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\*1 Office of the Attorney General

State of Tennessee  
Opinion No. 91-52  
May 29, 1991

**Filing annual audit under T.C.A. § 6-54-111(c)**

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**QUESTION**

Whether T.C.A. § 6-54-111(c) may be satisfied by submission of an annual report in lieu of an audit.

**OPINION**

It is the opinion of this Office that T.C.A. §§ 6-54-111(c) requires a non-profit organization receiving financial assistance from a municipality to file an annual report of its business affairs, including a copy of its annual audit, with the city clerk. Thus, the statute cannot be satisfied by filing an annual report which does not include an annual audit. However, the statute does not require that such audit be prepared by an independent certified public accountant or an independent public licensed accountant. The type of audit that will satisfy the requirement may vary, depending on the size of the non-profit corporation and the complexity of its finances. The financial officers of the municipality, or other appropriate officials, might be consulted in this regard. Guidelines established by the municipal legislative body could also clarify the requirement.

**ANALYSIS**

This opinion concerns an interpretation of the power of a municipality to appropriate funds for non-profit organizations. This power, and the restrictions on it, are described in T.C.A. § 6-54-111. T.C.A. § 6-54-111(c) provides as follows:

Any non-profit organization which desires financial assistance from a municipality shall file with the city clerk a copy of an annual report of its business affairs and transactions which includes, but is not limited to, a copy of an annual audit, its program which serves the residents of the municipality and their proposed use of the municipal assistance. Such report will be open for public inspection during regular business hours of the city clerk's office.

T.C.A. § 6-54-111(c) (1985) (emphasis added). Thus, the statute, by its terms, clearly requires such a non-profit corporation to file an annual report which includes a copy of its annual audit. A report which does not contain such an audit would clearly not satisfy this requirement.

The statute contains no further definition of "annual audit." Pursuant to T.C.A. § 6-54-111(b), each legislative body of a municipality appropriating funds under this statute must devise guidelines directing for what purpose such funds may be spent. Reference should be made to applicable municipal guidelines to determine whether they contain any more detailed description of the required documentation.

In addition, the Comptroller is authorized to devise standard procedures to assist a municipality in the disposition of such funds. T.C.A. § 6-54-111(b) (1985). The Comptroller has promulgated regulations describing standard procedures for appropriating and disbursing municipal funds to non-profit charitable organizations, which appear at Tennessee Rules and Regs Ch. 0380-3-7, et seq. These regulations, however, contain no more detailed description of an "annual audit" to be filed under the statute.

\*2 The Tennessee Supreme Court has defined an "audit" as, "... the methodical examination of records with intent to verify their accuracy." *National Health Corporation v. Snodgrass*, 555 S.W.2d 403, 405 (Tenn.1977). *Black's Law Dictionary* defines "audit," in part, as a, "[s]ystematic inspection of accounting records involving analysis, tests, and confirmations." *Black's Law Dictionary*, 120 (5th Ed.1979). An audit may be independent or internal, depending on whether it is conducted by an outside firm, or by inside personnel. *Id.*

The statute nowhere specifies the appropriate auditor to conduct the audit, or the level of formality of the report to be submitted. The statute contains no requirement that such audit be prepared or certified by a certified public accountant or a licensed public accountant. Whether any particular report would contain sufficient financial information and be prepared with sufficient formality to satisfy the requirement of T.C.A. § 6-54-111(c) would appear to depend upon a variety of facts and circumstances surrounding the organization and the appropriation of municipal funds. Municipal guidelines could address this issue. In the absence of such guidelines, it is suggested that the municipality consult with its own financial officers or independent financial consultants for further guidance.

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