



INTERNAL SCHOOL FUNDS

FREQUENTLY ASKED QUESTIONS

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DIVISION OF
LOCAL GOVERNMENT AUDIT

FOREWORD

It was the intent of this office, when creating the following questions and answers, to apply the Internal School Accounting Law, Tennessee Code Annotated (TCA), Section 49-2-110, to various scenarios that may arise in the day-to-day operations of schools. The responses to the questions were crafted in a way so as to adhere to the language of the statute and the *Internal School Funds Manual (Manual)*.

DISCLAIMER

The following questions and answers are intended to provide guidelines that individuals and schools may choose to follow. The views expressed in the question and answer session are not the views or policies of the Comptroller of the Treasury, the Department of Revenue, the Department of Education, the General Assembly, or the Governor. What follows are merely suggestions on how to read the statute and the *Manual*. The answers provided hereinafter are not statements of the law nor are they the opinions of the State Attorney General as to how a court would interpret the Internal School Accounting Law, but rather reasonable parameters within which the schools can operate. However, adherence to the law remains solely the responsibility of the individual school and the following answers cannot be used as a defense to any civil or criminal violations that may occur from noncompliance with the law.

1. Can a restricted fund account have a deficit balance during the fiscal year?

No. A restricted fund account should not have a deficit balance at any time during the fiscal year. This is supported by Section 4, Title 1, page 4-3 of the *Manual*.

2. A restricted fund account has a negative cash balance at year end. How should this be presented in the financial report?

The financial statements should present a negative cash balance with a note disclosure explaining the deficit.

3. Why is the general fund classified as restricted fund balance?

All internal school fund activity, including the general fund, is restricted by TCA Section 49-2-110, thus fund balance should be classified as restricted, not unassigned.

4. Should inventory be classified as nonspendable fund balance in the financial report?

No. As noted in Question 3 above, all internal school fund activity is restricted by TCA Section 49-2-110. The inventory balance should be included within restricted fund balance as the proceeds from the sale of internal school fund inventory is restricted. This is in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* (December 31, 2023 Edition), Section 1800.167.

5. How should TISA funding be accounted for?

TISA funding should be recorded in a restricted fund account titled “Teachers’ Materials and Supplies (TISA).” Any fund balance remaining at year end should be transferred to a separate restricted fund account in accordance with Section 4, Title 8, page 4-32 of the *Manual*. See below for an example presentation.

Account Description	Beginning Fund Balance	Revenues	Expenditures	Transfer In	Transfer Out	Ending Fund Balance
Teachers’ Materials and Supplies (TISA)	\$0	\$4,000	\$3,498	\$0	\$502	\$0
TISA Pooled	\$0	\$0	\$0	\$502	\$0	\$502

6. Can a school impose a deadline by which TISA funds must be spent by the teachers?

Yes. As long as the deadline is reasonable. This helps ensure the funds are spent on the students within that year. Refer to Section 4, Title 8, pages 4-31 to 4-32 of the *Manual* for guidance regarding TISA funds.

7. Can the Teachers' Materials and Supplies (TISA) account incur a deficit balance? Expenditures often need to be made before the funding is received.

No. As noted in Question 1 above, no internal school fund account may have a deficit balance. The school should record a receivable for the expected TISA funding, which should prevent a deficit balance. Refer to the *Manual*, Appendix A – Exhibit 15: Journal Entries for TISA Receivable.

8. How should gift cards received by teachers be recorded?

Refer to the *Manual*, Appendix A – Exhibit 14: Journal Entries for Non-cash Activity, entries 5 and 6, for guidance. The revenue and expenditure accounts should be updated, if necessary.

9. Can a principal be reimbursed for mileage for attending out of town school sporting events?

Reimbursements are only allowable if the principal is required to attend the games as part of his/her official responsibilities. If there is a board policy allowing this reimbursement to be paid from internal school funds, the related club or athletic account funds should be used, not the general fund. Refer to Section 5, Title 5, page 5-17 of the *Manual* for travel reimbursement guidance.

10. Can teachers be reimbursed for sales tax? For instance, teachers purchase meals while on a school-sponsored trip, and the sales tax is not removed from the bill.

No. Sales tax should not be reimbursed.

The Department of Revenue explains the purchase must be billed to the school and be paid with the school's check or credit card. Employees of the school may not use the school's sales tax exemption certificate to make tax-free purchases that will be reimbursed by the school. Restaurants will not remove the sales tax (even if provided an exemption certificate) if the employee is paying for the meal with a personal form of payment.

However, the board of education can create a policy that allows for reimbursement of nominal sales tax amounts. The board of education should consult with their attorney in drafting this policy.

11. Can teacher wish lists be utilized?

Yes. If approved by the board and appropriate policies and internal controls have been established. All applicable requirements from Section 4, Titles 7 and 8, of the *Manual* should be followed. Additionally, the wish lists should be reviewed and approved by the principal prior to posting. Any items of significant value should be appropriately tracked and recorded once received.

12. Can internal school funds be used to purchase or upgrade playground equipment?

Internal school funds should supplement, not replace, board responsibility. However, if donations are specifically received for this purpose, those donations can be used for playground equipment. The final purchase should be completed by the board of education, as they are familiar with large capital purchase requirements and have necessary policies and procedures in place.

13. Can a donor give a restricted donation to benefit a club, class or restricted account?

Yes. This is discussed in the *Manual* (Section 4, Titles 1 and 8). The donation would be restricted according to the donor's instructions.

14. Are individual donations for specific students to participate in an activity/trip allowed?

No. The *Manual* describes donations in general terms, but never discusses individual donations for individual participants of a specific activity. This indicates that donations should benefit all participants of the activity, or the general purpose of the club, class or restricted account.

Example: A parent donates a locker room building for the use of the football team, but then restricts the locker room use to only their son. This is an inappropriate donation.

Donations should further an activity's purpose or benefit the club, class or account as a whole, and not a particular member. If a student qualifies to participate in a particular activity, that student should be treated equal with every other student (*Manual*, Section 1, Title 4, principle 7 on page 1-7). If a parent wants their child to have funds or supplies in excess of the group allotment, that should be given to them personally at home.

The same principles above apply to fundraisers.

15. Can a student request a refund of their fundraiser profit/sales if they have since left the school and will not attend the trip the fundraiser was intended for?

No. Fundraisers are for the benefit of the school as a whole, or a specific group or club, not an individual, as supported by Section 4, Title 7 of the *Manual*.

16. Can a volunteer coach (not an employee of the school) be considered a school representative for fundraising purposes?

No. A school representative must be an employee of the school. The volunteer coach can participate in the fundraiser, but cannot be responsible for requesting, supervising, and reporting the fundraiser.

17. How do I know if a particular fundraiser (e.g., raffle) is allowable?

Inquire with the Division of Charitable Solicitations and Gaming. Contact information is located under “Charities” at: [Contact](#). Additionally, see the Tennessee Secretary of State’s [Charitable Gaming Guide & FAQs](#).

18. Can an athletics restricted fund pay for TSSAA training (whether directly or via employee reimbursement)?

Assumptions: The board of education does not budget for TSSAA required training courses, nor do they have policies about TSSAA training. The training courses are mandatory, not optional, if the school has an athletic program.

Conclusion: This would normally be allowed. However, if the coach is the sponsor of the athletic restricted fund and would benefit from the training, the principal should approve the cost of the training, to allow for adequate internal controls. The *Manual* describes adequate internal controls in Section 4, Title 2.

NOTE: The board of education should develop policies that clearly describe all acceptable payments to coaches or other sponsors of an athletic restricted fund. All payments to coaches or sponsors should be approved by someone other than the coach or sponsor (e.g., travel reimbursements, training, other reimbursements, etc.).

19. Can an athletics restricted fund pay for coaching supplements?

Assumptions: The board of education is aware of the practice and does not prohibit coaching supplements from athletic restricted funds. The board of education does not have policies regarding paying coaching supplements.

Conclusion: This would normally be allowed. However, if the coach is the sponsor of the athletic restricted fund and would be the beneficiary of the supplement, the principal should approve the amount of the supplement to allow for adequate internal controls. The *Manual* describes adequate internal controls in Section 4, Title 2. In addition, the supplement payment should not be paid directly to the coach. The supplement payment should be made to the board, then paid to the coach by the board and added to the coach’s Form W-2. Normal payroll taxes should be withheld. This is described in Section 5, Title 6, page 5-18 of the *Manual*.

NOTE: If the board of education is **not** aware of this practice, then coaching supplements should **not** be paid. Also see note at Question 18 above.

20. Can athletic gate receipts be recorded in the general fund?

No. The *Manual* (Section 4, Title 1, page 4-3) states: "...money raised from athletic programs is generally restricted for the use of the athletic program." In addition, the money must be accounted for in the restricted fund and the money raised must be expended for the purpose for which the money was raised.

21. Can a private organization (e.g., sports team not affiliated with the school) use the school's name, mascot, logo etc.?

No. A private organization may not use the school's name, mascot, logo, etc. in publications, fundraisers, or any other manner. The board of education should establish a policy that prohibits the use of a school's identifying characteristics by a private organization.

22. Is per diem an allowed travel reimbursement method?

Yes. A daily allowance, or per diem, is acceptable, for either a student or a teacher. The travel policy should clearly allow this method and set forth the allowed rate(s).

23. Is paying a hotel balance with a school check or credit card before or at arrival considered a travel advance?

No. Payments made directly to a hotel by school check or credit card, either before or upon arrival, are not considered travel advances.

24. Can you define "gross amount" for the Schedule of Salary Supplements?

This amount represents the base supplemental pay before any deductions (e.g., taxes, 401k contributions, etc.). The gross amount should reflect only the salary supplement.

25. What happens to internal school fund balances when a school building is closed?

The board of education is responsible for determining the disposition of internal school fund balances when a school is closed. The board should ensure the disposition of residual funds is completed in a reasonable and equitable manner. Please note GASB Statement No. 100, *Accounting Changes and Error Corrections*, may apply to this situation. The board should ensure all applicable financial reporting requirements are followed.