Kentucky Department of EDUCATION

Accounting Procedures for Kentucky School Activity Funds “Redbook”- Guidance

August 1, 2026 Edition

Contents

Introduction

This guidance document is intended as a supplemental resource and does not carry the force of law. Its purpose is to support and enhance understanding of the requirements outlined in the August 1, 2026 edition of the *Accounting Procedures for Kentucky School Activity Funds* also known as the "Redbook" and incorporated by reference in 702 KAR 3:130.

External Support/Booster Organization Resources

Internal Revenue Service (IRS) information

The IRS has published the following information on its website regarding the life cycle of a public charity:

> During its existence, a public charity has numerous interactions with the IRS – from filing an application for recognition of tax-exempt status, to filing the required annual information returns, to making changes in its mission and purpose. The IRS provides information, explanations, guides, forms and publications on all of these subjects – they are available through this IRS Web site. The illustration below provides an easy-to-use way of linking to the documents most charities will need as they proceed though the phases of their "life cycle." You can also view a graphical depiction **PDF** of the chart, with links to our website.

Starting out

- Organizing documents
  - Required provisions
  - Sample organizing documents
    - Governance and related topics **PDF**
- Bylaws
  - State law requirements
- Employer identification number
  - Application form **PDF**
  - Online EIN application
- Charitable solicitation
  - Initial state registration
  - Periodic state reporting
  - State charity offices
- Help from the IRS

Applying to IRS

- Requirements for exemption
- Application forms
  - Exemption application
    - Group exemption
  - User fee
  - Power of attorney
  - Disclosure of applications
- IRS processing
  - While you wait
  - Rulings and determination letters
- Help from the IRS
  - Application process step by step
  - Customer account services
  - Publication 4220, Applying for 501(c)(3) Tax-Exempt Status **PDF**
  - Publication 557, Tax-Exempt Status for Your Organization **PDF**

Required filings

- Annual exempt organization return
  - Requirements for filing
- E-file for exempt organizations
  - e-Postcard for small exempt organizations

- Unrelated business income tax
    - Requirements for filing
        - Form 990-T **PDF**
        - Form 990-T instructions **PDF**
        - Estimated tax
    - Exceptions and exclusions
    - Publication 598, Tax on Unrelated Business Income for Exempt Organizations **PDF**
- Help from the IRS
    - Customer account services
    - Publication 4221-PC, Compliance Guide for 501(c)(3) Public Charities
    - Publication 557, Tax-Exempt Status for Your Organization **PDF**

Ongoing compliance

- Jeopardizing exemption
    - Inurement/Private benefit
    - Intermediate sanctions
    - Lobbying/Political activity
    - Not filing annual return or notice
- Employment taxes
    - Requirement to pay
    - Exceptions and exclusions
    - Worker classification
    - Forms and publications
- Retirement plan compliance
- Substantiation and disclosure
    - Charitable contributions
        - Publication 1771, Charitable Contributions Substantiation and Disclosure Requirements **PDF**
        - Written acknowledgments
        - Quid pro quo contributions
        - Charity auctions
    - Noncash contributions
        - Donor (Form 8283 **PDF**)
        - Donee (Form 8282 **PDF**)
        - Publication 561, Determining the Value of Donated Property **PDF**
- Public disclosure requirements
- Help from the IRS
    - Customer account services
    - Publication 4221-PC, Compliance Guide for 501(c)(3) Public Charities
    - Publication 557, Tax-Exempt Status for Your Organization **PDF**

Significant events

- Reporting changes to IRS
    - Termination of exempt organization
- Private letter rulings and determination letters
- Audits of exempt organizations
    - Potential examination consequences
    - Examination procedures
    - Power of attorney
- Termination of an exempt organization
- Help from the IRS

Interactive training

Learn more about the benefits, limitations and expectations of tax-exempt organizations by attending 10 courses at the online Small to Mid-Size Tax Exempt Organization Workshop.[1]

The IRS has published the following information on its website regarding the tax-exemption of 501(c)(3) organizations:

> Organizations described in section 501(c)(3) are commonly referred to as **charitable organizations**.
>
> Organizations described in section 501(c)(3), other than testing for public safety organizations, are eligible to receive tax-deductible contributions in accordance with Code section 170.
>
> The organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual.[2]

Record Retention

External support/booster organizations should establish a record file that is passed on to the new officers each year. Some items need to be kept indefinitely while other items only need to be kept for a certain length of time. The record file should contain at least the following items on a permanent basis:

Permanent Record

1) Internal Records
    a) Booster Organization Registration & Approval Form
    b) Articles of Incorporation/Articles of Association
    c) Bylaws/Charter/Constitution
    d) Minutes from meetings

2) State Records
    a) Sales Tax Permit Application
    b) Sales Tax Permit
    c) Certificate of Incorporation from State of Kentucky (if applicable)
    d) State Sales Tax Exemption Notification
    e) State Franchise Tax Exemption Notification (if incorporated)

Federal Records

1) Copy of IRS Form SS-4, Application for Employer Identification Number

2) Copy of IRS Form 1023, Application for Recognition of Exemption, with all attachments

3) Copy of IRS Form 8718, User Fee for Exempt Organization

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[1] This information was copied from the IRS website on March 2, 2026. For the most up-to-date version of this information, please refer to the IRS website.

[2] This information was copied from the IRS website on March 4, 2026. For the most up-to-date version of this information, please refer to the IRS website.

4) Determination Letter Request, and copy of check sent to IRS with this form

5) Acknowledgement of Your Request

6) Determination Letter

7) Copy of IRS Form 8734, Support Schedule for Advance Ruling Period

8) IRS's notice granting permanent exempt status to the organization, if applicable

According to the IRS, Booster Organizations must keep each annual information return (i.e., Form 990, Form 990-EZ, or Form 990-N) for three (3) years from the date the form is required to be filed or from the date the form is actually filed, whichever is later. However, if fraud is suspected or if returns have not been filed as applicable, the IRS could request information prior to the 3-year period discussed above.

Non-permanent Records

1) Internal Records
    a) Financial Reports and Review Committee Reports
    b) All financial backups including checkbook and bank records
    c) Information related to contributions received by a Booster Organization from individuals or businesses
    d) Financial Aid Guidelines

2) State Records
    a) Sales Tax Forms Filed
    b) Copy of correspondence with the Kentucky Department of Revenue
3) Federal Records
    a) Copy of IRS Forms 990, 990-EZ, or 990-N filed
    b) Copy of correspondence with the IRS

Before discarding any records, the external support/booster organization should confirm with the Kentucky Department of Revenue and the IRS that the organization is in good-standing and that there are no open items or issues.

Recommended Report Review Procedures for Schools

The following includes recommendations for review procedures to be used for School Activity Funds (SAF).

Bank Statement Reconciliation (used on the F-SA-15A):

Principal

1) Each month the bank statement is to be e-mailed directly (if electronically) to the principal or opened (if mailed or picked up) by the principal prior to the treasurer having access to it.

2) Review the bank statement, signing (or initialing) and dating the front page after review.

3) Review deposit dates and amounts (usually on the front page of bank statement).
   a) Look at dates and amounts deposited (this will show deposit activity and will help decide if money is being held and not deposited timely).
   b) Review photo images of deposit slips.

4) Look for checks deposited being line listed on deposit slips (each check must be line listed <u>or</u> photocopied).
   a) Look to see if cash is being deposited.
   b) Look at the date on deposit slips to see if it matches the date deposited.

5) Review photo images of checks.
   a) Verify the "principal signature."
   b) Review payee (should not see checks written to vendors you do not recognize).
   c) If any checks are questionable, review the supporting documentation for the check.

6) Familiarize yourself with other debits and credits.
   a) Bank interest. Can be posted to Student Activity Fund and/or District Activity Fund.
   b) Returned checks – Insufficient Funds.
   c) Adjustments to deposits.
   d) Any fees listed.

7) After reviewing, sign (or initial) and date the front page of the bank statement as required in step #2 and give the reviewed bank statement to the school treasurer for account reconciliation and financial report preparation.

School Treasurer

1) The school treasurer is to prepare the Monthly/Annual Financial Report (Form F-SA-15A) at each month end close or as directed by local board policy.

2) The original is to be signed and reviewed for accuracy and reasonableness by the principal.

3) The Monthly/Annual Financial Report (Form F-SA-15A) is to be submitted to the finance officer, and a copy retained in the school files.

4) Upon receipt of the monthly school activity fund checking account bank statement (after principal review), the statement balance is to be reconciled to the monthly report. The school treasurer should use the reconciliation section on Form F-SA-15A.
   a) Arrange the canceled checks in numerical order and determine outstanding checks including outstanding checks from prior months.

b) Arrange the deposit slips in chronological order and determine whether all deposits have been recorded accurately on the statement.

5) In the proper spaces in the reconciliation section, complete the following information:
   a) Beginning ledger balance (ending balance from the prior month's reconciliation).
   b) Total monthly deposits (receipts) and disbursements (expenditures) (from the month-to-date columns of the journal or from the computer generated monthly detailed transaction summary).
   c) Other reconciling items (record any transactions that the bank handled but were not entered into the school ledger, such as interest, returned checks, re-deposits, service charges, etc.).
   d) Outstanding checks and deposits.
   e) Ending balance (complete steps in reconciliation process).

6) Compare and reconcile the ending balance per the reconciliation with the ending balance stated by the bank.

7) All items returned by the bank should be filed with the checking account statement on which they appear.

Monthly Reports – districts processing Student Activity Funds outside of Enterprise ERP (Munis)

Several reports are filled out by the treasurer each month and submitted to the principal and forwarded to the district finance officer.

<u>Review Procedures for the Reports Submitted to the District Finance Officer</u>

1) Monthly/Annual Financial Report (Form F-SA-15A)
   a) Make sure report shows the bank reconciliation, if using software generated financial reports (the original signed or initialed copy).
   b) List of outstanding checks.
   c) Complete copy of the bank statement (original stays at the school).
   d) Verify "Outstanding Checks" entry on the Monthly/Annual Financial Report (Form F-SA-15A) to the list of outstanding checks report. The two totals should match.
   e) List of outstanding checks.
      i. The total amount of this list of outstanding checks should be reflected on the Monthly/Annual Financial Report (Form F-SA-15A).
      ii. Write off any outstanding checks with an issuance date older than one year (refer to district guidance).
   f) This report should show adjustments for investments, interest, Insufficient Funds checks, fees, or any other adjustments.
   g) Verify each adjustment to the bank statement. If the matching entry is not found on the bank statement, then the bookkeeper should annotate on the Monthly/Annual Financial Report (Form F-SA-15A) why the adjusting entry was made.
   h) Compare "Balance per Bank Statement" on the report to the month ending balance on the actual bank statement.

2) Accounts Receivable and Accounts Payable (Form F-SA-15B)
   a) For payables, this report should only list unpaid invoices dated on or before the end of the month.
   b) For receivables, any reimbursements submitted to the district office not reimbursed, or commissions/credits from vendors earned but not received by the end of the month.
   c) Open purchase orders where the product/service has not been provided/received are not considered account payables.

3) List of expenditures
   a) Review to see if the school is purchasing from the appropriate vendors (refer to board policy).
   b) Review to see if there are technology or capital asset purchases that should have been purchased through the district central office.

c) Review to see if expenditures are being paid out of the appropriate activity account.

4) List of Receipts
   a) Review concession, pencil machine, store/bookstore sales, etc.
      i. Look at the amount of the receipt to see if there are patterns or consistent amounts receipted.
      ii. Check the frequency of the receipts being written to see if money is being held and receipted on a certain day or at the end of the week.
   b) Randomly check receipt dates to deposit dates on the bank statement. This will also identify funds being held and not deposited in a timely manner.

5) List of journal adjustments.

6) List of activity account transfers. Make sure no student generated funds are being transferred into staff/faculty accounts.

7) List of 1099 payments (at the end of each calendar year) (annual only).

8) List of donations (at the end of each fiscal year) (annual only).

9) Look for deficit balances and resolve these before the end of the fiscal year.

10) Look for activity (receipts/expenses) in accounts that are active during the current month (i.e., sports accounts during the season, clubs currently conducting fundraisers). If there is no activity, then where is the money going?

11) Research any "Deposits in Transit" or "Other Adjustments". These entries need to be verified. This is one area that entries are made to "force balance."

12) Make sure if the school has any investment money (CDs) that they are accounted for in the Monthly/Annual Financial Report.

Monthly Reports – districts processing Student Activity Funds within Enterprise ERP (Munis)

Financial reports are filled out by the district finance officer each month and submitted to the principal and forwarded to the school treasurer.

<u>Review Procedures</u>

1) Monthly/Annual Financial Report (Form F-SA-15A)
   a) Make sure report shows the bank reconciliation, if using software generated financial reports (the original signed or initialed copy).
   b) List of outstanding checks.
   c) Complete copy of the bank statement.
   d) Verify "Outstanding Checks" entry on the Monthly/Annual Financial Report (Form F-SA-15A) to the list of outstanding checks report. The two totals should match.
   e) List of outstanding checks.
      i. The total amount of this list of outstanding checks should be reflected in the Monthly/Annual Financial Report (Form F-SA-15A).
      ii. Write off any outstanding checks with an issuance date older than one year (refer to district guidance).
   f) The report should show adjustments for investments, interest, Insufficient Funds checks, fees, or any other adjustments.
   g) Verify each adjustment to the bank statement. If the matching entry is not found on the bank statement, then the finance officer should annotate on the Monthly/Annual Financial Report (Form F-SA-15A) why the adjusting entry was made.

h) Compare “Balance per Bank Statement” on the report to the month ending balance on the actual bank statement.

2) Accounts Receivable and Accounts Payable (Form F-SA-15B)
   d) For payables, this report should only list unpaid invoices dated on or before the end of the month.
   e) For receivables, any reimbursements submitted to the district office not reimbursed, or commissions/credits from vendors earned but not received by the end of the month.
   f) Open purchase orders where the product/service has not been provided/received are not considered account payables.

3) List of expenditures
   d) Review to see if the school is purchasing from the appropriate vendors (refer to board policy).
   e) Review to see if there are technology or capital asset purchases that should have been purchased through the district central office.
   f) Review to see if expenditures are being paid out of the appropriate activity account.

4) List of Receipts
   c) Review concession, pencil machine, store/bookstore sales, etc.
      i. Look at the amount of the receipt to see if there are patterns or consistent amounts receipted.
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11) Research any “Deposits in Transit” or “Other Adjustments”. These entries need to be verified. This is one area that entries are made to “force balance.”

12) Ensure if the school has any investment money (CD’s) they are accounted for in the Monthly/Annual Financial Report.

Excessive Balances

Excessive Balances – apply to both Student Activity Funds (SAF) and External Booster Organizations.

Districts can review their unaudited Annual Financial Report (AFR) prior to July 25. If the current balance in a SAF or External Booster account exceeds the expenditures in the prior 12 months, a written justification and spend down plan should accompany the AFR submitted to the principal.