SECTION F

REPORTING AND AUDITING REQUIREMENTS INTERNAL SCHOOL FUNDS AND CENTRALIZED CAFETERIA FUNDS

INTERNAL SCHOOL FUNDS

Background

Section 49-2-110, *Tennessee Code Annotated***,** is titled "Student Activity Funds". However, the text of the law references activity funds and other internal school funds in several places. The accounting policy manual developed in response to that law refers to "other internal school funds" and has sections which define the three (3) accounting funds that are used: general; restricted; and cafeteria funds. However, what constituted internal school funds was not explicitly stated. Section 49-2-603, *Tennessee Code Annotated*, though explicitly only applicable to that part, has a detailed definition and description of what internal school funds are. That definition is reproduced below:

> **(2)** Internal school funds mean any and all money received and accounted for at individual schools, and specifically include, but are not limited to:
>
> **(A)** Any donation or grant made to the school, a school club, or any academic, arts, athletic, or social activity related to a school;
>
> **(B)** Funds for cafeteria services operated at the school;
>
> **(C)** Fees collected by the school;
>
> **(D)** Funds transferred to the local school from the school board that are to be accounted for at the local school level;
>
> **(E)** Funds raised through cooperative agreements with outside organizations;
>
> **(F)** Rental fees charged outside entities for use of school facilities; and
>
> **(G)** Student activity funds;

There are four (4) basic types of school systems: county, municipal, and charter school systems and special school districts. All school systems, regardless of the school type, contract for the

audit of their internal school funds (activity funds, noncentralized cafeteria funds and other internal school funds) and submit their financial reports to the Division of Municipal Audit. County school systems with centralized cafeteria funds are required to contract with external independent accountants to perform certain procedures for the Division of County Audit, which they rely on when conducting their audit of the respective county. As a matter of convenience, these centralized cafeteria procedures (see ***Appendix C, pages APP.C-1 through APP.C-3***) are contracted for on the contract for the audit of the internal school funds.

ACTIVITY AND CERTAIN OTHER INTERNAL SCHOOL FUNDS

Background

Activity funds and certain other internal school funds are derived from contributions to a school and the fund raising activities of the student body. These activities are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, *Tennessee Code Annotated*) and the ***Tennessee Internal School Uniform Accounting Policy Manual***, and are accounted for in the general and restricted funds of the schools. The same auditing and reporting requirements apply to the internal school funds of county, city, charter schools, and special school district systems.

Financial Reporting

General

Audit reports for activity funds and certain other internal school funds (excluding noncentralized cafeteria funds) shall conform to the general report outline set forth in Section A. The required statements and schedules for these funds, which are prepared based on an "other comprehensive basis of accounting," are detailed in the ***Tennessee Internal School Uniform Accounting Policy Manual***.

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.

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.)

CAFETERIA FUNDS

Background

Cafeteria funds, also referred to as school food authority funds, are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, *Tennessee Code Annotated*) and the *Tennessee Internal School Uniform Accounting Policy Manual, and are accounted for in a fund of the same name*.. The same reporting requirements apply to the cafeteria funds of county, city, charter schools, and special school district systems. However, the auditing requirements vary, depending on the type of system (county, city, charter schools, special school district) and whether the system is centralized or noncentralized. A centralized cafeteria system is one in which substantially all of the administrative activities (payroll, accounting, purchasing, etc.) are accounted for and reported by the local board of education. The administrative activities of noncentralized systems are performed at the individual schools.

Financial Reporting

General

Noncentralized Systems (county, city, charter schools, and special school districts)

Noncentralized cafeteria systems receive and account for money related to cafeteria operations at the individual schools, and are therefore considered to be internal school funds. Audit reports for noncentralized cafeteria funds shall conform to the general report outline. The required statements and schedules for these funds, which are prepared based on accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB), are detailed in the *Tennessee Internal School Uniform Accounting Policy Manual*.

Centralized Systems (County and Special School District)

Centralized systems account for the operations of the cafeterias in a central location (at the board of education) and not at the individual schools. Therefore, they are not defined as internal school funds. Normally a separate audit report is not issued for a centralized cafeteria system. These systems are generally audited as a part of the board of education audit. However, because the documentation related to compliance with federal program requirements is maintained by the individual schools, the auditor for the school system's internal school funds is required to contract for and perform certain compliance procedures, generally referred to as USDA Procedures, as a subcontract auditor for the Division of County Audit. These procedures may be found in ***Appendix C***. A separate report on these procedures is not required; however, county auditors will review the audit documentation to ensure that sufficient work was performed and adequately documented. The Division of County Audit will rely on the contracted work as a basis for their opinion.

Centralized Systems (City and Charter Schools)

Normally a separate audit report is not issued for a centralized cafeteria system. These systems are generally audited as a part of the board of education audit. The design and performance of audit procedures related to compliance with federal programs are the responsibility of the firm conducting the audit of the board of education.

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.

2. Noncentralized county, city, charter schools, and special school district systems are required to include 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.)

3. Centralized city systems and centralized charter school systems are governed by the requirements established for Municipalities and Charter Schools in this manual. (***MUNICIPAL CAFETERIA PROCEDURES – APPENDIX C)***