RECEIPTS

1.) Is it permissible for fundraising companies to track individual student sales for the purposes of awarding prizes for sales goals?

Yes. It is also permissible for schools to track fundraising by student but ***only as it applies to sales prizes***. Tracking by individual student for the purpose of applying fundraising efforts to offset student fees or costs is prohibited by the Redbook. (See item #7 under "Fundraising" on page 7 of the Redbook.) Consideration should be made whether it is appropriate to offer sales rewards which may exclude some students based on their socioeconomic status.

2.) Can the school accept promotional items from companies for give-aways, i.e. t-shirts to be thrown into the stands at basketball games?

Yes.

3.) **What funds must be deposited into the school activity fund?**

The school activity fund consists of funds deposited into the school activity fund bank account which could include ***district*** activity funds in addition to ***student*** activity funds.

All funds derived from fundraising activities and fees sponsored under the auspices of the school ***by student clubs or student organizations*** are defined as ***student*** activity funds and must be deposited in the school activity fund bank account. The school activity fund is reported on the district financial statements as a fiduciary fund because the expenditure of these funds is directed by student groups, not the local board of education.

Examples of revenues that are ***student*** activity funds and therefore **must** be deposited in the school activity fund bank account include: fees collected and expended by student groups (band, FFA, photography club); fundraising activities for student groups. (See item #1 under "Fundraising" on page 7 of the Redbook.)

Examples of Student Activity Funds	
Art Club	Drama Club
Auto Club	Foreign Language Club
Cheerleaders Club	Journalism Club
Chorus Club	Marching Band
Class of 2*xxx*	National Honor Society
Fall Festival	Pep Club
Mrs. Smith's 3rd Grade Class	Photography Club
Debate Club	Student Council

District activity funds are used to support co-curricular and extra-curricular activities but are not raised and expended by student groups. Historically, some ***district*** activity funds have been deposited into the school activity bank account for convenience or other reasons. If ***district*** activity funds are deposited in the school activity fund bank account they become part of the school activity fund and are therefore subject to the Redbook requirements. ***District*** **activity funds deposited into the district bank account are not subject to the Redbook** and may be expended with more flexibility than the school activity funds but must meet the "educational purpose" standard for all district expenditures. Examples of ***district*** activity funds include: fees that are not expended by student groups (locker fees, textbook fees); fundraising activities sponsored by the district for general purposes instead of student group activities; advertising revenue. If these funds are deposited into the school activity fund bank account, the school/district is willfully choosing to limit the use of the funds by identifying them as school activity funds which can be expended only for nonoperational costs with ***direct*** benefit to students at the school.

Examples of District Activity Funds	
Athletics	Music Concerts
Band Uniforms	School Plays
Book Fair	Special Field Trips
Lab, Locker, Parking Fees	Picture Sales

Instead of depositing these funds into the school activity fund bank account, ***district*** activity funds may be deposited in the district bank account. If so, they may be accounted for in either the general fund or the special revenue fund. Generally accepted accounting principles allow a special revenue fund to be used for "the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects" (National Committee on Governmental Accounting Interpretation 9). Whether in the general or the special revenue fund, a unique project code in the range of 7XXX should be assigned to each activity to allow documentation of board- imposed restrictions on the expenditure of the funds, to prevent commingling with other funding sources, and to fulfill reporting requirements (such as Title IX).

Another reason to account for ***district*** activity funds at the district level instead of depositing them in the school activity fund bank account is to accurately report per pupil expenditures. Expenditures made from the school activity fund bank account are not included in the school, district, or state per pupil expenditure figures published annually. By understating the per pupil amounts, readers believe less is being spent on our students than is actually occurring. The gap between the SEEK funding per pupil and the per pupil expenditures is also understated.

If district activity funds are deposited at the district level in the future, cash flow of the remaining funds in the school activity fund bank account should be carefully monitored to ensure solvency.

(See also the National Center for Education Statistics guidelines regarding student and district activity funds at http://nces.ed.gov/pubs2004/h2r2/ch_8.asp .)

Some revenues associated with the schools are required to be deposited at the district level: day care fees; adult education fees; grants; tuition fees; and donations unless the local board has adopted a policy allowing donations to be accounted for at the school level. (See item #15 under "Receipts, General Guidelines" on page 6 of the Redbook.)

4.) What is a "fee" that must be adopted by the local board of education?

Item #16 under "Receipts, General Guidelines" states that "all student fees and charges shall be adopted by the board. The fee shall remain in place until modified or removed by board resolution. All student fees adopted by the board shall be used for the purposes set forth in the motion and shall not be spent for any other purpose." Therefore **all** fees and charges must be adopted by the board. Examples include: textbook fees, locker fees, lab fees, fees to participate in band or athletics, field trip fees, and senior trip charges.

Some fees require the district to offer waivers to students qualifying for free or reduced meals. Section 4 of 702 KAR 3:220 states that the mandatory waiver of fees shall apply to all charges, direct or indirect, which would otherwise be required for participation in school-sponsored courses, activities, programs, events, or services including: charges for field trips if any portion falls within the school day; uniforms or equipment related to sports, music or fine arts; locker fees; lab fees; general activities fees. See the regulation for more information about the fee waiver process.

5.) Can school activity funds be used to "donate" a fee on behalf of a student who does not qualify for a fee waiver pursuant to 702 KAR 3:220?

Funds raised by a student group must benefit all members of the student group equally. (See item #7 under "Fundraising" on page 7 of the Redbook.) Likewise, funds donated to a student group must benefit all students equally. School activity funds shall not be directed to a specific student whether or not they meet the waiver requirements. In order to target a donation to a particular student, the donation must be made directly to that student or parent outside the school's accounts. Targeting school funds to a particular student circumvents IRS regulations regarding income by allowing the parent to receive the funds tax-free and the donor inappropriately considers that contribution tax-deductible.

Student fees subject to the waiver requirements (see 702 KAR 3:220) shall be funded by district funds, funds donated to the district for that purpose, or SBDM monies. The fee assessed for the activity shall not be increased to account for the fee waivers.

6.) When must the Donation Acknowledgement Form used?

The Redbook does not require the use of the Donation Acknowledgement Form however the IRS requires donations of at least $250 to be acknowledged in writing. The acknowledgment must say whether the organization provided any goods or services in exchange for the gift and, if so, must provide a description and a good faith estimate of the value of those goods or services. See the IRS website for more information at http://www.irs.gov/taxtopics/tc506.html .

7.) Can district funds be collected at the school level and then "swept" periodically to be moved to the district bank account from which the expenditures will be made? (Example: day care fees collected at the school and swept monthly to the district)

The Redbook states that no grant monies, day care fees, adult education fees, or tuition fees shall be deposited in the school activity fund. (See item #15 under "Receipts, General Guidelines" on page 6 of the Redbook.) The intent is to record these revenues and expenditures at the district level.

It is permissible to collect these revenues at the school level and deposit them **temporarily** in the school activity fund account. These deposits must be recorded using a unique account code so the funds are not commingled with any other revenue source. Funds must be swept to the district account at least monthly. Record the disbursement to sweep the account as a reduction to revenue (instead of an expenditure) to avoid overstating revenues and expenditures at the school level. The disbursement to sweep the account must equal the total of revenues collected for the period. Absolutely no expenditures shall be made from these collections at the school level.

8.) Can funds be raised to support activities at the school which do not involve students? (Example: fundraiser to pay for teachers to travel to a foreign country to install water purification systems; no students are on the trip.)

No. If the activity does not involve students then the activity provides a direct benefit to the adult sponsors and not the students/student group and would therefore be prohibited by the Redbook. See item #7 under "Fundraising" on page 7 of the Redbook.

9.) Are cake walks considered a game of chance or a game of skill?

At the time the Redbook was revised, the Department of Charitable Gaming (DCG) indicated that cake walks were to be considered a game of chance and therefore not exempt from licensing requirements. That information is reflected on page 10 of the Redbook. Since that time the DCG has revised the guidance and has now determined cake walks to be a game of skill, as they were classified in years past. Please make note in any printed copies of the Redbook to remove "Cake Walk" from the middle section of the chart on page 10 and add "Cake Walk" to item #6 on the same page to read "The following activities are not considered charitable gaming and do not require a license or exemption: sale of items and games of skill such as Dart Throw, Basketball Shot, Golf Putt, Bean Bag Toss, Bean Count, Milk Bottle Throw, Ring Toss, Duck Pond (all players win a prize equal or greater than the cost to play), Auctions (individual bids – high bid wins), *and Cake Walk*."

10.) When must the Donation Acceptance Form be used?

Item # 4 under "Donations" on page 9 of the Redbook states that the form "shall be completed stating the purpose of and any restrictions on the donation received". Item #1 on page 9 of the Redbook states that "donations are defined as gifts of real or personal property to the school from persons or entities outside the school system". The Donation Acceptance Form shall be completed each time a donation is made ***to the school***. Examples of donations which may be made to a school include cash, weight-lifting equipment, and band equipment. The Form shall not be used when donations are made to individual students for their own personal use. Examples of items which may be donated to individual students include meals, clothing, and supplies.

11.) Why does the IRS have a rule that fundraising cannot be tracked by individual student?

When fundraising proceeds are attributed to specific students and used to offset fees or costs incurred by those students based upon the amount sold or the amount of time worked, it represents income to the

students/parents. It is considered to be private benefit or inurement to the individuals. Booster groups in Kentucky were audited by the IRS several years ago and were fined tens of thousands of dollars for unreported income, penalties, and interest as a result of noncompliance with the private benefit and inurement prohibition. Many individuals working with schools were not aware that this practice went against any law or regulation. To increase awareness, the Redbook revision included this information to prevent others in our state from suffering similar penalties.

12.) Can students be charged a fee to participate in a senior trip? What happens if the student cannot afford to pay? If the student changes his mind, can the fee be refunded?

As discussed in FAQ #4 under "Receipts" ***all*** student fees and charges must be adopted by the board. (See item #16 under Receipts, General Guidelines" on page 6 of the Redbook.) If the fee or charge is not adopted by the board but students are asked to pay an amount, any amount paid would be a donation to the school.

If the board adopts a fee or charge, only students remitting the required fee will participate in the activity. If the activity meets the definitions detailed in 702 KAR 3:220, the fee waiver process must be followed. If the activity is not subject to that regulation, the fee will apply to all students regardless of family income. Funds may be donated to the school for the purpose of "fee waivers" or to apply to the activity as a whole but funds may not be donated to the school to be attributed to specific individual students (see FAQ #5 under "Receipts"). If the student later decides not to participate in the activity after the fee is paid, the student may receive a refund up to the amount of the fee paid and less any nonrefundable amounts paid on behalf of that student by the school.

If the board does not adopt a fee but students are asked to pay an amount toward an activity, any funds received are donations to the school. Students who do not donate the requested amount shall not be excluded from the activity. Students donating funds and then choosing not to participate in the activity shall not be refunded any amount.

Consideration should be made whether it is appropriate for the school to sponsor an activity which may exclude students based on their socioeconomic status.

13.) How can the required Form F-SA-2B be completed for Scholastic book fairs?

Schools receive free merchandise and/or a percentage of total sales revenue. The school does not purchase items from Scholastic nor are items donated to the school for resale. Scholastic sends a shipment of goods to the school based on the enrollment. After the book fair, unsold goods are shipped back to Scholastic. A company representative obtains the amount of total sales revenue from school personnel. The free merchandise and/or cash are based upon the level of total sales.

If the book fair is conducted as a fundraising activity, complete the sections of the form which are applicable to the activity. Since no count of items is performed for book fairs, items 1, 2, 5, and 6 do not need to be completed. Ensure that other items on the form are completed.

Ensure that receipts are written at the time money is received during the book fair utilizing actual receipts, the cash register provided by Scholastic, and/or the multiple receipt form. Form F-SA-2A and Form F-SA-17 are also required for book fairs conducted as a fundraiser. (See items #9 and #11 under "Fundraising" on page 7 of the Redbook.)

Instead of a school-sponsored fundraiser, a book fair may be conducted as a service to students/parents or as a way to fund additional resources for the school library. In those instances, book fair revenue would be considered a district activity fund and should be accounted for at the district level.

EXPENDITURES

NOTE: The school activity fund consists of funds deposited into the school activity fund bank account which could include ***district*** activity funds in addition to ***student*** activity funds. The Redbook and FAQs below apply to school activity funds only. If ***district*** activity funds are deposited in the school activity fund bank account they become part of the school activity fund and are therefore subject to the Redbook requirements. ***District*** **activity funds deposited into the district bank account are not subject to the Redbook** and may be expended with more flexibility than the school activity funds but must meet the "educational purpose" standard for all district expenditures. See FAQ #3 under "Receipts" for more information about the distinction between school and district funds.

1.) Can school activity funds be used to pay for a substitute teacher to replace the teacher/sponsor while participating in a student group activity?

School activity funds cannot be expended for "operational expenses". (See item #5 under "Fundraising" on page 7 and the examples in the "Disallowed Expenditures" list on page 17 of the Redbook.) The National Center for Education Statistics (NCES) defines "operating" as: "Operating transactions are incurred in the course of the operating activities of the institution." Based on that definition, salary costs that would be considered as operating costs *incurred in the course of the operating activities of the school district* would include salaries of employees for regular duties and substitute costs incurred in the normal course of business (due to sick and personal days of regular employees).

The question specifically relates to the payment of substitute costs when the regular employee is a coach/sponsor of a student group and is engaged due to the activities of that student group. In that situation, The Redbook permits, but does not require, the use of school activity funds to pay the cost of the substitute. Similarly, school activity funds ***may*** be used to reimburse the district for the cost of

transportation for student group activities which includes the cost of the bus driver's salary. (See FAQ #20 under "Expenditures" for more information regarding transportation reimbursement.)

School activity funds shall not be used to pay the cost of substitutes for covering a regular employee out on sick or personal leave or for attending professional or staff development.

In addition, the Redbook is clear that any payments made for personal services rendered by district employees must be made through district payroll. (See "Employees" on page 15 of the Redbook.)

2.) Can school activity funds be used to pay salaries?

Yes and no. Base pay, contracted salary, and pay for district-created positions, including stipends, **shall not** be paid from school activity funds. These costs are "operational expenses" and include: stipends for sponsors of student activities, SBDM secretary, and coaching supplements. (See item #5 under "Fundraising" on page 7 of the Redbook.)

School activity funds **may** be used to pay for other types of personal services costs including: additional custodial costs for clean-up after a basketball game, ticket takers, clock keeper at sporting events, guest conductors, game officials, and judges.

In addition, the Redbook requires payments made for personal services rendered by district employees to be made from the district through payroll. (See "Employees" on page 15 of the Redbook.)

3.) Can concession workers be paid out of the school activity fund bank account?

If concession workers are paid, the payment for the work could be paid by school check from the activity account holding the fundraiser but only if the worker is determined to be an independent contractor, which is unlikely. Workers determined to be employees must be paid through payroll at the district level and the activity account could reimburse the district for those expenditures. (See "Independent Contractors" and "Employees" on page 15 of the Redbook.)

Workers shall not be paid with cash from the concession revenues. Likewise, ticket takers shall not be paid with cash from gate receipts. (See item #1 under "Expenditures, General Guidelines" on page 10 of the Redbook.)

4.) Can gate receipts deposited in the school activity fund bank account be used for structural improvements? (Example: a fenced area for a group's equipment.)

No, school activity funds cannot be expended for maintenance or renovation. (See item #3 under "Disallowed Expenditures" on page 17 of the Redbook.)

Gate receipts deposited in the district bank account may be expended for anything meeting the "educational purpose" test. See FAQ #3 under "Receipts" for more information regarding the difference between school activity funds and district funds.

5.) Can school activity funds be used to purchase textbooks?

School activity funds may be used to purchase textbooks only if the funds are raised for that purpose and they are to be used for a student group. A fundraiser approval form (F-SA-2A) must be completed for each fundraiser which includes the "purpose" of the activity. Funds raised must be spent in accordance with this purpose. Textbooks for general use or materials required to implement the curriculum are operational expenses and must be purchased with district funds. (See item #5 under "Fundraising" on page 7 of the Redbook.)

6.) Can school activity funds be used to purchase "coach's cards"?

The Redbook prohibits the payment of an individual's organization dues or fees that do not provide a direct benefit to the student group. Also prohibited is the payment of extra compensation or bonuses to district employees whether in the form of cash or gifts. Finally, the Redbook prohibits any purchase that benefits the adult sponsors or district personnel and not the student group. (See item #7, #8, and #9 under "Disallowed Expenditures" on page 17 of the Redbook.)

Coach's cards which provide personal benefits to the adult sponsor or district employee such as liability insurance coverage, disability insurance, free admission to events, or eligibility for awards are prohibited from purchase with student activity funds unless they also provide a direct benefit to students. If the card provides both personal benefits to adults and direct benefit to students, school activity funds may be used for the portion of the card cost allocable to direct student benefit. Coach's cards shall not be considered for purchase for any non-coaching or retired staff.

The purchase of coach's cards may be taxable to the recipient and required to be reported on the employee's W-2.

As with any purchase, the school or district shall pursue the most cost effective means to achieve outcomes and procure goods and services. If the Rules Clinic (provided free of charge with membership in Kentucky High School Coaches Association (KHSCA)) would cost the school more than the cost of membership, then the school may use school activity funds to purchase the membership because the Rules Clinic is required for all coaches by the Kentucky High School Athletic Association and required trainings to be a coach or sponsor is an allowable expenditure with school activity funds. Likewise if the coach is approved to "scout" six out-of-district sports events and the cost of admission to those events is greater than the cost of the membership to KHSCA (which provides the member free admission to the events) then school activity funds may be used to purchase the membership for the coach. Retain documentation to support the use of school activity funds if these situations apply.

7.) Can school activity funds be used to pay for uniforms for coaches or sponsors of student groups?

School activity funds may be used to pay for a uniform for the coach/sponsor of a student group only if the uniform is unique to that student activity, required to be the coach/sponsor, and is not suitable for wear for any other purpose. Examples: baseball uniform, cleats. (See item #2, #7, and #9 under "Disallowed Expenditures" and item #6 under "Allowable Expenditures" on page 17 of the Redbook.)

Any other "uniform" must be required by board policy and school activity funds shall not be used to make the purchase. This type of "uniform" would be an operational expense. Examples include: shirt with or without the school/group logo, jackets with or without logos, caps, footwear.

Clothing purchased for employees (with a value of at least $25) which is suitable for everyday use is a taxable benefit to the employee and must be reported on their W-2. In order to be exempt from tax, the clothing must be required to be worn as a condition of employment ***and*** not suitable for everyday wear.

8.) Can school activity funds be used to pay for any professional development or training?

Expenditures for professional development, as defined in the Redbook, are specifically prohibited. However, training which is required to be a coach or sponsor of a student group is an allowable purchase with school activity funds. For example, CPR training required for coaches would be an allowable purchase. (See item #14 under "Disallowed Expenditures" on page 18 and item #12 under "Allowable Expenditures" on page 17 of the Redbook.)

9.) Can gift cards be purchased from the Family Resource Center?

If school activity funds are being used, gift card purchases are prohibited. (See item #1 under "Disallowed Expenditures" on page 17 of the Redbook.)

10.) Can the district funds be used to purchase gift cards?

The Redbook only applies to school activity funds – not funds in the district bank account. Gift cards can very easily be used for a purpose, and by a different individual, other than what was intended. The purchase of gift cards with district funds is strongly discouraged.

11.) How can gift cards be given out to students at Project Graduation?

The donor can purchase and give out the gift cards. Once funds are donated into the school's bank account, they become school activity funds and cannot be used to purchase gift cards or prepaid credit cards. (See item #1 under "Disallowed Expenditures" on page 17 of the Redbook.)

12.) Can school activity funds be used to purchase memberships for students/families to local area attractions, i.e. zoo, aquarium, Kings Island?

Yes, if the membership application is submitted by the school in the student/families name. (See item #7 under "Allowable Expenditures" on page 17 of the Redbook.)

13.) Can school activity funds be used to assist disadvantaged students' families with living expenses as part of the goals of the Family Resource Center?

Yes, if the funds are raised specifically for that purpose. A fundraiser approval form (F-SA-2A) must be completed for each fundraiser which includes the "purpose" of the activity. (See item #9 under "Allowable Expenditures" on page 17 of the Redbook.)

14.) If a business donates a sum of money to the school with the stipulation that the funds be split equally among graduates in the form of cash, is this allowed?

No. Once the donation is deposited into the school account it becomes school activity funds and cannot be used to distribute cash or purchase gift cards despite the donor's request. Likewise, the school could not purchase alcohol with funds donated specifically for that purpose. Donations made with restrictions contradicting the Redbook shall not be accepted by the school. (See item #1 under "Disallowed Expenditures" on page 17 of the Redbook.)

15.) Can funds in the faculty account be used to make purchases that are prohibited with school activity funds?

No. The faculty account is part of the school activity fund account and as such, must follow the Redbook. Faculty funds shall not be used for any purpose prohibited by the Redbook including operational expenses (printer ink, for example), attendance incentives that are not instructional in nature, or the purchase of gift cards. The Redbook does specifically allow gifts, services, or donations to district employees and external support/booster organizations only with staff generated funds. (See item #5 under "Disallowed Expenditures" on page 17 of the Redbook.)

16.) Can a charitable contribution or donation be made with school activity funds in the form of cash or a gift card to an individual?

The Redbook allows charitable contributions and donations to be made with school activity funds only if the funds were collected specifically for that purpose. (See item #9 under "Allowable Expenditures" on page 17 of the Redbook.) A "charitable contribution" is a contribution made by an individual or an organization to a nonprofit organization, charity or private foundation. The Redbook prohibits the disbursement of school activity funds in the form of cash, prepaid credit cards, or gift cards. (See item #1 under "Disallowed Expenditures" on page 17 of the Redbook.) Therefore, charitable contributions made in accordance with the Redbook shall not be in the form of cash, prepaid credit cards, or gift cards.

When funds are raised specifically for the purpose of making a charitable contribution or donation, the public expects the funds they contribute to be tax-deductible. Contributions made to a nonprofit organization, charity or private foundation will be tax-deductible to the donors. Donations made to other individuals or organizations are not tax-deductible to the donors.

17.)Can the purchase order for a game official be prepared after the event if the name of the individual is not known in advance?

No. The purpose of a purchase order is to ensure the purchase if allowable, properly approved, and adequate funds are available to make the purchase. The individual name is not essential to meet the objectives of the purchase order requirement. Therefore, if the individual game official's name is not known in advance, complete the purchase order in advance of the event with "to be determined" as the name of the vendor. (See item #5 under "Purchasing" on page 12 of the Redbook.)

18.) Can school activity funds be used to purchase ticket stock?

School activity funds may be used to purchase ticket stock or pre-printed tickets which are to be used solely for that group's activities. Ticket stock used generally at the school would be an operational cost and shall not be purchased with school activity funds. (See item #5 under "Fundraising" on page 7 of the Redbook.)

19.) Can school activity funds be used to pay for mowing or striping athletic fields?

School activity funds may be used to pay for striping athletic fields since the striping is specific to the student activity and would not otherwise be a necessary expenditure of the school. School activity funds shall **not** be used to pay for regular care and upkeep of any school property. Mowing, seeding, and fertilizing are operational expenditures of the school. (See item #5 under "Fundraising" on page 7 of the Redbook.)

20.) Can school activity funds be used to reimburse the district for costs incurred in transporting students to a student group activity?

The Redbook specifically allows school activity funds to be used to pay the travel expenses and meals consumed by the student members during an official school trip therefore reimbursement of transportation costs incurred would be allowable. When district-owned buses are utilized, many districts use a per mile rate to determine the cost of the trip. The rate charged to student groups for transportation should include only the cost of fuel. The proportionate share of the driver's salary/benefits for the time spent on the student group's activity may also be charged to the student group. No maintenance costs or depreciation of the buses should be included in the rate. Maintaining a bus used in the operations of the district is an operating cost.

The 2008 edition of the Redbook stated: "School activity funds **shall not** be used to pay for basic routine operating expenses, renovations, or maintenance of school facilities and buildings." (See page 10, Item #2 under "Purchasing".)

The revised Redbook states: "Fundraising activities are to benefit students, so fundraisers to cover staff payroll and other operating costs are not permitted." (See item #5 under "Fundraising" on page 7.) As discussed in FAQ #3 under "Receipts", some ***district*** activity funds have been deposited at the school level that were not required to be there resulting in funds other than those raised by students existing in the school activity fund bank balance.

Item # 3 under "Disallowed Expenditures" on page 17 of the Redbook states that school activity funds shall not be expended for "renovation or maintenance of school facilities or buildings". The list of disallowed expenditures is not an all-inclusive list but merely some examples of the types of expenditures for which school activity funds shall not be used. Maintenance is an operating expenditure whether it is maintenance on buildings, grounds, equipment or vehicles used in the operations of the school district. None of these would be permitted to be paid with school activity funds.

"Basic routine operating expenses" or "operating costs" include many things. NCES defines "operating" as: "Operating transactions are incurred in the course of the operating activities of the institution." Anything needed to operate the school district's regular activities are disallowed under the Redbook and that premise has been applied to all the FAQs throughout this document. Operating costs include textbooks, copier lease payments, and instructional supplies. School activity funds may be used to pay for these items **only if they are used solely and specifically by the group raising the funds** (examples: textbooks specifically used by the academic team to prepare for competition).

In many cases the budgetary issue created by this prohibition on school activity funds can be resolved by depositing funds in the appropriate place – if gate receipts, a ***district*** activity fund, are deposited at the district level then they may be used to pay for the entire cost of using a bus, including the maintenance component. Conversely, if the school district chooses to deposit gate receipts into the school activity fund bank account, the district is willfully limiting the use of the funds and must comply with the Redbook. See FAQ #3 under "Receipts" for more information regarding the difference between school activity funds and district funds.

21.) Can school activity funds be used to pay the cost for parents or chaperones participating in student trips?

No. In the "Cash Advances & Travel Reimbursement" section beginning on page 12 of the Redbook, only teachers or other district employees are mentioned. Item # 7 in "Allowed Expenditures" on page 17 states that school activity funds may be used to pay "travel expenses and meals consumed by the student members and their adult sponsors during an official school trip". Therefore only the cost of students, the student group sponsors, and in some cases other district employees may be paid from school activity funds.

EXTERNAL SUPPORT/BOOSTER ORGANIZATIONS

1.) Can an external/support booster organization (booster) hold a fundraising camp and pay individuals directly out of their external account? What if the individuals are employees of the school district?

External boosters must be responsible to make their own determination about who they employ and worker status determinations for camps and other activities sponsored by the booster group. They are responsible for proper withholding and tax reporting. In some cases the camps are led by an individual employed by the district such as a coach, for example. Keep in mind that all expenditures for athletics made by boosters must be reported to the principal by July 15 annually for the purposes of Title IX reporting. Local boards may prohibit external boosters from employing district employees for the camps or limit employment of district employees to conditions outlined by agreement, similar to a non-compete agreement for Superintendents. In addition, external boosters need to ensure their activities are in accordance with the stated tax-exempt purpose.

Any camps or other activities sponsored by the school are subject to all district policies, statutes, and regulations. Any personnel hired to perform work for school-sponsored activities must be paid through district payroll or an independent contractor determination must be made at the district level.

2.) Can an external/support booster organization (booster) use fundraising proceeds to pay for training for a coach employed by a school district?

Yes, if the funds were raised specifically for that purpose and the fundraising activity was properly approved. Boosters cannot, however, pay a stipend directly to the coach to attend a training – that would have to be paid through district payroll. (See item #13 under "Boosters, General Guidelines" on page 23 of the Redbook.)

3.) Can external/support booster organizations (boosters) provide services to the school and receive payment from school activity funds for those services? For example, can boosters run the clock at a ball game and be paid by the school for that service?

The school must determine whether the individual providing the service is acting in an employee or independent contractor capacity. The booster membership status of the individual is irrelevant. If the individual is deemed to be an employee, the payment must be made through payroll at the district level. If the individual is deemed to be an independent contractor, the payment may be made by school check only after an IRS Form W-9 is on file for that individual. (See "Independent Contractors" and "Employees" on page 15 of the Redbook.) The individual, who is a member of the booster group, may donate their wages to the booster group. The wages shall not be paid directly to the booster group. Doing so would circumvent tax law.

4.) Can external /support booster organizations purchase gift cards?

Yes. **External** boosters can make their own determination. If the booster group deposits their funds in the school bank account, they cannot buy gift cards and must follow all requirements of the Redbook.

5.) Does "event insurance" covering specific activities of the external /support booster organization satisfy the requirement for separate general liability insurance coverage?

No. The Redbook requires external support/booster organizations to obtain separate general liability coverage "appropriate to operate their organization" prior to commencing any fundraising activities. (See item #2 under "Insurance" on page 23 of the Redbook.) The intent is for the booster groups to have continuous liability coverage for their activities involving the school facilities, school name, students, etc. throughout the year. Their usual activities should be taken into consideration by the insurance company when obtaining a quote for coverage.

6.) Can the school district provide the general liability coverage required for external /support booster organizations?

No. The Redbook requires external support/booster organizations to obtain ***separate*** general liability coverage therefore extending the district's coverage to include the booster groups would not meet the

requirement. (See item #2 under "Insurance" on page 23 of the Redbook.) Districts shall not expend funds to purchase separate general liability insurance coverage for external support/booster organizations because public education funds cannot be spent for the operations of separate legal entities.

7.) Can external /support booster organizations collect fees from students?

No. The Redbook states that all student fees and charges shall be adopted by the board and the fee shall remain in place until modified or removed by board resolution. Any fees adopted by the board must be deposited in the district or school bank account and used for the purpose set forth in the motion. (See item #16 under "Receipts, General Guidelines" on page 6 of the Redbook.)

8.) Can district employees handle funds in concession stands and other fundraisers as a member in an external /support booster organization?

Yes. District employees are permitted to be regular members of an external support/booster organization and participate in booster activities in that capacity. (See item #9 under "Boosters, General Guidelines" on page 22 of the Redbook.) The Redbook prohibits district employees from performing business functions for external support/booster organizations such as ordering and receiving goods, receipting funds, depositing funds, and paying vendors. (See item #7 under "Boosters, Fundraising" on page 24 of the Redbook.) The intention of the prohibition is to ensure district employees do not have access to the external support/booster organization's funds. District employees shall not collect any funds on behalf of an external support/booster organization in which a receipting situation exists and district employees shall not create any source documents belonging to the boosters. Therefore, district employees may participate in handling cash in a concession stand but shall not be the individual preparing the deposit of those funds or taking the funds to the bank. District employees shall not collect entry fees or any monies that would be documented on a receipt or a multiple receipt form.

9.) Can external /support booster organizations create and fund additional coaching positions at the school?

No. All positions must be created by the local board of education, including the salary or stipend amount associated with each position. External support/booster organizations may make donations to the district for the purpose of paying board-established salaries or stipends which must be paid through district payroll. Likewise, booster groups cannot pay "volunteer" coaches. The local board would have to take action to set a payment amount for that work and then the booster group could donate funds to the district to offset the cost.

10.) Can external /support booster organizations give gifts to district employees?

Yes. External support/booster organizations are not subject to all the provisions in the Redbook and may make purchases that are unallowable with school activity funds. Purchases made by boosters must be in accordance with the tax-exempt purpose of the organization, however. Some gifts made by the external support/booster organization may be viewed by the IRS as compensation to the recipient. If so, that gift shall not be made to the district employee because the Redbook prohibits external support/booster

organizations from enhancing a district employee's salary. Therefore gifts to district employees are permissible unless it would be considered a taxable transaction by the IRS.

11.) Are external /support booster organizations required to obtain federal tax-exempt status?

No. External support/booster organizations are not required to obtain federal tax-exempt status by receiving a 501(c)3 designation. However, if the booster group does not obtain this distinction, the entity is subject to federal tax which is required to be reported to the IRS via the annual tax return process depending upon the structure of the entity. Donations made to booster groups are tax deductible to the donor only if the booster group has obtained federal tax-exempt status.

Likewise, booster groups are not required to obtain state tax-exempt status, either but without obtaining the status all purchases made by the entity are subject to state sales tax. The school's state tax-exempt status shall not be used for any external /support booster organization purchases.

12.) Can spouses of local board members or district employees be officers of external support/booster organizations?

The Redbook does not limit the involvement of spouses of local board members and district employees with external support/booster organizations.

13.) If a booster group decides to deposit funds in the school activity account, can a booster member be the sponsor of the student group?

No. Coaches /sponsors of student groups within the school activity fund shall be an employee of the district. When booster groups deposit funds in the school activity account they no longer retain control over the expenditure of the funds. The coach/sponsor designated by the school or district and the student group may take into consideration the wishes of the former officers of the booster group.

When the booster funds are deposited in the school activity bank account, the booster group no longer continues to operate in the same capacity. The booster group may continue to provide support for fundraising activities however the former officers no longer have decision-making authority over the funds and how they are expended.

14.) What is the minimum amount required for liability insurance coverage and when must it be effective?

The Redbook requires external support/booster organizations to obtain separate general liability coverage "appropriate to operate their organization" prior to commencing any fundraising activities. No minimum amount of coverage is required. The booster group's usual activities and amount of average annual receipts, among other factors, should be taken into consideration by the insurance company when obtaining a quote for coverage. Proof of liability coverage must be provided to the school prior to any fundraising activities regardless of the physical location of the activity. (See item #2 and #3 under "Insurance" on page 23 of the Redbook.)

15.) Are Alumni Groups considered external support/booster organizations?

No. If the Alumni Group does not support school activities then the group would not be considered a school support organization and would not be subject to the Redbook. For example, an Alumni Group raising funds for reunions would not be a support/booster organization because the members of the Alumni Group who receive the benefits of the group's activities are no longer students of the school.

16.) Can external support/booster organizations pay referees directly if they are working at a booster-sponsored event?

Yes. If the event is sponsored by the booster group the booster group can hire and pay game officials directly. Booster groups shall not pay game officials directly for work performed in conjunction with any school-sponsored event. (See item #12 under "Boosters, General Guidelines" on page 23 of the Redbook.) Athletic events regulated by KHSAA and counted on the school's record are considered to be school-sponsored events and booster groups shall not pay referees for these events directly.

17.) Are PTAs subject to the reporting requirements of KRS 367.657 and specifically the requirement to file tax returns with the Attorney General's office?

No. PTAs, and similar parent-teacher groups such as PTOs, are not subject to the tax reporting requirement detailed in KRS 367.657 due to the exemption specified in KRS 367.660. PTAs are not required to submit the annual IRS Form 990 to the Attorney General's office.

18.) The Redbook states that district employees cannot sign booster checks. Are substitutes considered to be district employees?

Yes. Substitutes are district employees as well as any other person who receives a W-2 from the district.

19.) Can boosters charge fees to student or parent members?

As noted in FAQ #4 under "Receipts" ***all*** student fees and charges must be adopted by the board of education. (See item #16 under "Receipts, General Guidelines" on page 6 of the Redbook.) Boosters shall not adopt student fees and charges unless the charge is related to a booster-sponsored activity such as a camp or a ticket charge to attend a booster event. Boosters shall not adopt a fee, charge, or dues amount related to any school-sponsored activity. All funds raised by student fees and charges shall be accounted for in the school or district bank account. Monies raised through school-sponsored fundraising shall be deposited into the school activity fund bank account. (See item #1 under "Fundraising" on page 7 of the Redbook.)

Booster clubs that require membership and also require a membership fee puts the organization's tax-exempt status at risk.

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