

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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N/A	N/A	4	School Activity Accounts (Principal Accounts)

HISTORY

Most school districts have cash funds or bank accounts at individual schools under the control of school principals or club advisors. In the past, these funds may have been excluded from the district's level financial statements and accounting controls. These funds present a unique control challenge to school districts given their decentralized nature and the production of financial records and reports by non-accounting personnel.

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 myriad co-curricular and extracurricular events sponsored by school districts. As a result, policies and procedures for improving controls over these funds and to promote the capturing all student activity-related monies in the district's financial records should be implemented.

Georgia law recognizes the importance of School Activity Accounts by requiring the following:

OCGA 20-2-962. Quarterly Reports by principals; audits by local boards.

The principal of each public school shall make a quarterly report to the local board of education immediately upon the end of each quarter of the fiscal year, and such report shall contain an account of all receipts and expenditures of such funds during the past quarter. The principal shall also make an annual report of the complete

property inventory of the school. The local board may at any time during the school year inspect all receipts, expenditures, and property of each public school.

TYPES OF ACTIVITY FUNDS AND PROPER CLASSIFICATION

School Activity Accounts are established to direct and account for monies used to support extra-curricular and co-curricular student activities. As a general rule:

- Extra-curricular activities encompass a wide variety of other *district-directed* activities, typified by organized sports, drama productions, music concerts and other non-academic interscholastic competitions.
- Co-curricular activities are any kinds of school-related activities outside the regular classroom that directly add value to the formal or stated curriculum. Co-curricular activities involve a wide range of student clubs and organizations.

A system of classification for purposes of program cost accumulation and reporting mechanism is necessary. (Accounting System)

Activity funds are unique to school districts. Two classifications are commonly recognized:

- District activity funds (500), which belong to the school district and are used to support district programs. District activity funds should be included with all other district funds and deposited in the district's accounts.
- Student activity funds (705), which belong to the students and are used to support student organizations and clubs. Student activity funds remain under the control of the school principal and are accounted for at the school site.

The distinction between the two fund types is based on the *purpose* of the funds, that is, the programs supported by the funds. The following test rests in the definitions of each:

District Activity Funds (*Governmental Funds 500*) belong to the district, are used to support its co-curricular and extra-curricular activities, and are administered by the school district. Authority for approval of disbursing district activity fund monies, however, rests only with the school board. In other words, the district determines how the district activity fund monies are spent and the district programs that receive support. *This control may be delegated to the local school principal.*

Examples of Authorized District Activity Funds:

- | | |
|-----------------|-----------------------|
| • Athletics | • Music Concerts |
| • Band Uniforms | • School Plays |
| • Book Fair | • School General Fund |
| • Lyceums | • Special Field Trips |

- **Student Activity Funds** (*Agency Funds – 705*) 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.*

Examples of Authorized Student Activity Funds

- | | |
|---------------------|--------------------------|
| • Art Club | • Foreign language Club |
| • Auto Club | • Journalism Club |
| • Cheerleaders Club | • Marching Band |
| • Chorus Club | • National Honor Society |
| • Class of 200X | • Pep Club |
| • Class of 200Y | • Photography Club |
| • Class of 200Z | • Student Council |
| • Debate Club | |
| • Drama club | |

CONTROLS FOR ESTABLISHING AND MAINTAINING ACTIVITY FUNDS

Public trust demands an efficient system of accounting for all money received and expended through school activity fund accounts. The system of safeguarding and accounting for activity funds is dependent on the soundness and effectiveness of board of education policies and guidelines. The board has the responsibility of insuring accurate accounting for all accounts, as well as insuring activity funds are expended as intended by the fund-raising.

The dispersed nature of student activity funds and the multiple site collections for some district activity fund revenues dictate a need for orderly controls on all activity funds. These controls include establishing lines of authority and a set of policies to guide the operation of all activity funds.

(Note: these guidelines are minimum controls on which local school districts may expand.)

Lines of Authority

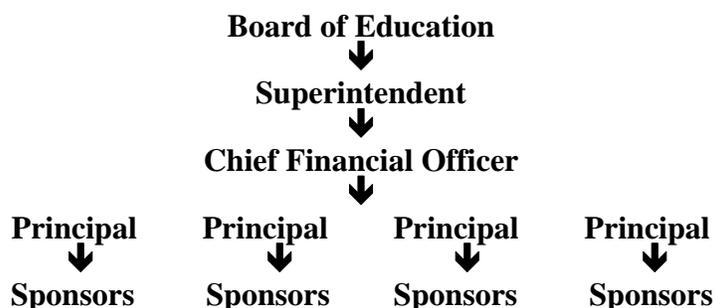
Proper control begins with the appropriate recognition of lines of authority over all monies handled by the district. The local board of education should adopt a set of guidelines and regulations that include the following minimum requirements (see figure 1):

- **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 / Finance Director.* 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 should be the designated 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 for all disbursements, including checks drawn on the activity fund should the disbursement function be decentralized.
- *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.

Lines of Authority

Figure 1



GENERAL POLICIES FOR THE ESTABLISHMENT AND OPERATION OF ACTIVITY FUNDS

Policies relating to student and district activity funds should be in writing and distributed to all activity fund supervisors, sponsors, and accounting personnel. A useful set of general policies includes at least the following:

- Each activity fund should be established by specific board of education approval, if a separate checking account is maintained.
- All activity funds should be subject to sound internal control procedures.
- All activity funds should be accounted for on the same fiscal year basis as all other school district funds.

- All activity funds must be audited and subject to well-defined procedures for internal and external auditing.
- All employees responsible for handling and recording activity fund monies should be bonded by the district.
- One or more activity fund supervisors should be formally designated by the board of education.
- Each activity fund supervisor (principal) should maintain a checking account for the School, where the disbursement function is decentralized.
- Someone other than the fund supervisor (principal) should be authorized to sign checks, either the superintendent or chief financial officer.
- Depositories for student activity funds should be approved by the board of education and be further subject to the same security requirements as all other board funds. (i.e. collateralization of deposit requirements.)
- School Activity Accounts should not be used for salary supplements or similar payments to compensate school employees for any activity related to school resources or students. Employee compensation should always go through the district's payroll process.
- All activity funds should operate on a cash basis, meaning that no commitments or indebtedness may be incurred unless the fund contains sufficient cash.
- A system of purchase orders and vouchers should be applied to all activity funds that requires written authorization for payment and should be strictly enforced.
- A system for receipting cash should be adopted that includes using pre-numbered receipt forms for recording cash and other negotiable instruments received.
- All receipts should be deposited intact. That is, all receipts should be deposited in the form in which they are collected and should not be used for making change or disbursements of any kind.
- All receipts should be deposited daily. Undeposited receipts should be well secured.
- A system for disbursing funds that includes using pre-numbered checks and multiple original signatures (no signature stamps) should be adopted as the sole means for disbursing activity fund monies, in those instances where the disbursement function is decentralized.
- A perpetual inventory should be maintained on pre-numbered forms, receipts, and other documents to create an adequate audit trail.
- Bank statements for activity funds should be reconciled as soon as they are received.

- **Using activity fund receipts to cash checks to accommodate individuals, to make any kind of loan, to pay any form of compensation directly to employees, or to extend credit should be strictly prohibited.**
- **Monthly financial reports on all activity funds should be prepared and submitted to the administration and the board of education. (State Law 20-2-962 requires at least quarterly reporting).**
- **A full reporting of activity funds should be included in the district's annual financial statements.**
- **Student activity fund monies should benefit those students who have contributed to the accumulation of such monies.**
- **A board-approved process, or board-designated approval process should be specified for all fundraising activities, and any fundraising event should require advance approval.**

SEGREGATION OF DUTIES RELATED TO ACTIVITY FUNDS

The volume of activity fund transactions and the amounts on deposit are substantial in most school districts. Because significant amounts of activity fund cash receipts are collected as currency, not checks, internal control procedures designed to safeguard monies collected should be especially emphasized. Although the foregoing general principles are helpful in addressing concerns about safeguards, additional attention should be given to segregating the duties related to activity funds. Specifically, three critical duties should be segregated for internal control purposes:

- (1) signing checks in a decentralized disbursement environment**
- (2) maintaining fund accounting records**
- (3) reconciling bank statements.**

The segregation of duties demands that more than one person be involved in satisfying accounting procedures. As a rule, although the school principal is appointed as activity fund supervisor, other people normally carry out the actual work. It is particularly important to identify, describe, and monitor the duties of the activity fund bookkeeper in relation to the segregation of duties.

The activity fund bookkeeper is typically assigned the task of collecting activity fund monies. Associated tasks include preparing the deposit slip and depositing monies. In addition, maintaining the activity fund accounting records generally falls to this same person, as does preparing checks for disbursements. These tasks demand adequate training and require the bookkeeper to have a thorough knowledge of fund structure; the differences between district and student activity funds; and the process of accounting, auditing, and reporting. As described earlier, the activity fund bookkeeper should be bonded.

The work of any person handling money should be subject to appropriate checks and balances. Signature controls are an important aspect of accounting procedures.

Recommended signatures are the principal of the school and someone other than the activity fund bookkeeper. (Superintendent or Finance Director.)

Reconciling accounting records for the activity fund is an additional important aspect of a system of checks and balances. A third person (someone other than the bookkeeper or activity fund supervisor) should be responsible for reconciling bank statements and verifying receipts and expenditures. Essential to this process are internal accounting controls over the activity fund cash collections. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include using pre-numbered forms and receipts, purchase orders and vouchers, and a perpetual inventory of pre-numbered forms and receipts and tickets; depositing receipts intact; and making timely deposits. State-specific statutory controls on disbursing student and district activity funds should be strictly observed.

PREPARATION AND REVIEW OF MONTHLY ACTIVITY FUND REPORTS

O.C.G.A. 20-2-962 requires the principal of each public school to make a quarterly report to the local board of education immediately upon the end of each quarter of the fiscal year, and include all receipts and expenditures of the past quarter. We suggest a monthly report of cash receipts and disbursements to the activity fund should be prepared and reviewed by the activity fund supervisor (principal) and submitted to the school district office. Column headings should include the following:

- **Beginning cash balance,**
(which should agree with the ending cash balance on the prior month's report)
- **Cash receipts**
- **Cash disbursements**
- **Ending cash balance**
- **Unpaid purchase orders**
- **Unencumbered cash**

The activity fund bookkeeper also should prepare a monthly financial report for each student organization, showing the organization's cash receipts and disbursements. These reports should be reviewed by the activity fund supervisor (principal) and submitted to the student organization's sponsor. Each sponsor should then compare the report prepared by the activity fund bookkeeper with the sponsor's records. Any discrepancies should be resolved immediately. Additionally, the school finance office should periodically perform internal audits of the reports and supporting records.

APPLICATION OF GASB STATEMENT 34 TO ACTIVITY FUNDS

GASB Statement 34 made significant changes in financial reporting for all governments, including school districts. However, GASB 34 did not *ADD* the requirement for including school activity accounts. School activity accounts have always been required to be included in the school districts financial statements, but GASB 34 is the first statement to add penalties for failing to include them in the district wide financial statements.

The purpose of the government wide statements is to provide a broad overview of the entity as a whole. Because fiduciary fund resources are not available for use by the government, fiduciary activities are excluded from the entity-wide financial statements. In accordance with the new reporting model, fiduciary activities, including student activity funds, are reported only in the fund financial statements. The impact of Statement 34 on district and student activity funds is summarized below:

- **If student activity funds are classified as fiduciary (agency) funds as recommended; they are not reported in the government wide financial statements. Instead, these balances are reported only in the fund financial statements.**
- **District activity funds that are classified as governmental (special revenue) funds are consolidated with all governmental activities in the government-wide financial statements. District activity funds will also be presented in the governmental fund financial statements.**
- **Fiduciary funds are presented in the fund financial statements by fund type. Student activity funds, as agency funds, report no operating activity and are, therefore, presented only in the statement of fiduciary fund net assets.**

Revenue From Alternative Sources

Many school districts and individual school sites derive significant revenue from enterprise activities and alternative sources: vending machines, school stores, class ring sales, and a wide variety of fundraising activities such as magazine sales, candy sales, and school pictures. In addition, large sums of money are generated through interscholastic sports in the form of gate receipts and other contributions. These revenues are typically associated with activities conducted at the school level that generate revenues to be used for the benefit of the school. In many instances, particular student organizations are in charge of one or more such enterprise activities. In other instances, the district administers the revenues for its own programs. If a student organization is in charge of an enterprise activity, the money should be accounted for through that organization's activity fund. If the district determines the use of the funds, the money should be accounted for with other district funds in the district's accounts. However, in all instances, the funds should be recorded on the district's books.

School districts and student groups are also increasingly benefited by affiliated organizations that support curricular, co-curricular, and extra-curricular activities. Affiliated organizations include groups such as Parent-Teacher Associations (PTA's), Parent-Teacher Organizations (PTO's), school foundations, athletic booster clubs, and so on. Contributions by these groups often include supplies, materials, equipment, and even school facilities, such as weight training rooms.

Specific board of education policies are needed to address these issues. In the case of activity funds derived from enterprise activities, board authorization to operate the activity is needed, and all funds should be accounted for in the district's books. In the case of revenue from affiliated organizations, board authorization to receive such funds is needed. In some cases, owing to the requirements of GASB Statement 39 *determining whether certain organizations are component units*, these affiliated organizations may be reflected in the financial statements of the school district as discretely presented component units. Whether or not the organizations are included as component units, decisions regarding allocation of the donations should be made on the basis of whether the curricular or co-curricular program is the primary beneficiary, as well as on the basis of fundamental fairness in resource allocation. Due to disbursement control issues, the actual accounting of receipts and disbursements for these affiliated organizations should not be maintained by school district employees.

SCHOOL ACTIVITY ACCOUNTS RECORDED ON THE ANNUAL FINANCIAL REPORT

As stated earlier, School Activity Accounts are required to be reported with the District's financial statements. This information is to be reported in total only and can be accomplished by a journal entry at year-end. Integration of the principal accounts into the School District's financial accounting system is not required. All underlying worksheets and documentation pertaining to these accounts should be retained for audit. In no instance is the District *required* to book each school activity account transaction in the District level accounting records. (Accounting System).

Year-to-date reports for each school, or the district as a whole, can be totaled and recorded in the District's financial statements at year-end. It is perfectly acceptable for just the totals of each account to be posted to the District books and the account detail maintained at each individual school.

The Department of Audits and Accounts has provided an Excel spreadsheet file to assist in consolidating each school's activity accounts and summarize this information for the year-end journal entry. See figures 2 and 3 on the next two pages.

The journal entries to record this activity would follow the following format (Note – the function code used should be the one pertaining to transaction recorded. Function 1000 is used for illustration purposes only):

Governmental Funds (500)

05-500 - XXXX – 101	X,XXX.XX	
05-500 – XXXX - 799		X,XXX.XX
05-500 - XXXX – 1920		X,XXX.XX
05-500 – XXXX - 1000-610	X,XXX.XX	

Student Activity Funds (705)

05-705 – XXXX - 101	X,XXX.XX	
05-705 – XXXX - 799		X,XXX.XX
05-705 - XXXX - 1225		X,XXX.XX

05-705 - XXXX - 1000-610

X,XXX.XX

The Goal would be to ultimately report these expenditures by school.

Consolidating Spreadsheets

Figure 2

CONSOLIDATION OF ALL SCHOOLS						
GOVERNMENTAL ACTIVITY ACCOUNTS						Fund 500
	School #1	School #2	School #3	School #4	School #5	TOTAL
CASH AND CASH EQUIVALENTS	0.00	0.00	0.00	0.00	0.00	0.00
FUND EQUITY	0.00	0.00	0.00	0.00	0.00	0.00
REVENUES						
1500 Interest	0.00	0.00	0.00	0.00	0.00	0.00
1920 Sales and Services	0.00	0.00	0.00	0.00	0.00	0.00
1995 Other Miscellaneous Revenue	0.00	0.00	0.00	0.00	0.00	0.00
5200 Transfer In	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL REVENUES					0.00	0.00
EXPENSES						
1000 Instruction					0.00	0.00
Salaries					0.00	0.00
Supplies and Materials					0.00	0.00
Telecommunications					0.00	0.00
Other Expenses					0.00	0.00
3200 Enterprise Operations					0.00	0.00
Salaries					0.00	0.00
Supplies and Materials					0.00	0.00
Other Expenses					0.00	0.00
TOTAL EXPENSES					0.00	0.00
Excess of Revenues Over (Under) Expenses	0.00	0.00	0.00	0.00	0.00	0.00
BEGINNING FUND EQUITY	0.00	0.00	0.00	0.00	0.00	0.00
ENDING FUND EQUITY	0.00	0.00	0.00	0.00	0.00	0.00
AGENCY ACTIVITY ACCOUNTS						Fund 705
	School #1	School #2	School #3	School #4	School #5	TOTAL
CASH AND CASH EQUIVALENTS	0.00	0.00	0.00	0.00	0.00	0.00
FUNDS HELD FOR OTHERS	0.00	0.00	0.00	0.00	0.00	0.00
RECEIPTS	0.00	0.00	0.00	0.00	0.00	0.00
DISBURSEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
Excess of Receipts Over (Under) Disbursements	0.00	0.00	0.00	0.00	0.00	0.00
BEGINNING FUNDS HELD FOR OTHERS	0.00	0.00	0.00	0.00	0.00	0.00
ENDING FUNDS HELD FOR OTHERS	0.00	0.00	0.00	0.00	0.00	0.00

This worksheet is used to consolidate all schools & post Totals to the DE046

Consolidating Spreadsheets

Figure 3

							SCHOOL # 1
GOVERNMENTAL ACTIVITY ACCOUNTS							Fund 500
	Activity #1	Activity #2	Activity #3	Activity #4	Activity #5	TOTAL	
CASH AND CASH EQUIVALENTS	0.00	0.00	0.00	0.00	0.00	0.00	
FUND EQUITY	0.00	0.00	0.00	0.00	0.00	0.00	
REVENUES							
1500 Interest						0.00	
1920 Sales and Services						0.00	
1995 Other Miscellaneous Revenue						0.00	
5200 Transfer In						0.00	
TOTAL REVENUES	0.00					0.00	
EXPENSES							
1000 Instruction							
Salaries						0.00	
Supplies and Materials						0.00	
Telecommunications						0.00	
Other Expenses						0.00	
3200 Enterprise Operations						0.00	
Salaries						0.00	
Other Expenses						0.00	
Transfers Out						0.00	
TOTAL EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00	
Excess of Revenues Over (Under) Expenses	0.00	0.00	0.00	0.00	0.00	0.00	
BEGINNING FUND EQUITY	0.00	0.00	0.00	0.00	0.00	0.00	
ENDING FUND EQUITY	0.00	0.00	0.00	0.00	0.00	0.00	
AGENCY ACTIVITY ACCOUNTS							
							Fund 705
	Activity #11	Activity #12	Activity #13	Activity #14	Activity #15	TOTAL	
CASH AND CASH EQUIVALENTS	0.00	0.00	0.00	0.00	0.00	0.00	
FUNDS HELD FOR OTHERS	0.00	0.00	0.00	0.00	0.00	0.00	
RECEIPTS							
	0.00	0.00	0.00	0.00	0.00	0.00	
DISBURSEMENTS							
	0.00	0.00	0.00	0.00	0.00	0.00	
Excess of Receipts Over (Under) Disbursements	0.00	0.00	0.00	0.00	0.00	0.00	
BEGINNING FUNDS HELD FOR OTHERS	0.00	0.00	0.00	0.00	0.00	0.00	
ENDING FUNDS HELD FOR OTHERS	0.00	0.00	0.00	0.00	0.00	0.00	

This worksheet is used to consolidate the various accounts at each school.

Accounting for School Activity Accounts (Principal's Accounts)

School Activity Accounts (Principal Accounts) can generally be divided into two fund types.

- Special Revenue funds (Governmental Funds 500)
- Student Activity funds (Agency Funds 705).

The determination of which fund type, depends in part on who approves the disbursing of funds. Funds where disbursements of funds are approved by the principal or his designee would usually be classified as Special Revenue Funds (500). Those funds controlled by a student organization and its sponsor would be considered Agency Funds (705).

Listed below are some examples of some funds that *may* fall in each category. These examples in some cases may not apply to your school's situation.

Examples of Governmental Funds are: (Fund 500)

Athletics	Band Uniforms
Book Fair	Special Field Trips
Snack / Concessions	General Fund Raisers

Examples of Student Activity Funds are: (Fund 705)

Art Club	Drama Club
Chorus Club	Marching Band Club
Class of 2005	Photography Club

Revenue Sources

- | | | | |
|----------------------|------|-----------------------|------|
| • Commissions | 1205 | • Fundraising | 1225 |
| • Concessions Sales | 1210 | • Gate Receipts | 1230 |
| • Club Dues and Fees | 1215 | • Miscellaneous Sales | 1235 |
| • Donations | 1220 | | |

Program Numbers

(8000-8999 Local use) - Districts should assign a number for each type fund. (i.e., 8001-All athletic funds in District)

Reporting of Balance Sheet, Revenues and Expenditures to GDOE will be in the Financial Reporting Format for taxpayer supported funds. The same chart fields should be populated.

- For revenues: Fund-Program-Source
- For expenditures: Fund-Program-Function-Object-Facility.

Although a sharp distinction exists between district activity and student activity funds, accounting for all activity funds is the ultimate responsibility of the school district.

SUMMARY

School Activity funds are Board of Education sponsored funds, similar to the general fund or special revenue funds. They are created for the purpose of accounting for moneys related to co-curricular activities such as student organizations and athletics. Activity funds can be divided into two categories based on who the money belongs to:

- **District activity funds (money belongs to the school district - Fund 500)**
- **Student activity funds (money belongs to the students – Fund 705).**

The collection, disbursement, and accounting for activity fund monies is usually centralized at the building level, with the building principal designated as the activity fund supervisor. The principal's secretary normally acts as activity fund bookkeeper.

As governments increasingly respond to the demands for fiscal and operational accountability, best practice dictates the creation of strong controls surrounding activity funds, *including assurance that all transactions are recorded and reported in district financial records*. Additionally, at a minimum, proper lines of authority combined with strong control practices, such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting, are the elements to protect against error and abuse.