Background

- Eide Bailly
  - Over 40 years of audit and consulting experience serving school districts
  - Over 130 professionals focused in the governmental industry
    - Schools, cities, counties, tribes, state agencies
  - Leadership roles within the GFOA and AICPA at local and national levels

- Derek Flanagan
  - Over 11 years of audit and consulting experience
  - Focus in the governmental and utility cooperative industries
    - Schools, cities, tribes, rural electric cooperatives
  - Certified Public Accountant
Resources Used

- The majority of the information contained in this presentation is from “Chapter 14 – Student Activity Accounting” of the 2017 UFARS Manual, prepared and published by the staff of the Minnesota Department of Education

- Available on the department’s website
  - http://education.state.mn.us

Agenda

- Student Activity Determination
- Under Board Control
- Not Under Board Control
- Best Practices

These seminar materials are intended to provide the seminar participants with guidance in accounting and financial reporting matters. The materials do not constitute, and should not be treated as professional advice regarding the use of any particular accounting or financial reporting technique. Every effort has been made to assure the accuracy of these materials. Eide Bailly LLP and the author do not assume responsibility for any individual's reliance upon the written or oral information provided during the seminar. Seminar participants should independently verify all statements made before applying them to a particular fact situation, and should independently determine consequences of any particular technique before recommending the technique to a client or implementing it on the client's behalf.
Student Activity Determination

• Board **MUST** determine if co-curricular or extracurricular
  • Co-curricular – school sponsored and directed activities
    • Not offered for school credit
    • Cannot be counted toward graduation
    • Have one or more of these characteristics:
      a) Regular and uniform times
      b) Directed or supervised by instructional staff
      c) Partially funded by public funds
Student Activity Determination

• Extracurricular – all direct and personal services for pupils for their enjoyment that are managed and operated under the guidance of an adult or staff member
  • Have all of these characteristics:
    a) Not offered for school credit or required for graduation
    b) Generally conducted outside school hours
    c) Content is determined primarily by the pupil participants under the guidance of a staff member or other adult
  • Board may take charge of and control

• Board does not take charge of and control
  • General fund must reflect only those salaries directly related to and readily identified with the activity and paid by public funds
  • Other revenues/expenditures must be recorded according to MAFA
  • must have an annual financial audit
  • must be audited annually for compliance with MAFA
Student Activity Determination

- Board takes charge of and controls
  - Any or all costs may be provided from school revenues
  - All revenues and expenditures recorded in same manner as others of the district
  - Teachers or pupils **MUST** not participate in such activity except by consent and direction of the Board

Student Activity Determination

- Groups that are not student activity accounts nor part of the general fund, and can **NOT** use the district’s TIN
  - Booster Club
  - Parent Teacher Organizations
  - Staff Related Accounts
  - School Foundations
  - Scholarship Fund
Student Activity Determination

Student Activity Account Decision Tree

Summary of Board Responsibilities

<table>
<thead>
<tr>
<th>Characteristics of Student Activities</th>
<th>Student Activities Under Board Control (UFARS)</th>
<th>Student Activities Not Under Board Control (MAPA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Responsibility for Financial Accounting</td>
<td>The Board may delegate authority to the district administration.</td>
<td>The Board has oversight responsibility of all student activities. The Board must provide a means to account for student activities not under board control.</td>
</tr>
<tr>
<td>Budgeting</td>
<td>Both anticipated revenues and expenditures must be budgeted and approved by the Board consistent with the procedures used for any other district funds.</td>
<td>Budgets should be developed by the student leadership with approval by the advisor and/or district administrator.</td>
</tr>
<tr>
<td>Accounting</td>
<td>District must use the same accounting and control system approved by the district for any other district funds. Funds must be accounted for and reported to the Minnesota Department of Education under the current rules for school district financial accounting and reporting (UFARS).</td>
<td>A cash basis accounting system accepted by the Board is to be used.</td>
</tr>
</tbody>
</table>
### Student Activity Determination

#### Summary of Board Responsibilities

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<th>Characteristics of Student Activities</th>
<th>Student Activities Under Board Control (UFARS)</th>
<th>Student Activities Not Under Board Control (MAFA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts/Deposits</td>
<td>Include any donations, membership fees,</td>
<td>Revenue may not include any public funds, but</td>
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<td></td>
<td>admissions, or proceeds of any activity</td>
<td>must rely on dues, proceeds of activity-</td>
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<tr>
<td></td>
<td>sponsored fundraisers, etc. Gifts and</td>
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<td>donations may only be accepted by the Board.</td>
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</tr>
<tr>
<td>Disbursements and Expenditures</td>
<td>Allowable expenditures include any expenditure</td>
<td>Allowable expenditures approved by the</td>
</tr>
<tr>
<td></td>
<td>deemed by the Board to be necessary and for a</td>
<td>student membership and advisor permitted in</td>
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<td></td>
<td>public purpose.</td>
<td>accordance with their activity purpose form.</td>
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<tr>
<td></td>
<td></td>
<td>Donations are permitted if conditions are</td>
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<td>met. Direct or indirect labor payments,</td>
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<td>contract payments and payroll related</td>
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<tr>
<td></td>
<td></td>
<td>payments are not allowed.</td>
</tr>
</tbody>
</table>

**Notes:**
- Individual student activity account balances are not required to be reported separately under UFARS. The student activities represent a minor portion of the dollars reflected in the district fund balances.
- Fund balance should not be negative as this condition may incur a personal liability to the student activity advisor.
- Financial reports shall be transmitted to the Board for their assurance that sound business practices are being followed, at least annually.
- The Board may terminate a program or activity as long as such action does not violate any other statute. It is recommended that local policy be established regarding length of time before the balance is to be distributed.
- May be dissolved by the members when members resign, membership graduates (clerk funds) or when the organization is dissolved by a dissolving action. Balances shall be transferred as directed by the activity purpose form.
- A separate financial audit must be conducted annually by the school district’s outside CPA firm.
Under Board Control

• If one of the following conditions is met:
  a) Board mandates that it be
  b) Activity is related to a requirement or partial requirement for graduation
  c) Transactions are related to a Board ratified contract

• **MUST** follow public purpose and meet all of the following:
  • Will benefit the community as a whole
  • Directly related to the functions of government
  • Does not have as its primary objective the benefit of a private interest
Not Under Board Control

• Statement of purpose **MUST** exist for each activity account and **MUST** be completed on an annual basis
  • Date
  • Name of activity
  • Purpose of activity
  • Age, grade and/or interest of students served
  • Acknowledgement that advisor received copy of MAFA
  • Name of advisor – printed, signature, date
  • Name of building principal – printed, signature, date
  • Instructions for disposal of balance upon termination
Not Under Board Control

- Auditing “MUST’S”
  - Done annually by CPA or OSA
  - Same fiscal year as school district
  - School board review and accept the audit
  - Copy filed with MDE
  - Audit report made available to public upon request
  - In compliance with OSA’s MN Legal Compliance Audit Guide
  - If published in same report as district’s financial statements, proper identification in the table of contents
  - Notes disclose under or not under board control
  - Findings require a corrective action plan

Not Under Board Control

- Banking “MUST’s”
  - If separate checking account is maintained needs to be a Board approved depository
  - Reconciliation completed monthly and in a timely manner
  - Interest allocated at least once each year
    a) General fund to offset overhead costs
    b) Separate activity account to use for specific purpose (pay for checks, deposit slip printing, bank charges, etc.)
    c) Activity account which benefits the maximum number of students
    d) Among all activity accounts
Not Under Board Control

- Borrowing “MUST’s”
  - Not borrow from any individual or entity (i.e. booster club)
  - Not loan money to school employees, activity members, or any other individual
  - No transfer to the general fund to support operations
- Centralized versus Decentralized
  - Chart of accounts and code structure MUST be defined and approved by district administration
  - Centralized means the business office maintains
  - Decentralized is each building principal or administrator’s office maintains
  - All checks issued MUST have supporting documentation and MUST have two signatures

Not Under Board Control

- Contracts
  - MUST be approved by the Board and that contract will be under Board control
  - Required payments MUST be made by the district
  - Student activity account MUST reimburse the district
  - Student activity accounts cannot advertise, solicit and award bids
- Vending Contracts
  - Proceeds MUST not be deposited in any student activity account
    - See OSA SOP on vending machines revised in February 2014
Not Under Board Control

• Disbursements “MUST's”
  • Not be paid with cash
  • Blank checks properly controlled and safeguarded
  • Check requests prepared, and approved via signature by a student rep, the advisor and the building principal (or designee)
    • For elementary activity student rep approval is not required
  • All checks need two signatures
    • Cannot be pre-signed
    • Payee and amount be filled in prior to signatures
    • Appropriate supporting documentation

• Disbursements “MUST's” continued
  • Voided checks need VOID printed across the face of the check
    • If issued amount should be recorded as a negative expenditure in the register
    • Keep voided checks on file
  • Outstanding checks reviewed at year-end
  • Cash boxes may be used on an as needed basis

• Donations to a Student Activity
  • May accept cash but MUST notify the Board of the acceptance
  • Only the Board may accept equipment or non-cash items
    • Becomes property of the district
    • At no time imply or state a value to an in-kind or non-cash donation
Not Under Board Control

- Equipment
  - Purchases funded by a student activity group becomes property of the district
  - Payments need to be made by the district
  - Payments **MUST** not be made directly from activity account
  - Activity account **MUST** reimburse the district

Not Under Board Control

- All expenditures must benefit the students participating in the student activity
- Appropriate expenditures:
  - Admission fees
  - Donations (see exceptions on next few slides)
  - Entertainment
  - Food
  - Lodging
  - Supplies and materials
  - Clothing for students participating in the activity
  - Transportation
  - Travel
Not Under Board Control

• Inappropriate expenditures:
  • Assemblies for entire school
  • Contract payments
  • Employee compensation, gifts, or awards
  • Faculty meetings or events
  • Labor or service payments
  • Library books
  • Office supplies
  • Office or school furniture
  • Textbooks
  • Gift cards
  • Gift certificates

Not Under Board Control

• Inappropriate expenditures continued:
  • Field trips which are curricular in nature
  • Donations to:
    • Individuals
    • Religious activities
    • Booster clubs
    • Parent Teacher Organizations
    • Staff related accounts
    • School foundations
    • Scholarship funds
  • Personal items for coaches, advisors, or other staff members
Not Under Board Control

- Fundraising
  - **MUST** adhere to district fundraising policy
  - Not allowed for direct benefit of individual(s) or family(ies)
  - District and school personnel **MUST** make several decisions:
    - Extent to which community is inundated with sales
    - What sales are appropriate
    - What are you raising money for? i.e. special projects
    - What limits, if any, should be set for accumulation of funds
    - What purposes are appropriate for use of funds
    - What happens if a trip or fundraising objective is canceled?
  - Contribute to the education experience and do not conflict with the instruction programs

Not Under Board Control

- Fundraising continued
  - **MUST:**
    - Have approval of the Board directly or through policy
    - Contracts approved by the Board prior to activity occurring
    - Approval obtained for each event each time it occurs
  - Effective practice is to have all fundraisers published for board review at beginning of each year
  - Be aware of special sales tax exemptions for some types of fundraising – see MN Sales Tax Fact Sheet 111
Not Under Board Control

• Inactive/Discontinued Accounts
  • Follow instructions on purpose form
  • Inactive for maximum of one fiscal year:
    • MUST be disposed of unless advisor submits a plan to principal why it is inactive and why it should not be terminated
    • Principal MUST approve the plan
    • Plan MUST account for any open and outstanding checks
  • Graduating class with remaining funds MUST be disposed no later than September 1 after graduation
  • Transactions occurring after graduation do not require student signatures; advisor and principal may approve

Not Under Board Control

• Negative Cash Balances
  • No individual activity account can operate with negative cash balance at end of fiscal year
  • Special exception:
    • Written plan MUST be submitted to administration providing assurance for future funding (actual or projected)
    • Deficit should be eliminated within three months after fiscal year-end
    • Both principal and superintendent MUST sign the written plan

• Payroll Costs
  • Not allowed directly or indirectly (cannot subsidize)
  • Contractual obligations cannot be made directly (can subsidize)
Not Under Board Control

- Receipts/Deposits
  - Proper segregation of duties
    - Counted by individuals other than those reconciling or depositing at bank
  - Checks **MUST** be endorsed “For Deposit Only”
  - All collections **MUST** be listed on a receipt summary form
  - List of check number and amount of each check included in each deposit **MUST** be kept on file
  - Bank deposits **MUST** be completed at a minimum weekly
  - Funds held prior to deposit **MUST** be secured in a locked safe or other secure place
  - Making change, cashing checks, or otherwise substituting legal tender within the deposit is unallowable
  - May not cash personal checks from a cash box, or make change from a cash box without purchase (i.e. making change for a patron)

Not Under Board Control

- Reporting
  - Board **MUST** receive summary of statement of receipts, disbursements, and current balances for each activity account
  - Report **MUST** be provided to Board at least once per fiscal year
    - More frequent report is encouraged
Best Practices

• Recommended though not required
• Guidelines:
  • Develop a student activity handbook
  • All employees responsible for handling and recording activity fund monies should be bonded by the district
  • Minutes should be maintained for all meetings of individual student activity accounts
  • Internal audit of student activity accounts is completed at least once per year by the business office.
  • For student activity accounts maintaining inventories, consider use of a perpetual inventory system. A physical inventory should be made periodically.
  • Annual training is recommended for all individuals involved with student activity accounts. Possible topics for the training could include review of the MAFA manual, including appendices, and district policies and procedures as applicable.
Best Practices

• Procedures:
  • Develop an annual budget for each activity account
  • Use a fundraiser accountability form
  • Pre-numbered receipts, pre-numbered tickets, ticket control log, or a point of sale device should be utilized for all funds collected
  • At completion of each event, complete a reconciliation of the financial activity to assure funds are accounted in a timely manner
  • Assure there are a minimum of two individuals to count deposits
  • Make bank deposits daily

• Procedures continued:
  • Blank checks should be secured and safeguarded in a safe
  • Formal policy adopted for handling deposit overages/shortages
  • Upon receipt of a returned check from the bank, at least one written attempt is made to recover the amount of the check
  • Checks are mailed the same day they are signed
  • Use of a purchase order system
Thank you!

Derek Flanagan
701-476-8825
dflanagan@eidebailly.com

www.eidebailly.com