



# Metropolitan Nashville and Davidson County, TN

## Legislation Text

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**File #:** BL2021-1049, **Version:** 2

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An Ordinance to amend Section 5.04.070 of the Metropolitan Code of Laws relative to the audit requirements for nonprofit organizations receiving appropriations from the Metropolitan Government.

BE IT ENACTED BY THE COUNCIL OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY:

Section 1. That Section 5.04.070 of the Metropolitan Code of Laws is hereby amended by deleting subsection B.6 in its entirety and replacing it with the following and by adding a new subsection B.7:

6. A copy of information required in subsection E of this section.

7. Additional information may be requested by the office of financial accountability, including requests for additional information or supporting documentation related to the requirements in this subsection.

Section 2. That Section 5.04.070 of the Metropolitan Code of Laws is further amended by adding the following new subsections E and F:

E. Nonprofit organizations meeting the criteria below shall be required to submit the following information pursuant to subsection B.6:

1. Organizations with five-hundred thousand dollars or more in total annual revenue or receiving grant funds from the Metropolitan Government in excess of fifty-thousand dollars are required to submit an annual audit conducted by an independent CPA in accordance with generally accepted auditing standards;
2. Organizations with total annual revenue between two-hundred thousand dollars and five-hundred thousand dollars or receiving grant funds from the Metropolitan Government between twenty-five thousand dollars and fifty-thousand dollars are required to submit a review of financial statements conducted by an independent CPA;
3. Organizations with total revenue between fifty thousand dollars and two-hundred fifty thousand dollars or receiving grant funds between five thousand dollars and twenty-five thousand dollars are required to submit a compilation of financial statements prepared by an independent CPA; and
4. Organizations with total revenue of fifty thousand dollar or less, or receiving grant funds of five thousand dollars or less, are required to submit internally prepared financial statements.

F. For the purposes of this section, the following definitions shall apply:

1. "Audit" means a formal examination of the organization's accounting records and financial situation in accordance with the generally accepted auditing standards issued by the American Institute of Certified Public Accountants. The purpose of an audit is to provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework, which enhances the degree of confidence that intended users can place in the financial statements.

2. "Review of Financial Statements" means an independent CPA expresses a conclusion regarding the entity's financial statements in accordance with an applicable financial reporting framework. The independent CPA's conclusion is based upon the CPA obtaining limited assurance. The CPA's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.
3. "Compilation of Financial Statements" means financial statements compiled by an independent CPA for the purposes of assisting management in presenting the financial information in the form of financial statements. A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review.
4. "Internally prepared financial statements" means financial statements prepared by the organization's Chief Financial Officer and/or Bookkeeper.

Section 3. This ordinance shall take effect from and after its final passage, the welfare of The Metropolitan Government of Nashville and Davidson County requiring it.

#### Analysis

This ordinance, as substituted, amends the threshold for audit requirements for nonprofit organizations receiving appropriations from the Metropolitan Government.

Under the current Section 5.04.070.B.6. of the Metropolitan Code of Laws, a nonprofit organization receiving appropriations from the Metropolitan Government must submit an audit for their most recent fiscal year if the organization has an annual operating budget in excess of fifty thousand dollars receiving grants in excess of five thousand dollars during any one fiscal year.

The ordinance under consideration creates a tiered system for nonprofit organizations based on annual revenue and the amount of grant funds received from the Metropolitan Government. The thresholds would be as follows:

- Organizations with \$500,000 or more in total revenue or receiving grants exceeding \$50,000 would be required to submit an annual audit conducted by an independent CPA in accordance with generally accepted accounting standards.
- Organizations with \$250,000 to \$500,000 in total revenue or receiving grants between \$25,000 and \$50,000 would be required to submit a review of financial statements conducted by an independent CPA.
- Organizations with \$50,000 to \$250,000 in total revenue or receiving grants between \$5,000 and \$25,000 would be required to submit a compilation of financial statements prepared by an independent CPA.
- Organizations with \$50,000 or less in total revenue or receiving grants of \$5,000 or less would be required to submit internally prepared financial statements.

In addition, the office of financial accountability would be authorized to request additional information or supporting documentation related to the requirements of subsection B.

Organizations that do not meet this threshold are subject to the audit requirements under TCA § 7-3-314.