
SECTION E

REPORTING AND AUDITING REQUIREMENTS NONPROFIT ORGANIZATIONS

Nonprofit Organizations

Background

Nonprofit organizations (other than those that meet the definition of a special purpose government) that receive funds from the various departments of the State of Tennessee through contractual agreements that establish a subrecipient relationship are subject to various auditing and reporting requirements. In addition, some departments may include an audit requirement in contracts that establish a vendor relationship. Principally, if a nonprofit organization expends \$500,000 (see comment on [A-2](#) for exception to this) or more of subrecipient funding (or of other funding subject to an audit per a state contract) received from the various departments of the State of Tennessee, the nonprofit will be required to have an audit conducted in accordance with the provisions of *Government Auditing Standards*. This provision applies regardless of the amount of federal funds received from all sources (i.e., directly from the federal government, flow-through funds from the State of Tennessee, Tennessee counties, municipalities, special purpose governments, other nonprofit organizations, etc.).

Contracts between nonprofit organizations and the State of Tennessee may involve only state money. However, the contracts often involve federal money received by the State of Tennessee and subsequently used to provide funding to nonprofit organizations. State contracts that include these federal flow-through funds must be combined with other federal funding sources for the purpose of evaluating the applicability of current federal audit requirements. Nonprofit organizations that are required to submit audited financial statements to the Tennessee Comptroller's Office and that meet the audit threshold for a Single Audit must submit the Single Audit to the Tennessee Comptroller's Office.

The budgeted composition of state contracts can generally be determined through a review of the Contract Summary Sheet attached to the contract. If a summary sheet is not available, the department executing the contract should be contacted to determine the funding source(s). Actual payment information should also be confirmed with the contracting department since budgeted amounts may differ from the final payments both in amount and funding composition. ([STATE DEPARTMENT PHONE NUMBERS](#))

Contracts that establish a subrecipient relationship or that are subject to audit take many forms.

Each contract should be evaluated to determine whether it should be treated as establishing a subrecipient relationship or is otherwise subject to audit. Such contracts should include an audit provision that refers to the current federal audit circular. If there is any doubt regarding the audit requirement for a particular contract, the contracting department should be contacted. (***AUDIT CONSIDERATIONS FOR SUBRECIPIENT FUNDING – APPENDIX C***)

Program-Specific Audit

The Comptroller of the Treasury requires that program-specific audits of state funds, when approved, be conducted in accordance with *Government Auditing Standards* (Yellow Book).

The basic report outline is:

- the auditor’s opinion;
- a detailed schedule of revenues and expenditures (expenses);
 - (This schedule can be structured to double as the schedule of expenditures of state awards)
- a schedule of expenditures of state awards (if the option in the previous item is not implemented);
- a yellow book internal control and compliance letter.

Program specific audits of federal funds must be approved by the grantor and the Comptroller’s Office. The financial report would normally include similar information as is required for state funds, except that the yellow book internal control and compliance report would be omitted and the A133 report on compliance and internal control would be issued. Care needs to be taken to ensure that any additional requirements of the federal granting agency are complied with.

Any program specific audit submitted to the Comptroller’s Office that has not been preapproved will not be accepted.

Financial Reporting

General

Audit reports for nonprofit organizations shall conform to the requirements of the Financial Accounting Standards Board (FASB).

Additional Requirements of the Comptroller’s Office

Division of Municipal Audit

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

Reporting and Auditing Requirements – Nonprofit Organizations - Section E

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any subrecipient funds, regardless of the amount expended. In addition, the composition of the schedule should conform to the example in [Section A](#), which exceeds OMB requirements.) The schedule should include in the receipts and expenditures state passthrough funding, whether it is federal or state dollars. The notes on the schedule should indicate that the funding was passed through to another entity.