

## LOCAL SCHOOL FINANCIAL PROCEDURES FOR ACTIVITY FUNDS

David Smith  
Alabama Association of School  
Business Officials  
September 2016



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## Local School Financial Procedures

*"When it comes to what the important issues are for school principals, school finance is not at the top of the list"*

*"But they should know something about the topic."*

*Former principal and current superintendent*

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## Local School Financial Procedures

CSFOs should acknowledge that school finance is not the most important issue for principals.

However they should ensure that they have an understanding of key concepts and procedures to maintain financial stability, facilitate resources for instruction, ensure safety and security for students and staff and **keep everyone's name out of the newspaper.**

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Home > Pacific Northwest News

**Former Stayton High School Booster Club member faces theft accusations**




**Police: Booster club treasurer suspected of embezzlement**

October 25, 2012 | By Lauren Williams

Police arrested a Corvallis woman suspected of embezzling money from a high school band booster club, police said.

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News - USA

**Ex-public school principal charged with fraud**

HUFFPOST CHICAGO

Chicago Schools Investigation Uncovers Multiple Instances Of Fraud, Employee Misconduct

Parents allege theft of fundraising money,

School district employee arrested on theft, fraud charges

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**What Principals Need to Know About School Finance**

- **Budget/Finance**
- Operations
  - Transportation
  - Food Service
- Facilities
  - Maintenance Procedures
  - Building Access
- Health and Welfare
  - Liability Issues
    - Work related injuries/accidents/third party services

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### Activity Fund Accounting for Local Schools

Historically, little attention has been given to accounting for activity funds in school districts. The nature of activity funds, however, makes them especially vulnerable to error, misuse, and fraud.

In addition, activity funds often total to large sums of money, especially when capturing the amounts that flow through an educational organization in the form of school board funds, student-generated funds, receipts and disbursements related to athletics, and the numerous co curricular and extracurricular events sponsored by school districts today.

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### Activity Fund Accounting for Local Schools

Particularly troubling is the fact that public schools are regulated by boards of officials, whom residents trust to keep the best interests of students in mind. Many place part of the blame on school boards and superintendents for failing to implement proper controls or for turning a blind eye to financial discrepancies within the district.

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### Lines of Authority

- Education is a State function executed through local boards.
- Superintendent, Board, and CSFO all have statutory role in handling funds.
- Principals, Bookkeepers, and Directors do not.

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### Board Policies/Procedures

- State laws/regulations relating to school finance
  - Alabama Code
  - SDE Administrative Code
  - AG Opinions
- Local board policies/procedures
  - Rules and regulations

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### Lines of Authority

- For local administrators, authority (and responsibility) related to finance is by delegation from Superintendent and Board.
- How?
  - Board policies
  - Local school finance manual
  - Directives
  - Day-to-day interaction

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### Lines of Authority

- **Board of Education.** The board of education should adopt policies to govern the establishment and operation of all activity funds. The district's auditors should review these policies for sound accounting and reporting principles.
- **Superintendent.** The superintendent should be directly responsible to the board of education for administering all board policies.
- **Chief Financial Officer.** The chief financial officer should have overall responsibility for accounting for and reporting all funds, including district and student activity funds, to the board. The chief financial officer is also responsible for implementing and enforcing appropriate internal control procedures.
- **Principal.** The principal at each school site is normally designated the activity fund supervisor for that school building. The activity fund supervisor has overall responsibility for the operation of all activity funds, including collecting and depositing activity fund monies; approving disbursements of student activity fund monies; and **adequately supervising all bookkeeping responsibilities.** The activity fund supervisor should be a signatory to all disbursements, including checks drawn on the activity fund.

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### Local School Activity Funds

Activity funds are established to direct and account for monies available and used at the local school level.

Activity funds are unique to school districts. The distinction is based on the purpose of the funds, that is, the programs supported by the funds.

The classifications which are commonly recognized are:

- **district activity funds**
- **student activity funds**
- **parent support or school related organization funds**




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### Activity Funds

- **District activity funds** -belong to the district, are used to support its co-curricular and extra-curricular activities, and are administered by the school district. Approval for disbursing district activity fund monies, however, rests only with the school board (designee). In other words, the district determines how district activity fund monies are spent and the district programs that receive support.

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### District Activity Funds

- General Fund
- Athletics
- Class Accounts

Principal has control of funds the district/school determines how activity fund monies are spent and the district/school programs that receive support.

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### Activity Funds

• **Student activity funds** support activities that are based in student organizations. Students not only participate in the activities of the organization, but also are involved in managing and directing the organization's activities. An important distinction is that disbursing monies from the student activity fund may be subject to approval by the student organization and its sponsor, rather than by the board of education/designee.

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### Student Activity Funds

- Clubs
- SGA
- Class of 2016

Disbursing monies from the student activity fund may be subject to approval by the student organization and its sponsor.

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### Activity Funds

• **Parent Support Organizations Funds- (School Related Organizations)** School districts and student groups are also increasingly benefited by affiliated organizations that support curricular, co-curricular, and extracurricular activities.

- Affiliated organizations include groups such as Parent-Teacher Associations (PTAs), Parent-Teacher Organizations (PTOs), school foundations, and athletic booster clubs. Contributions by these groups often include supplies, materials and equipment.
- Financial records may be included in the school books and classified as non-public funds or may be maintained outside the school records depending on the board's policy . Additional procedures **should** be in place for those records maintained outside the school books.

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## Parent Support Organizations Funds

- PTA/PTO
- Booster Organizations

Officers of organization set budget and approve disbursement of monies from the accounts.

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## Lines of Authority

**Board of Education.** The Board of Education adopts policies to govern the establishment and operation of all activity funds. The district's auditors reviews these policies for sound accounting and reporting principles. The Board approves the budget and financial statements as recommended by the Superintendent.

**Superintendent.** The Superintendent is directly responsible to the Board of Education for administering all Board policies and recommends the budget and financial statements to the Board for approval.

**Chief School Financial Officer.** The Chief School Financial Officer has the overall responsibility for accounting for and reporting all funds, including district and student activity funds, to the Board. The Chief School Financial Officer is also responsible for implementing and enforcing appropriate internal control procedures as well as monitoring and managing the financial resources.

**Principal.** The Principal at each school is the activity fund supervisor and has overall responsibility for the operation of all activity funds, including collecting and depositing activity fund monies; approving disbursements of student activity fund monies; and adequately supervising all bookkeeping responsibilities. The activity fund supervisor should be a signatory to all disbursements, including checks drawn on the activity fund.

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## Lines of Authority

**Sponsors-** The sponsor of each student organization is responsible for supervising all activities of the organization, including approving student activity fund transactions. Sponsors should be employees of the district and under the direct control of the activity fund supervisor.

**Parent Support Organization Officers-** The officers of each support organization is responsible for the activities of the organization and assures they follow their bylaws and established laws, regulations and board policies for the operations of the organization.

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### Topics

- Extracurricular Camps and Clinics on School Campus
- Ethics Commission
- Contracts/Bid Law
- Facility Use/ Access
- Accounting for Booster and Student organizations

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### Extracurricular Camps and Clinics

- Local Camp-
  - Involves only district students
  - no fees are charged
  - employees of the district do not receive compensation
- Camp Fundraiser-
  - May not be limited to district students
  - fees are charged
  - employees of the district do **not** receive compensation

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### Camps-Defined

- Open Event Camp—
  - not limited to district students
  - fees for participation are charged
  - employees of the district receive compensation for coordinating or working the camp
  - may be sponsored or run by third party

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### Extracurricular Camps and Clinics on School Campus

- General Guidelines
  - Approval form application should be completed prior to event
  - Should be preapproved by Board or designee
  - Proper accounting records should be maintained
  - Any payment to school employees must be processed through district's payroll department
    - Compensation reasonable and set prior to event
  - Reconciliation of event should be completed at conclusion of camp/clinic
  - If various athletic camps are conducted on school property, all proceeds should be deposited in the athletic program (i.e., public funds).
    - These camps use school property, utilities, school liability insurance and often, school personnel

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### Accounting for Camps

- General Guidelines
  - All camps should be accounted for on the school's books
  - Charges for facility use and other administrative fees should be consistent based on board policy
  - Guidelines regarding expenses paid on behalf of a camp should be consistent with previous procedures

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### Accounting for Camps

- Procedures/Board Policy
  - Prior approval of board designee
- Individual designated as event coordinator
  - Determination of net proceeds
  - Receipt log listing all participants (master roster including any fees that are waived)
  - All receipts from the camp run through the school bookkeeper
  - All expenditures are paid through the schools books (check)
  - Normal procedures followed

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# Camps

- Use of non-school personnel
  - Payment for services
    - W2/1099
    - According to IRS regulations
  - Background check on any non-employees working in camp (?)
- Camps run by third parties
  - Prior board approval
  - Contract reviewed by board attorney
  - Liability insurance
    - Board added as insured
  - Facility use fee
    - Board policy

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**Who Are Public Officials and Public Employees?**

**A Public Official is:**

"Any person elected to public office, whether or not that person has taken office, by the vote of the people at state, county, or municipal level of government or their instrumentalities, including governmental corporations, and any person appointed to a position at the state, county, or municipal level of government or their instrumentalities, including governmental corporations. For purposes of this chapter, a public official includes the chairs and vice-chairs or the equivalent offices of each state political party as defined in Section 17-13-40."

**A Public Employee is:**

"Any person employed at the state, county, or municipal level of government or their instrumentalities... For purposes of this chapter, a public employee does not include a person employed on a part-time basis whose employment is limited to providing professional services other than lobbying, the compensation for which constitutes less than 50 percent of the part-time employee's income."

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**\*\*DO'S and DONT'S UNDER THE NEW ETHICS LAW\*\***

**I. DONT'S**

1. Don't ... use your official position to obtain personal gain for yourself or family member or any business with which you are associated. Section 36-25-5(a)
2. Don't ... as a member of a legislative body, vote for any legislation in which you know or should have known that you have a conflict of interest. Section 36-25-5(b)
3. Don't ... use or cause the use of equipment, facilities, time, materials, human labor, or other public property under your discretion or control for the private benefit or business benefit of you, any other person, or principal campaign committee (defined in section 17-5-2), which would materially affect your financial interest. Section 36-25-5(c)
4. Don't ... solicit a "thing of value" from a subordinate or person or business with whom you directly inspect, regulate, or supervise in your official capacity other than in the ordinary course of business. Section 36-25-5(e)

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*Ask permission not forgiveness*

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**Contracts and Purchasing**

- Public Contracts
- Competitive Bid Law
- Public Works Law

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**Contracts**

- By law, the Board has the authority to contract
- Principals – no inherent right to execute a contract
  - Can be delegated right by Board or Superintendent (if that authority has been delegated to them)
  - “Going rogue” and executing a contract anyway has risks
    - Personal liability for expenditure
    - Charge back
    - Loss of immunity

*Note- All contracts should have a review process before signing*

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**Contracts**

- Typical contracts – Prom, transportation, athletic equipment, maintenance, grass cutting, beauty pageant judging, cheerleader tryouts, etc.
- Remember, you may need contracts to establish that person contracted with is not an employee.
- Capital Leases - should be approved by Board!
- Copier Leases – no more than 5 years, if subject to the Bid Law; approved by Board.

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### Loans/Contracts



- Only the Board can borrow money for a school.
- The loans must be approved by the members of the Board.
- Schools can not loan money to clubs, PTA's, etc.

**Note- All contracts should have a review process before signing**

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### Competitive Bid Law – Legal Authority for Boards

- Code of Alabama 1975, Section 16-13B-1 through 16-13B-11
- Applies to both County and City Boards of Education

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STATE OF ALABAMA

DEPARTMENT OF EXAMINERS OF  
PUBLIC ACCOUNTS

ALABAMA COMPETITIVE BID AND  
PUBLIC WORKS LAWS

DECEMBER 2014

THIS DOCUMENT IS AVAILABLE ONLINE AT:  
[www.examiners.alabama.gov](http://www.examiners.alabama.gov)

[http://www.examiners.state.al.us/documents/formpub/Bid\\_Law.pdf](http://www.examiners.state.al.us/documents/formpub/Bid_Law.pdf)

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To What It Applies...

- Applies to the expenditure of funds for labor, services and work involving \$15,000 or more
- Applies to the purchase or lease of materials, equipment, supplies or other personal property involving \$15,000 or more

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Competitive Bid Law

- Individual purchases less than \$15,000 may be subject to competitive bidding if a school board can reasonably expect to purchase more than \$15,000 for like items during the year.
- School district may have local policies and procedures more restrictive than bid law.
- School systems may purchase items without bidding by purchasing from the state bid list; however, a school system may not purchase items without bidding on the grounds that a vendor's price is less than the state bid list.

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Splitting of Contracts

- No purchase or contract in excess of \$15,000 shall be divided into parts involving amounts of \$15,000 or less for the purpose of avoiding the requirements of the competitive bid law

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### Legislative Monies

- Must be used for an educational purposes
- Competitive Bid Law does apply
- Are considered PUBLIC funds
- Records of expenditures should be maintained at local schools ( should be handled at system level)

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### Public Works Law Title 39 Code of Alabama

- Applies to any construction, repair, renovation, or maintenance of public buildings, structures, sewers, waterworks, roads, bridges, docks, underpasses, and viaducts as well as any other improvement to be constructed, repaired, renovated, or maintained on public property and to be paid, in whole or part, with public funds or with financing to be retired with public funds in the form of lease payments or otherwise.

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### Expenditure Threshold

- \$50,000
- Section 39-2-2 (a) – “No public work...involving a sum in excess of \$50,000 shall be split into parts involving sums of \$50,000 or less for the purposes of evading the requirements of this section.”

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**STATE OF ALABAMA  
BUILDING COMMISSION**

- HOME
- COMMISSION MEMBERS
- TECHNICAL STAFF
- STATE BUILDING CODE
- PLAN SUBMITTAL REQUIREMENTS
- STANDARD CONTRACTS AND DOCUMENTS
- REQUIREMENTS FOR PROJECT TYPES

**Welcome to the Alabama Building Commission**

The Commission's primary function involves promulgating and enforcing the State Building Code through plan reviews, inspections and serving as the state's contract administrator for state-funded construction. The State Building Code applies to the following:

- o State Buildings and Construction
- o Schools (Public and Private)
- o Hotels/Motels
- o Motion Picture Theaters

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### School Construction Projects

- Board Approval
- The Awarding Authority of a public construction or improvement project that is to be supervised and administered by the ABC shall employ the services of registered architects and engineers in accordance with Title 34, Chapter 2
- Plan design approval
- Inspections

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### Booster Work Projects

*An organization cannot build a structure on Board property without Board approval!*

- Self-Performed
  - District Employees
  - Parent Support Organization
- Organization provides funding for project
  - In whole or partial

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## Booster Work Projects



- Procedures for capital projects
  - Any building, building/land improvement on a school district campus should be approved by the board of education.
  - Board employee should be in charge of project.
  - Must follow federal, state and local laws, codes, procedures and guidelines.
  - Should follow same process on all projects regardless of funding.



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## Self-Performed Work

- Must comply with Building Commission requirements
  - Full professional design team required
  - Plan review and approval required
  - Architect required to perform inspections
  - Building Commission will conduct required inspections including Final Inspection
  - Compliance with *Public Works Law* or *Competitive Bid Law* will be applicable in most situations



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## Facility Access

- Must follow board policies on third party use of facilities
  - Should be an contractual arrangement
  - Normally approved by BOE
    - City/YMCA etc.
  - Liability Issues/ Certificates of Insurance
  - Some districts have rental use policy.

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### Working with Booster and Parent Support Organizations

- Parent support organizations provide an invaluable service to our school districts. Many of the student programs and activities could not exist without these organizations.
- These parent volunteers unselfishly give money and time to their local schools with the intent to make things better for their children.
- With any volunteer organization though there should be established guidelines and policies at the board level for the organization to follow.
- It is the Board's responsibility to insure these guidelines are being communicated and followed.

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STATE OF ALABAMA  
DEPARTMENT OF EDUCATION



November 8, 2007

**MEMORANDUM**

**TO:** City and County Superintendents  
*Joseph V. Phelan*

**FROM:** Joseph B. Morton  
State Superintendent of Education

**RE:** Guidelines for Financial Operations of School-Related Organizations

Alabama State Board of Education  
Governor Bob Ivey  
President

Randy McIlwain  
District I  
President Pro Tem

Betty Patten  
District II

Stephaine W. Bell  
District III

Dr. Ethel H. Hall

For many years schools and school boards have received conflicting guidance about the accounting requirements for school-related organizations. Several agencies have provided partial and often conflicting rulings regarding the required procedures for the operation of school, student, parent, athletic, and other organizations that provide financial support for school activities and functions.

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## School-Related Organizations

### Specific Requirements

Parent organizations and booster organizations that maintain financial operations outside the control of the school could create a negative image for the school by failing to maintain proper accounting controls. Accountability for the funds these organizations control includes an agreement that:

- a) The organization has obtained an employer identification number from the IRS
- b) The organization provides a report of the annual audit of the organization to the school.
- c) The organization makes its financial records available to the school's auditors and authorized school employees upon request.
- d) The organization provides required financial reports.
- e) The organization provides proof of a fidelity bond for the treasurer.
- f) The organization will not provide any payment or benefit to a school employee (or family member of a school employee) in violation of the State Ethics Law.

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## Policies, Procedures and Guidelines for Support Organizations

- At a minimum should address:
  - Formation of support organization
  - Organizational Structure
  - Relationship with school district
  - Annual filing requirements
  - Local, state and federal law compliance
  - Financial Guidelines
  - Fundraising Activities
  - Capital self work projects
  - Restrictions

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## Guidelines for Booster and Parent Support Organizations

- Formation of organization
  - Includes an approval process at board or school level
    - Complete and file an application to form an organization
  - Should have bylaws/policies for organization
    - Officers should be elected according to the structure and process defined in the by-laws
    - Ensure the organization's sole function is to support the educational activities of the school
  - If superintendent/board considers it necessary, he or she may revoke the booster club's authorization to conduct activities in the district.

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## Organization Guidelines

- All officers should go through annual orientation with CSFO/ Superintendents designee
- School principal or designee should sit in on all meetings
- Minutes should be maintained for all meetings
- A budget should be submitted annually



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## Other Suggested Guidelines

- It is suggested that school district personnel not hold any official position within a booster club organization.
- Fund-raising at any school site is directly under the control of school authorities, such as the site administrator, and must be approved by at least the site administrator prior to any activity.
- Parent Organization/Booster Club must adhere to various district policies and guidelines as well as federal and state laws and regulatory guidelines.
- Any rules and regulations developed for the organization must conform to the law, the board of education's policies and regulations, and the school site's rules and procedures.

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## Financial Risks Related to Booster and Parent Support Organizations

- Lack of centralized operations
- Large numbers of transactions
- Numerous parties handling money
- Lack of internal controls
- Lack of procedures
- Complicated rules & regulations



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### Financial Guidelines

It is recommended that all support organizations finances are maintained in the local schools books.

- > Trained board employee maintaining all financial records
- > Produce monthly financial reports for officers and members
- > Financial information is reported in board monthly financials
- > Internal controls in place for compliance with local, state and federal laws, board policies and guidelines
- > Checks and balances over receipts and disbursements
- > Audit of records included in district annual audit

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### Financial Guidelines

• Financial records are maintained outside the school by individual parent support organizations

• **Not recommended**

- Opens door for fraud and embezzlement
- Subject to poor financial management practices, theft and misappropriation of funds
- Adds additional cost and liability to organization
- Adds additional filing requirements




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### Financial Guidelines

• Organizations that maintain their own financial records:

- Booster clubs are not legal components of the school entity. Each booster club **should have its own tax identification** number; booster clubs are not allowed to use the school entity's tax identification number.
- Booster clubs are responsible for their own tax status, accounting and financial records and must make their own arrangements for audit if an audit is needed. The booster club is not audited as part of the district's own annual financial audit.
  - May be external or internal audit

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## Financial Guidelines

- Organizations that maintain their own financial records must provide:
  - Financial records to the school's auditors and authorized school employees upon request
  - Proof of a fidelity bond for the treasurer
  - Any financial reports required under its bylaws
  - The booster club must have its own minimum amount of liability insurance as determined by the school entity




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## Additional Requirements

- Assurance that it will not provide any payment or benefit to a school employee (or family member of a school employee) in violation of the State Ethics Law.
- Payments to employees **MUST** go through the payroll department.
- District or school site officials may require booster clubs to be officially recognized as tax-exempt organizations under internal revenue code section 501(c)(3) and may require them to provide a copy of their determination letter or certificate of nonprofit status.
- Assurance that:
  - No employee of the school, who is associated with the activity supported by the booster organization, serves/holds a leadership position in the organization.
  - No employee of the school leads the organization's fund-raising.
  - No employee of the school maintains the accounting records for the organization.

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## Local School Financial Procedures

### Sources :

*"What Principals Should Know About School Finance"*  
 David Bein, ASBO International School Business Affairs June 2014

*"Financial Accounting for State and Local School Systems,"*  
 National Center for Educational Statistics 2009 Edition

"Preparing for the Local School Audit"  
[Audit and Compliance Issues for Local Schools](#)  
 David Howell, Examiners of Public Accounts , May 2016

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