



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

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Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

February 15, 2012

MEMORANDUM

To: All TNInvestco Entities

From: Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

Subject: Audits for Fiscal Years Ending on of After December 31, 2011

Based on a review of the financial reports submitted for the fiscal year ended December 31, 2010, conversations with the Department of Economic and Community Development and certain legislators, it appears that a tax basis audit will not provide the information legislators have requested to assist them in evaluating the effectiveness of the program. We recognize the risks involved with the investments and the necessity of allowing for time to help grow and nurture the companies. However, we believe commencing utilization of GAAP based financial statements at this stage of the program should provide relevant data over time as a tool for evaluating the program's effectiveness.

It is our understanding that the legislators want to know how well the investments are doing, how many jobs are being retained and created, and, statutorily, how much additional follow on capital has been generated as result of the investments. To provide this information, the financial reports for TNInvestco entities for fiscal years ending on or after December 31, 2011 will:

- be prepared on a GAAP basis
- include an additional schedule related to jobs and follow on capital (see attached)
- include a detailed investment schedule with cost and fair market value information

The audit must be contracted for using the Comptroller's Contract and Report System (CARS), and must be conducted in accordance with *Government Auditing Standards*. The investment schedule must be opined on. The jobs information will be included as a supplemental schedule, which may or may not be opined on.

There are a few issues that must be addressed before the final reporting format can be approved. One deals with netting agent transactions. We should have a resolution regarding this matter soon. It is possible, depending on the resolution, that another supplemental schedule could be necessary to detail the reimbursed costs. An opinion on this schedule would also be required. The remaining reporting issues involve the

consistency of the note disclosure and the internal control and compliance report. These will be addressed at the entity level.

We will be in contact with you soon regarding the final reporting issues. If you have any questions regarding this memo, please contact our office.

Tennessee TNInvestco
 Schedule of Jobs Created and Retained
 For the Fiscal Year Ended December 31, 2011

<u>Qualified Business</u>	<u>Location</u>	<u>Retained Jobs</u>	<u>Created Jobs</u>	<u>Total Jobs</u>	<u>Women and Minority Employees</u>	<u>Additional Follow on Capital</u>
ABC Health	Nashville	22	4	26	11	\$120,000
JKL Markets	Chattanooga	5	2	7	3	-0-
Totals		27	6	33	14	\$120,000