smaller than School 1 and 2 but larger than Schools 3 and 4
Religion (of different denomination and affiliation)	Christian	Christian	Christian	Christian	Christian
Systemic schools	No	Yes	No	No	No
Legal Structure	Incorporated Association	Incorporated Association	Incorporated Association	Incorporated Association	Unincorporated entity
Prescribed association	Yes	Yes	Yes	Yes	Not applicable

Table 2 The five schools and their relationship to the four interviewed parents

Format	**School 1**	**School 2**	**School 3**
OCBA's Annual Periodic Return	Yes 18-page financial report	No	Yes 28-page financial report
AGM Report	Yes (26 pages) Incl. 20 pages of the complete financial report and graphs.	Yes (29 pages) Incl. 4 pages of a summarised and aggregated financial report and graphs.	Yes (60 pages) Incl. 28 pages of the complete financial report (no graphs).
Annual Report (including Academic, Sporting, Cultural and Social achievements)	No	No	No
Parents' Info Kit	No	Yes Incl. School fees and Uniform price list	No
School Foundation Report	Yes Only to financial members	Yes Only to financial members	Not applicable
Yearbook	Yes Fundraising targets	Yes Fundraising targets	No
Weekly Newsletters	Yes Fundraising targets	Yes Fundraising targets	Yes Fundraising targets
Quarterly Newsletters	No	No	No
Letters to parents	Yes School fees	Yes School fees and capital projects including Building Education Revolution and other capital govt grants	Yes School fees and capital projects including Building Education Revolution, National School Pride Money, computer govt grant
Prospectus	Yes School fees	Yes School fees & uniform price list	Yes School fees

Table 3 Levels of financial disclosures provided to fee-paying parents by the sample schools

Item	School 1	School 2	School 3
Type of reports	SPFR	unclear	SPFR
Income Statement	Yes	Yes	Yes
Balance Sheet	Yes	Yes	Yes
Cash flows Statement	Yes	Yes	Yes
Statement of Recognized Income and Expense	Yes	Yes	Yes
Notes to the financial statements	Yes	Yes and No Only upon request, for fee-paying parents only	Yes
Capital Expenditure Statement	No	Yes	No
Statement of Changes of Equity	No	No	Yes
Council's Report	Yes	Yes	Yes
Council Chair's Report	Yes	No	Yes
Finance Committee Chair's/Treasurer's Report	Yes	Yes	Yes
Principal's Report	Yes	Yes	Yes
Secretary's Report	No	No	Yes
Auditor's Report	Yes	Yes	Yes
Graphs	Yes	Yes	No
School Fees Schedule	Yes	Yes	Yes
School Uniform Price List	No	Yes	No
Fundraising events	Yes Access only through the various parents' associations	Yes and No Limited access to members of the School Foundation	Yes

Table 4 **Types of financial disclosures provided to fee-paying parents by the sample schools**

Method	School 1	School 2	School 3
School Fees			
By mail	Yes	Yes	Yes
By email	No	Yes	Yes
Hand out	Yes	Yes	Yes
School Website (public)	No	Yes School fees and uniform price list	No
AGM Notice and Agenda			
By mail	No	Yes	No
By email	Yes e-link to the newsletter	No	No
By weekly newsletter	Yes	Yes	Yes
School Calendar	Yes	Yes	Yes
School Website	No	Yes	Yes
AGM report Incl financial statements			
By mail	No Only on requested	Yes	No Only on requested
By email	Yes e-link via weekly newsletter	No	No
School Website (public)	No	No	Yes Agenda only
OCBA (public)	Yes	No	Yes
Annual General Meeting	Yes	No	Yes

Table 5 How the sample schools provided financial information to parents

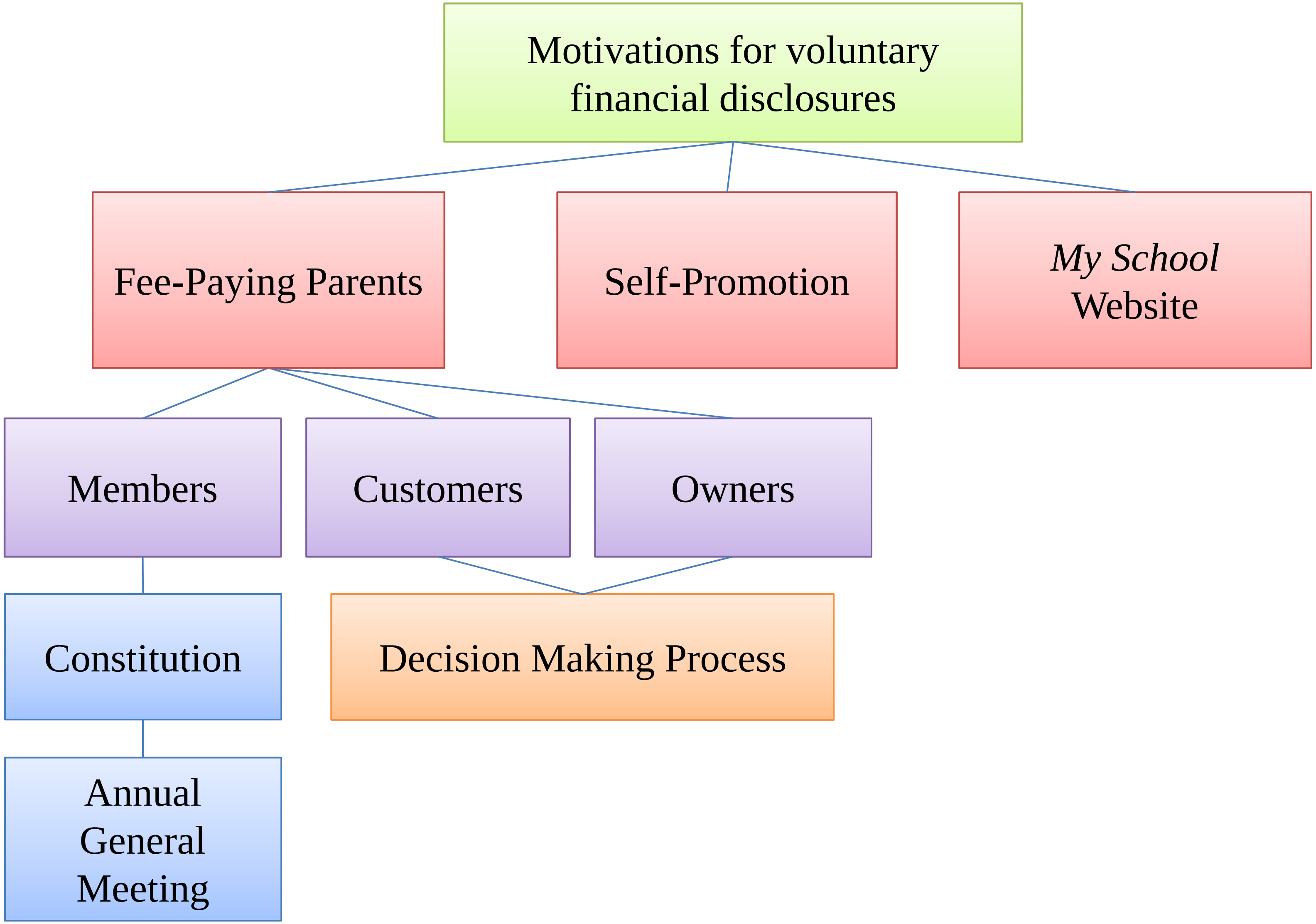

Figure 1 SA independent schools' motivations for voluntary financial disclosures to fee-paying parents

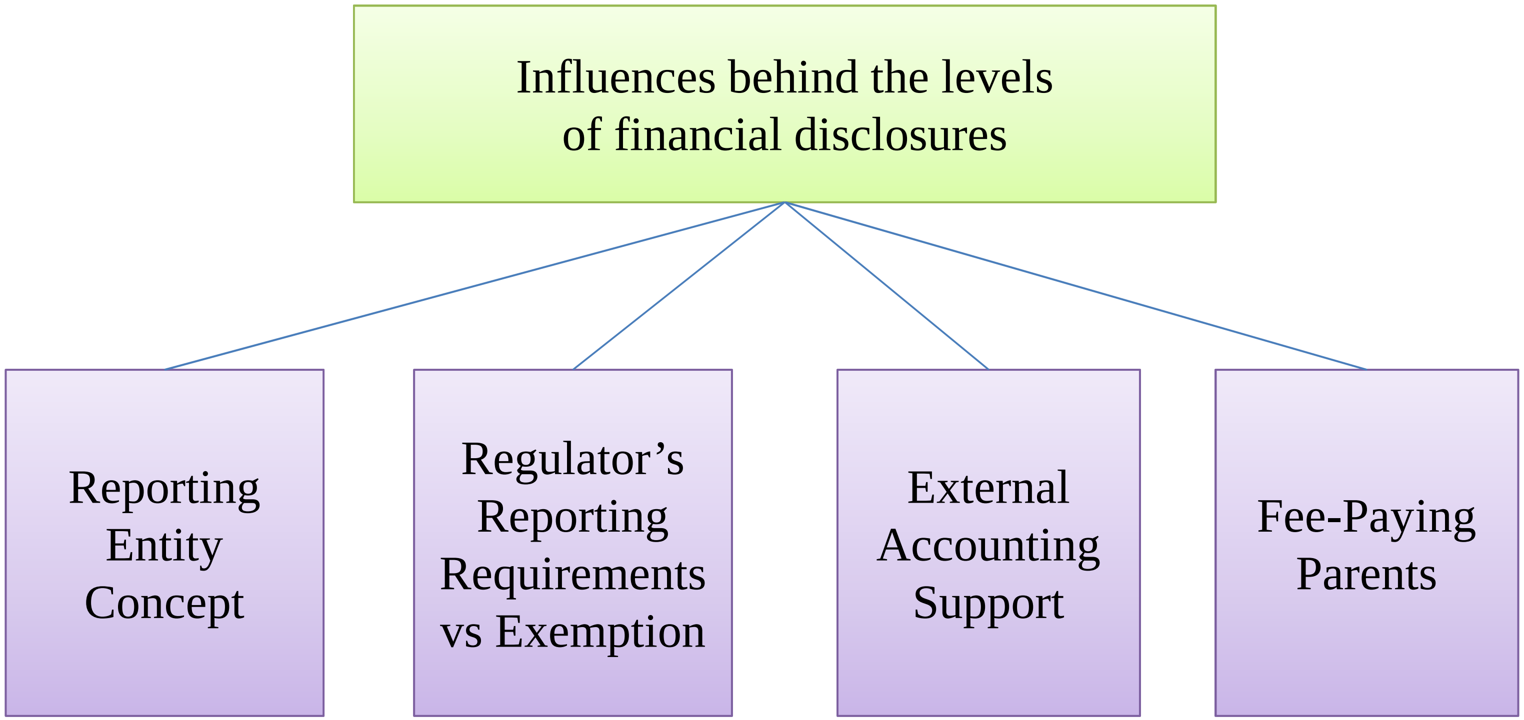

Figure 2 Influences behind the levels of financial disclosures