
SECTION C

REPORTING AND AUDITING REQUIREMENTS TENNESSEE MUNICIPALITIES (INCLUDING RELATED COMPONENT UNITS)

Background

Municipalities in Tennessee may be chartered under the Private Acts of the State of Tennessee or under one of the uniform charters set forth in *Tennessee Code Annotated*. The three basic forms of municipal government found in Tennessee are mayor and board of aldermen, city manager and board of commissioners, and modified city manager and council. ([GO TO SELECTED LAWS – APPENDIX D](#))

Section 9-2-102, *Tennessee Code Annotated*, requires the Comptroller of the Treasury to prescribe a uniform accounting system for use by all municipal officials. The statute states, “It is the duty of all officials to adopt and use the system and the character of books, reports, and records designated.” An accounting system has been defined as “the methods and records established to identify, assemble, analyze, classify, record and report a government’s transactions and to maintain accountability for the related assets and liabilities.”

In order to fulfill this responsibility to provide a comprehensive uniform accounting system, the Comptroller of the Treasury issued the *Internal Control and Compliance Manual for Tennessee Municipalities*. This manual sets forth guidance for establishing internal control and identifies compliance issues related to state laws and regulations affecting municipalities. The manual is to be used in conjunction with the first 7 chapters and chapter 15 and all updates of the Government Finance Officers Association’s 2005 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book. Other relevant information in the Blue Book should be considered if it does not conflict with guidance in any Manuals issued by the Comptroller’s Office.

Financial Reporting

General:

The basic financial statements of all municipalities should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

If a separate financial report is issued for a fund of the municipality, all requirements of this section applicable to that fund financial report should be included. Additional guidelines for the departmental financial statements for municipal boards of education can be found on our website at <http://www.comptroller1.state.tn.us/ma/financialreporting.asp>

Additional Requirements of the Comptroller's Office:

Municipal officials are encouraged to issue a financial report that conforms to the requirements of the Governmental Accounting Standards Board (GASB) related to a comprehensive annual financial report (CAFR). However, audit reports for municipalities shall, at a minimum, conform to the general report outline in *Section A* of this manual and include the following supplemental information. The schedules required are significantly less than what would be required in a CAFR. Additional requirements and/or clarifications regarding the financial statements and required schedules are identified below.

1. GASB permits budgetary information to be included as Required Supplementary Information or as basic financial statements for the general fund and each major special revenue fund for which a legally adopted annual budget is required. However, our office requires the detailed legally adopted budgetary information for these funds to be included in the basic financial statements. The auditor's opinion should cover this information. Budgetary information for other major funds would be included in supplemental information (see item 4.d. below).
2. Additionally, 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 combining, individual fund, and budgetary schedules as well as the utility detail required by item 4.f.(3) below and the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.
3. Additional Detail Required for Revenues and Expenditures:

In addition to revenues being presented by source (e.g., taxes, intergovernmental revenues, licenses and permits, fines and forfeits, etc.) as required by generally accepted accounting principles, taxes and

Reporting and Auditing Requirements – Tennessee Municipalities Section C

intergovernmental revenues should be further detailed by specific source (e.g., property tax, TVA-in lieu of tax, beer tax, gasoline and motor fuel tax, etc.).

In addition to being classified by function (or program) and character (e.g., current, capital outlay, debt service and intergovernmental expenditures) as required by generally accepted accounting principles, expenditures should be further detailed by object classes. The detail presented for expenditures must be sufficient to exhibit legal and budgetary requirements (e.g., detail of state street aid fund expenditures: paving, street lighting, mowing, debt service, etc.).

The additional detail of revenues by specific source and expenditures by object classes should be either in the financial and/or budgetary statements or schedules of the major and nonmajor funds or, as additional supplemental schedules. Excessively detailed object classifications for expenditures should be avoided.

4. Supplemental Information:
(Please refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200.184, for additional details on all combining statements.)
 - a. Combining statements for nonmajor governmental and proprietary funds.
 - b. Combining statements for internal service funds.
 - c. Combining statements for fiduciary funds (trust funds and agency funds). Please note that for agency funds, a combining statement of changes in assets and liabilities is required.
 - d. Individual budgetary schedules for all governmental funds with annual appropriated budgets that were not included as basic financial statements. (The schedule should include three (3) columns. One for the original budgetary amounts, one for the final budgetary amounts, and one for actual expenditures. An additional column is recommended, though not required, to display variances.)
 - e. Fund information for:
 - discretely presented nonmajor component units; and
 - major component units for which the note disclosure option is elected, unless a separate audit report is issued.

Reporting and Auditing Requirements – Tennessee Municipalities Section C

f. Schedules.

- (1) 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.)

For additional guidelines governing reporting on separate audits of departments, divisions or funds, please refer to the *Topical Index* on our web site for current reporting information which may be found under various headings, including financial reporting and the entity type being audited.

- (2) The following schedules are required, if applicable, whether the municipality issues a CAFR or not (except as otherwise noted). Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments.
 - (a) Schedule of Transfers (may be omitted if transfer disclosure in the notes to the financial statements is adequate, i.e., transfers disclosed by individual fund for all major and nonmajor funds).
 - (b) Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt by individual issue and by Fiscal Year–All Funds). Schedules should also be included for interfund and intrafund (i.e., between divisions within a utility fund) receivables and payables related to telecommunications, cable, water/sewer, gas, etc. (Note: Long-term interfund receivables and payables (i.e., interfund loans) must be approved by the Comptroller of the Treasury, Office of State and Local Finance.)
 - (c) Uncollected Delinquent Taxes Filed in accordance with applicable laws.
 - (d) Utility Rate Structure and Number of Customers.

Reporting and Auditing Requirements – Tennessee Municipalities Section C

- (e) Unaccounted for Water (See Example Schedule in *Appendix A*). This schedule must be used in the exact format presented in Appendix A.
 - (f) Schedule of Changes in Property Taxes Receivable – By Levy Year (which should tie to the financial statements and may be omitted if a CAFR is issued) (See Example Schedule in *Appendix A*).
 - (g) Property Tax Rates and Assessments – Last 10 Years.
 - (h) Additional schedule(s), if necessary, of taxes and intergovernmental revenue by specific source and expenditures by object.
 - (i) Additional schedule(s), if necessary, of expenditures by object class. Schedules are required to demonstrate compliance if sufficient detail is not included in the basic financial statements or fund financial statements/schedules.
- (3) If the municipality provides several utility services (e.g. gas, electric, water/sewer combined or separately depending on the policies of the municipality, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net assets; revenues, expenses, and changes in net assets; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.
- (4) If a municipality is providing cable, internet, and/or related services, additional schedules must be included that provide sufficient detail to demonstrate compliance with *Tennessee Code Annotated 7-52-601 et al.* unless sufficient detail is presented in the basic financial statements.

Current Developments Affecting Reporting:

GASB 54

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, has created a conflict between the Comptroller’s requirements, *Tennessee Code Annotated (TCA)*, and reporting in accordance with GAAP. Generally the accounting records of local governments should be maintained in such a way to reflect the reporting requirements of GAAP. That is, if the accounting records reflect a fund, that fund should be reported in the financial statements of the local government. *TCA* 68-211-874 requires activities related to solid waste to be accounted for in either a proprietary fund or a special revenue fund. The activities being accounted for in a proprietary fund are not impacted. However, activities being accounted for in special revenue funds may be affected. Solid waste activities will often not meet the criteria for being reported in a special revenue fund, though not always. To bridge the gap when the criteria are not met, the accounting records will still account for solid waste activities as they have in the past. However, for financial reporting purposes, the activities will be rolled into the general fund. A supplemental schedule should be created to reflect the activities to demonstrate compliance with *TCA*. When applying the provisions of the “City Manual” issued by the Comptroller, be sure to reference the clarification memo issued in August 2010 until the “City Manual” is updated. This memo can be accessed at <http://www.comptroller1.state.tn.us/ma/whatsnew.asp> .

Other special revenue funds not mandated by state law should be evaluated to determine whether they need to be closed out and the activities reported in the general fund (e.g., library activities). No supplemental schedule to demonstrate compliance would be required for those activities. The close-out of the fund would be consistent with the general requirement that the books and records be maintained in such a way to reflect the reporting requirements of GAAP.

Municipal Schools–Centralized Cafeteria Funds

A municipal school system’s centralized cafeteria funds are reported in one of the board of education’s funds in the municipality’s annual financial report.

Municipal Schools – Board of Education

Financial reports issued for a municipal board of education must include all activities, funds, debt, and capital assets that are used in operating the board of education. Municipalities with local school systems will need to consider accounting practices that might not be conducive to the separate reporting for the board of education. Capital projects for schools will need to be accounted for in a separate fund from other municipal capital projects. Debt issued for multiple purposes which include the board of education will present unique accounting requirements.

Reporting and Auditing Requirements – Tennessee Municipalities Section C

A separate financial report for a municipal board of education must comply with the basic reporting requirements for a municipality as well as the additional requirements of the comptroller that are applicable to a municipality.

Please refer to the following web site for current reporting information.

(<http://www.comptroller1.state.tn.us/ma/financialreporting.asp>)