

# Navigating the Maze:

*Understanding District Funds vs. Student Activities vs. 501(c)(3) Not-for-Profits*

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# Introductions

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# Defining the Entities

## District Funds

Funds for District operations include revenues from local, state, and federal sources, and expenditures for salaries, benefits, supplies, services, capital outlay, and debt.  
Revenues and expenditures are tracked in separate accounts to measure operational results (fund balance).

## Student Activity Funds

Funds owned, operated and managed activity, clubs or sports within the student body under the direction of staff member(s). Each activity, club or sports (typically) has one account for revenue and expenditures and operations results are not measured.

## Fiduciary Funds

Funds received from an independent, outside source in which the school board is acting in administrative capacity. Fiduciary relationship exists but District does not have an control over how funds are raised or spent.

## 501(c)(3) Not-for-Profits

Tax-exempt organization recognized by the IRS that operates for charitable, educational, religious, scientific, or literary purposes. Donations to these organizations are typically tax-deductible.

This session will focus on legal considerations, fiscal responsibility, and risk management.

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# Student Activities vs Fiduciary Funds

*“The school board shall establish rules and regulations governing conditions under which school classes, clubs, and associations may collect or acquire funds in the name of any school; and, under such regulations as the Superintendent of Public Instruction may prescribe, provide for the safeguarding of such funds for the educational, recreational, or cultural purposes they are designed to serve.” See 105 ILCS 5/10-20.19(3)*

In May 2020, ISBE changed rules for accounting for **Student Activity Funds** and amended the Administrative Code. See 23 Ill. Admin. Code 100.80-100.85.

New category of **Fiduciary Funds** established by GASB 84.

Okay, but like...  
what's the  
difference?

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## Student Activity Funds

Owned, operated, and managed by organizations, clubs, or associations within the student body under the direction of staff member(s) for educational, recreational, or cultural purposes.

District has direct involvement in how funds are raised or spent.

Must be reported as a sub-fund of the Educational Fund for AFR and budget, with a line item for cash and related investments.

Example Assets: Homeroom, yearbook, class year, choral or band group, class projects, student clubs, student council, or student-sponsored bookstore.

## Fiduciary Funds

Received from an independent, outside source in which the school board is acting in an administrative capacity.

Board has a fiduciary responsibility.

District does NOT have any control over how funds are raised or spent.

Example Asset: Scholarship fund in which district has no authority to decide how funds are attained or awarded.

*Board should appoint a bonded treasurer for each fund and keep an accounting of funds.*

## The assets are categorized under fiduciary funds when:

## Legal Requirements of Fiduciary Funds

- 1 Are controlled by the district;
- 2 Are not derived from (a) the district's revenues or (b) certain government mandated transactions; and
- 3 Have at least one of the following characteristics:
  - Administered through a trust in which the district is not a beneficiary or dedicated to providing benefits to recipients in accordance with the benefit terms and is legally protected from the district's creditors.
  - For the benefit of individuals when the district does not have administrative involvement and not derived from the district's provisions of goods or services to those individuals.
  - For the benefit of organizations or other governmental entities (not part of the district) and not derived from the district's provisions of goods or services to those organizations.

**What are the  
School Board's  
responsibilities  
for Fiduciary  
Funds?**

- 1** Support the funds establishment and purpose
- 2** Support the collection of money
- 3** Keep records verifying receipts, disbursements, and assets on hand
- 4** Appoint a treasurer as custodian (bonded per 105 ILCS 5/8-2, and required to handle responsibilities outlined in 23 Ill. Admin. Code 100.85(c)-(d))
- 5** Designate depositories for cash and investments
- 6** Maintain contact info for the people authorized to use the funds

## Donations

Upon acceptance, gifts become District property. See, generally, 105 ILCS 5/16-1.

District is required to give equal educational opportunities.

## Set requirements by Board Policy

District may require 501(c)(3) status, insurance, etc.

Permit groups to use the District's name and logos, and rescind that permission.

## Bylaws should recognize that money cannot be earmarked

Recommendations are fine, but money must be given to the District to use at its discretion.

## What about Foundations, Parent Organizations and Booster Clubs?

Outside groups should maintain and protect finances

Recommend incorporation - groups can pursue not-for-profit tax exempt status.

Under section 509 of the Internal Revenue Code, all section 501(c)(3) organizations are classified as either "public charities" or "private foundations."

*Districts should consider establishing a Memorandum of Understanding and ensure that their errors and omissions insurance extends to cover outside groups*

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# Fiscal Responsibility



**Provide clear and consistent communication and training**

- **Define Ownership & Authority**  
Clarify who controls, manages, and oversees funds and assets.
- **Implement Internal Controls**  
Ensure strong financial processes and oversight mechanisms are in place.
- **Standardize Fiscal Procedures**  
Should all entities follow a consistent process?
- **Funds Collection**  
Review methods for collecting funds, including cash handling protocols.
- **Funds Distribution**  
Determine how funds are disbursed and who is responsible.
- **Avoid Commingling**  
Maintain separation of funds across entities and purposes.
- **Enhance Communication & Training**  
Promote transparency, provide training, and ensure accessibility of policies and procedures.

# Insurance & Risk Management

**Coverage Considerations**

**Activity & Event Considerations**

**Risk Transfer - Insurance Guidelines**

**Other Liability Considerations**

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# Coverage Considerations

## Insurance Coverages that Often Extend from School District

- **General Liability**  
*Example: Bodily injury claim at a district-sponsored event*
- **School Board Legal Liability**  
*Example: Alleged misappropriation of funds*
- Coverage **generally** incorporates parent and/or student groups
- **Important:** Inclusion in coverage **does not guarantee** full policy protection
- Even with limited district oversight, groups may still be **required to carry their own coverage**

## Recommended Coverages for Affiliated Groups to Procure

- **Crime Insurance**  
*Example: Theft or misappropriation of PTO/PTA funds*
- **Workers' Compensation**  
*Example: Group hires paid employees for district-sponsored activities*
- **Liquor Liability**  
*Example: Alcohol served at events not managed by a licensed third party*
- **Special Event Insurance**  
*Example: Temporary coverage for high-risk events or events involving alcohol*
- **Cyber Liability**  
*Example: Group stores personal identifiable information (PII)*

## Are higher risk activities being entertained?

- **Alcohol** – Will it be served? If so, is a licensed vendor handling it?
- **Amusement Devices** – Bouncy houses, inflatables, dunk tanks, etc.
- **Food Trucks** – Generally low risk, but introduces food safety exposure
- **Physical Activities** – Sports, obstacle courses, etc.  
👉 *Require participant waivers*

## Is Appropriate Risk Transfer occurring with Third Parties?

- **Certificates of Insurance** – Always require proof of coverage
- **Contracts** – Must include language on insurance and indemnification
- **Working with Minors?** – Ensure background checks are conducted on third-party employees

# Activity & Event Considerations

# Risk Transfer – Insurance Guidelines

## Required Coverage

General Liability with \$1M occurrence limit  
District and District Group must be named as **primary, non-contributory additional insureds**  
Coverage should include **Sexual Misconduct** if employees interact with students  
Workers' Compensation with **statutory state limits** (if employees are involved)

## Vehicle-Related Exposure

If vendor operations involve vehicles, they must carry **\$1M in Auto Liability**  
Common example: **Food Trucks**  
Delivery-related exposure: **Inflatables drop-offs, etc.**

## Additional Coverage

**Umbrella/Excess Liability** may be required for high-risk activities  
Coverage typically ranges from **\$1M to \$5M**, depending on risk  
Example: **Amusement Device Rental Companies** should carry **\$5M in coverage**



# Other Liability Considerations

## Alleged Sexual Abuse Exposure: Prevention & Oversight

- Are **background checks** completed for all District Group volunteers?
- Volunteers should be **trained in mandatory reporting** protocols
- Establish **clear behavior policies**  
*Guidelines for social media use*  
*Prohibition of one-on-one adult-child interactions*
- Maintain **active supervision** of all activities and events  
*Children should **never be left alone** with a single adult*  
*Follow the **1 adult per 10 children** supervision standard*

## Be Prepared: Safety & Emergency Response

- Ensure someone on-site has **First Aid/CPR/AED** certification
- Keep a **well-stocked First Aid Kit**  
*Include bandages, gloves, gauze, scissors, wipes, etc.*
- Develop and communicate **emergency procedures** for:  
*Serious injuries*  
*Outdoor weather-related incidents*  
*Any violent or unsafe behavior*

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# Scenarios: Interactive Discussion

## Questions and Answers

*We thank you for your time!*

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