

Ensuring Proper Practices

Questions and Answers on Managing Activity Funds

by Mark Tilley

Do issues related to activity funds have you scratching your head? At TASB Legal Services, we are frequently asked questions related to how activity funds can be raised, accounted for, and spent. The answers are largely a function of accounting practices but can also be determined by statutory and regulatory restrictions.

Fund Accounting

First, in order to better understand activity funds, it is helpful to have a very basic understanding of fund accounting, which is the accounting system that school districts use. In fund accounting, school districts establish separate funds for specific activities or purposes. Each fund is a separate set of accounts that are grouped together for that fund's activity or purpose in accordance with laws and regulations or special restrictions and limitations.¹

In order to comply with legal requirements for fiscal accounting, auditing, and budgeting, school districts prepare financial statements to report to the Texas Education Agency (TEA) detailed information for three types of funds—proprietary, fiduciary, and governmental. Proprietary funds include activities paid for primarily by the revenue the activity itself generates, such as food service operations. Fiduciary funds include assets the district holds in trust for others that cannot be used



to support district programs, such as scholarship funds or local pension funds. A fiduciary must exercise the highest standard of care in managing another's money. Finally, governmental funds account for everything else and relate primarily to the sources, uses, and balances of the district's financial resources that are available to be spent on district programs. The difference between all assets and liabilities in the governmental fund is referred to as the fund balance.² Governmental funds for Texas school districts consist of four fund groups—general, special revenue, capital projects, and debt service.³

Activity Funds

With that brief introduction to fund accounting, we can turn our attention to a specific type of fund unique to school districts known as activity funds. As the name implies, activity funds direct and account for money that is used to support cocurricular and extracurricular student activities. Generally, cocurricular activities are school-sponsored activities that directly add value to classroom instruction and curriculum. Extracurricular activities include a variety of other district-directed activities, like athletic and other nonacademic competitions.⁴

In Texas, two types of activity funds are commonly

recognized—student activity funds and district or campus activity funds. Student activity funds belong to students and are used to support student organizations and clubs. District or campus activity funds belong to the school district and are used to support district or campus programs. All funds collected by school district personnel from students are defined as activity funds and must be handled through one of these two types of activity funds accounts.⁵

Student activity funds. Student activity funds support the activities of student-led organizations or clubs in which students not only participate

but manage and direct the organization's activities. Examples include student council, senior class of 2017, or the astronomy club. Student activity funds are composed of monies raised and collected by students typically through school-approved fundraising activities, club dues, or donations. Student activity funds, therefore, fall into the fiduciary fund category; that is, student activity funds are assets held by the district as an agent for the student organization that cannot be used by the district to support its own programs. Approval to spend money from a student activity fund rests solely with the student organization, rather than administrators or the board of trustees.⁶

District or campus activity funds. District or campus activity funds support cocurricular and extracurricular activities and are controlled by school administrators or the school board. Examples include money collected from athletic events and book fairs or for field trips. District or campus activity funds are composed of monies raised and collected by the district or campus through fundraising efforts or donations. District or campus activity funds are considered special revenue general funds; that is, district or campus activity funds contain proceeds from specific revenue sources that are restricted to expenditures for specified purposes. Approval to spend money from a district or campus activity fund rests with administrators or the board of trustees, not students.⁷

Activity Funds Management

TASB's model policy CFD(LOCAL) states that the superintendent, principal, and sponsor, as applicable, are responsible for the proper administration of activity funds in accordance with state law and local policy, district-approved

accounting practices and procedures, and the TEA *Financial Accountability System Resource Guide (FASRG)*.

State law and local policy. The only provision in the Texas Education Code related to managing activity funds relates to district or campus activity funds and requires a school district to adopt a policy governing the expenditure of funds received from vending machines, rentals, gate receipts, or other local sources of revenue over which the district has direct control.⁸ The policy must require discretionary expenditures of these types of funds to be related to the district's educational purpose, provide a commensurate benefit to the district or its students, and not be a gift of public funds under the standards of Texas Constitution, Article III, Section 52. This legally required policy provision is found in your policy manual at CFD(LOCAL).

Policy CFD(LOCAL) also contains limited provisions related to the management of student activity funds. For example, the policy states that all student activity funds shall be included in the annual audit of the district's financial accounts. The policy also provides for the treatment of carryover funds from one fiscal year to the next.

District-approved practices and procedures. As is commonly the case with board-approved policies, however, CFD(LOCAL) does not contain the level of detail required to provide specific guidance to employees on how to handle activity funds. The required level of detail is more appropriate for district-approved practices and procedures, i.e., administrative regulations. More specifically, districts are well-advised to develop an activity funds handbook or manual that provides employees with detailed guidance on the proper handling and account-



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ing of activity fund money to help prevent misappropriation of funds. The handbook should be distributed to all principals, sponsors, and clerks or bookkeepers, and the district should provide annual training to those employees on what the handbook requires.

Financial Accountability System Resource Guide (FASRG). The FASRG is TEA's official publication that describes the rules of financial accounting for school districts and is adopted by reference into the Texas Administrative Code as the agency's official rule.⁹ The FASRG is typically updated every two years and the current Version 15.0 was adopted in April 2012. *FASRG Module 1: Financial Accounting and Reporting* provides helpful information related to the proper accounting code structure for the different types of activity funds, but *Module 5: Site-based*

Decision Making provides detailed best practices for activity fund accounting.

The FASRG describes two common methods for administering activity fund accounting—"centralized," where funds are controlled and disbursed through the central office's accounting department; and "decentralized," where funds are accounted for and controlled at the various campuses. The FASRG also provides guidance on a variety of issues including who should be responsible for activity funds and how money and disbursements should be handled.

Common Questions

Now that we know what activity funds are and have a better idea of what rules a district must follow when managing activity funds, let's focus on common questions that arise with regard to activity funds.

Booster clubs and parent-teacher organizations are separate legal entities from the school district. These organizations must maintain separate federal tax identification numbers and bank accounts.

Q: Who determines how to spend activity funds money?

A: The answer depends on whether it is a student activity fund or a district or campus activity fund. If the money comes from a student activity fund, students decide how to spend it.

Q: Can activity funds be spent on travel?

A: Yes. If the funds for the trip come from student activity funds, the students can decide to spend the money on a trip. If the funds come from district or campus activity funds, the trip must be related to the district's educational purpose and provide a commensurate benefit to the district or students.

Q: Can we spend campus activity funds on a teacher appreciation lunch?

A: Expenditures intended to improve staff morale are related to the district's educa-

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tional purpose and provide a benefit to the district, so they would be a legitimate use of campus activity funds.

Q: Can we have an employee activity fund?

A: Funds can be collected or received from teachers or other employees for a specific purpose, such as a flower fund or breakroom fund. These accounts are not considered activity funds but would be categorized and accounted for as an agency fund, which is a type of fiduciary fund.¹⁰

Q: Can we spend activity funds on scholarships?

A: Yes. For student activity funds, the students controlling the fund can choose to spend the money on scholarships. For campus or district activity funds, the expenditure relates to the district's educational purpose and provides a return benefit to the students.

Q: Can the student council hold a raffle or have a bingo night as a fundraiser?

A: Probably not. Raffles and bingo are highly regulated by the state of Texas. The Bingo Enabling Act and Charitable Raffle Enabling Act, Chapters 2001 and 2002 of the Texas Government Code respectively, and related administrative rules make it impractical for student organizations to use these activities for fund raising.

Q: What happens to the class of 2014 student activity fund after graduation?

A: That depends on local policy and practice as defined in administrative regulations. In this instance, no statute or regulation dictates how funds are to be handled, so questions like these are answered by consulting your activity funds handbook or manual. This illustrates the importance of

adopting a local activity funds handbook or manual.

Q: Are booster club or PTA funds activity funds?

A: No. Booster clubs and parent-teacher organizations are separate legal entities from the school district. These organizations must maintain separate federal tax identification numbers and bank accounts. The University Interscholastic League publishes guidelines for booster clubs, as do the national umbrella organizations for parent-teacher groups.

Q: Are purchases made from student activity funds tax-exempt?

A: It depends. Purchases are tax-exempt if they are related to the educational process and will be used for educational purposes. However, purchases for use by individuals, even though school-related, are not tax-exempt. For example, cheerleaders who purchase their own uniforms or band members who purchase their own instruments are not tax-exempt.¹¹

Q: What account code do we use for activity funds?

A: If activity fund decisions rest solely with students, the money should be accounted for in Fund 865—Student Activity Account. If other persons besides students, such as teachers, sponsors, or administrators, have access to the activity fund, the money should be accounted for in Fund 461—Campus Activity Funds.¹²

Q: Do purchases from student activity funds have to comply with competitive procurement laws?

A: Purchases from campus or district activity funds must comply with the district's purchasing procedures and relevant statutes. Purchases made

from student activity funds may not legally be required to comply with procurement laws if a purchase is made directly by students and the district is not a party to the contract. However, local policy or regulations could make clear that all district procedures and relevant statutes must be followed when making purchases from student activity funds.¹³

Q: What happens when activity funds are lost or stolen?

A: The responsibility for activity funds involves principals, staff such as the school secretary or clerk, sponsors, and auditors. Because activity funds largely consist of cash, a high risk of mishandling or misappropriation of funds exists. District policy typically prohibits fraud and financial impropriety, including misappropriation of funds, at Policy CAA(LOCAL). An employee who is found to have violated the activity funds handbook or manual or Policy CAA(LOCAL) could be subject to discipline including termination depending on the circumstances. In addition, the loss or misappropriation of funds could cause problems with the district's financial audit and affect the district's financial accountability rating from TEA.

TASB Legal Line at Your Service

Issues related to school finance and accounting generally, and activity funds in particular, can be complex and confusing even for school business officials. Because of this complexity and the risks associated with collecting and disbursing cash, it is important to have locally adopted rules such as an activity funds handbook or manual to clearly establish procedures and a system of internal controls.

As always, if you have any questions about this topic or any other school law topic, call the TASB Legal Line at 800.580.5345. ★

¹⁰Tex. Educ. Agency, *Financial Accountability System Resource Guide*, Module 1. Financial Accounting and Reporting, Update 14, p. 5 (Jan. 2010), available at www.tea.state.tx.us/index4.aspx?id=1222.

¹¹Governmental Accounting Standards Board, *The User's Perspective* (Nov. 2007), available at www.gasb.org/cs/ContentServer?pagename=GASB/GASBContent_C/UsersArticlePage&id=1176156735732.

¹²Tex. Educ. Agency, *Financial Accountability System Resource Guide*, Module 1. Financial Accounting and Reporting, Update 14, p. 224 (Jan. 2010), available at www.tea.state.tx.us/index4.aspx?id=1222.

¹³U.S. Dep't of Educ., Inst. of Educ. Scis., Nat'l Ctr. for Educ. Statistics, *Financial Accounting for Local and State School Systems: 2009 Edition* Ch. 8, available at http://nces.ed.gov/pubs2009/fin_acct/chapter8_1.asp.

¹⁴Tex. Educ. Agency, *Financial Accountability System Resource Guide*, Module 5. Site-Based Decision Making, Update 14, p. 42 (Jan. 2010), available at www.tea.state.tx.us/index4.aspx?id=1222.

¹⁵U.S. Dep't of Educ., Inst. of Educ. Scis., Nat'l Ctr. for Educ. Statistics, *Financial Accounting for Local and State School Systems: 2009 Edition* Ch. 8, available at http://nces.ed.gov/pubs2009/fin_acct/chapter8_1.asp.

¹⁶U.S. Dep't of Educ., Inst. of Educ. Scis., Nat'l Ctr. for Educ. Statistics, *Financial Accounting for Local and State School Systems: 2009 Edition* Ch. 8, available at http://nces.ed.gov/pubs2009/fin_acct/chapter8_1.asp.

¹⁷Tex. Educ. Code § 44.908.

¹⁸19 Tex. Admin. Code § 109.41.

¹⁹Tex. Educ. Agency, *Financial Accountability System Resource Guide*, Module 5. Site-Based Decision Making, Update 14, p. 43 (Jan. 2010), available at www.tea.state.tx.us/index4.aspx?id=1222.

²⁰Tex. Educ. Agency, *Financial Accountability System Resource Guide*, Module 5. Site-Based Decision Making, Update 14, p. 51 (Jan. 2010), available at www.tea.state.tx.us/index4.aspx?id=1222.

²¹Tex. Educ. Agency, *Financial Accountability System Resource Guide*, Module 5. Site-Based Decision Making, Update 14, p. 42 (Jan. 2010), available at www.tea.state.tx.us/index4.aspx?id=1222.

²²Tex. Educ. Agency, *Financial Accountability System Resource Guide*, Module 5. Site-Based Decision Making, Update 14, p. 50 (Jan. 2010), available at www.tea.state.tx.us/index4.aspx?id=1222.

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