

Accounting Bulletin #2000-02

SUBJECT: Fountain and Vending Agreements

Effective Beginning Fiscal Year 1999-00

Date: January 21, 2000

This bulletin will address the proper accounting and reporting for Fountain and Vending Agreements and similar beverage-right agreements between PA public schools and vending contractors. This guidance is effective for FY 1999-2000 and future years.

Fountain and Vending and similar beverage-right agreements result in incentive payments, bonuses, free gifts, advertising, technology and additional vending machine commissions to the school entity. These agreements have contract values from several thousands of dollars to several millions of dollars and extend over multiple fiscal years in most instances. Some contracts are as long as ten years in length with stipulations on the amount of sales that must be maintained on school property to retain the annual payments made to the school district by the contractor.

All schools should be budgeting, accounting and reporting for these agreements in the General Fund of the school entity. These contracts are school entity-wide agreements and should be controlled and accounted for centrally. This does not preclude your school from using some or all of the contract funds for student activities or athletics if this is where your school board chooses to spend the money. This guidance is offered to provide a consistent basis for public school accounting and reporting as well as to raise the level of accountability for vending contracts and contracts of like-kind to the level of all other significant, school-entity contracts and obligations.

Contract revenues should be recognized in the General Fund on a modified accrual basis of accounting. This may require deferral of some portion of your annual contract revenues if there are conditions in the contract that have not been met at the close of the fiscal period.

For Example: The Ridge School District signs a contract with the Coca-Cola Company agreeing to place "X" number of vending machines on school grounds and agreeing to sell "X" number of soft drinks a year in exchange for 2 cents more on each soft drink sold and \$100,000 payable as follows:

- 1)\$55,000 the first school year provided sales equal or exceed "X",
- 2)\$35,000 the second school year provided sales equal or exceed "X", and
- 3)\$2,000 a year for each of the next 5 succeeding years provided total sales during this time equals or exceeds "X".

Also included in an agreement of this type is the amount due back to the vendor in the event the sales floors are not met.

Note: Other freebies resulting from these contracts may also need to be valued for capital asset reporting and maintenance purposes.

***Accounting Entry-Year 1

If all contract conditions are met, record the following to recognize the annual revenue and commissions on soft drinks for the school year.

Debit:	10-0100 Cash	\$62,000	
Credit:	10- 6990 6999 Misc. Revenue-Coca-Cola		
	Contract Receipts		\$55,000
Credit:	10- 6990 6999 Misc. Revenue-Vending Commissions		\$ 7,000

***Accounting Entry-Year 1

If some contract conditions remain to be met at the end of the school year and there is \$10,000 due back to the Coca-Cola Company if these conditions are not met; then, record the following to recognize the revenue and commissions on soft drinks for the school year.

Debit:	10-0100 Cash	\$62,000	
Credit:	10- 6990 6999 Misc. Revenue-Coca-Cola		
	Contract Receipts		\$45,000
Credit:	10-0480 Deferred Revenue		\$10,000
Credit:	10- 6990 6999 Misc. Revenue-Vending Commissions		\$ 7,000

(Account code change from 6990 to 6999 effective 7/1/01)

***Accounting Entry for Transferring Contract Revenues to another Fund. To transfer commissions of \$22,000 to the Drama Club, as approved by the School Board.

Debit:	10-5280-939 Transfer to Activity Fund	\$ 22,000	
Credit:	10-0100 Cash		\$22,000

Again, this bulletin is provided to make all public school business administrators aware that Fountain and Vending and similar beverage-rights agreements should be accounted for through the General Fund. Recording these transactions in the General Fund provides full accountability to the public for agreements of this type by estimating both the revenues and expenditures or transfers in the school's General Fund Budget and by reporting actual results of these agreements in the school's AFR.

Questions regarding this bulletin may be directed to the School Finance staff within the Office of Comptroller Operations at Ra-Schlfin@pa.gov