THE HEALTH, EDUCATIONAL AND HOUSING FACILITY
BOARD OF THE COUNTY OF KNOX

Financial Statements and Supplementary Information

Years Ended March 31, 2013 and 2012

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY
BOARD OF THE COUNTY OF KNOX
Financial Statements and Supplementary Information
Years Ended March 31, 2013 and 2012

Table of Contents

	Page
Officers and Board Members	1
Independent Auditors' Report	2
Management's Discussion and Analysis	4
Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	13

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY
BOARD OF THE COUNTY OF KNOX
Officers and Board Members
Years Ended March 31, 2013 and 2012

Board Members

Greg Meadows	Chairman
Trey Coleman	Vice Chairman
Nicki Dawson	Secretary/Treasurer
Alvin J. Nance	Assistant Secretary/Treasurer

Other Board Members

Paul Fortunato	Louise R. Frazier
Clifford C. (Clem) Renfro, Jr.	Doug White
Greg McWhorter	F. Carl Tindell
Dwaine Setzer	

Ex-Officio Member

R. Christopher Trump	Legal Counsel to the Board

• Certified Public Accountants
• Business Advisors

p: 865.583.0091
f: 865.583.0560
w: rodefermoss.com
608 Mabry Hood Road
Knoxville, TN 37932

RODEFER MOSS & CO, PLLC

Independent Auditors' Report

To the Board of Directors
The Health, Educational and Housing Facility Board of the County of Knox

We have audited the accompanying financial statements of the Health, Educational and Housing Facility Board of the County of Knox (the "Board") which comprise the statements of net position, as of March 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board as of March 31, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board,

who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2013, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
July 9, 2013

This section of the Health, Educational and Housing Facility Board of the County of Knox's (the "Board") annual financial report represents a discussion and analysis of the Board's financial performance during the fiscal year ended March 31, 2013. Please read it in conjunction with the Board's financial statements following this section. The 2012 and 2011 information is provided for comparative purposes.

Financial Highlights

- The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by $214,762 (net position). Net position amounted to $172,784 and $170,578 at March 31, 2012 and 2011, respectively. The Board's net position were unrestricted and therefore, may be used to meet the Board's ongoing purpose of providing economic development.

- The Board's total net position increased by $41,978 in 2013 and $2,206 in 2012. The increases are primarily the result of the ongoing principal operations of the Board. The 2013 increase was also due to a one time bond settlement.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements.

The *Statements of Net Position* presents information on all the Board's assets and liabilities, with the difference between the two reported as net position.

The *Statements of Revenues, Expenses and Changes in Net Position* presents information showing how net position changed during the most recent fiscal year. Revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The principal operating revenues of the Board include fee income and agenda income associated with bond issues. Operating expenses included contractual services and professional fees.

The *Statements of Cash Flows* presents cash receipts and cash payments for the fiscal year.

Notes to the Financial Statements are an integral part of the statements and should be read in conjunction with the financial statements and the Management's Discussion and Analysis.

Financial Analysis

At the close of the 2013 fiscal year, the Board's assets exceeded liabilities by $214,762. At the close of the 2012 and 2011 fiscal year, the Board's assets exceeded liabilities by $172,784 and $170,578, respectively. The following table provides a summary of the Board's net positions as of March 31, 2013, 2012 and 2011:

Statements of Net Position

	2013	2012	2011
Current Assets			
Cash and cash equivalents	$ 214,796	$ 172,846	$ 170,632
Current Liabilities			
Accounts payable	34	62	54
Unrestricted net position	$ 214,762	$ 172,784	$ 170,578

The Board's net position increased by $41,978. This was an increase from the 2012 change in net position of $2,206. The increase was due primarily to the increase in revenue from a one time bond settlement.

The Board's unrestricted net position as of March 31, 2013 was $214,762, which may be used to meet the Board's ongoing objectives and obligations of promoting economic development in Knox County.

The Board's operating revenue primarily comes from fee income. The Board typically has a carryover from the prior year.

The following table provides a summary of the changes in net position for fiscal years 2013, 2012 and 2011:

Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating revenues			
Project fees	$ 4,000	$ 8,000	$ 18,000
Agenda revenue	500	-	-
Total operating revenue	4,500	8,000	18,000
Operating expenses			
Professional fees	5,000	5,450	5,225
Advertising	645	683	691
Administrative fees	462	494	539
Total Operating Expenses	6,107	6,627	6,455
Operating (loss) income	(1,607)	1,373	11,545
Non-operating income			
Bond issue settlement	43,199	-	-
Interest income	386	833	2,544
Change in net position	41,978	2,206	14,089
Net position at the beginning of the year	172,784	170,578	156,489
Net position at the end of the year	$ 214,762	$ 172,784	$ 170,578

The following table provides a summary of cash receipts and disbursements for the fiscal years 2013, 2012 and 2011:

Statements of Cash Flows

	2013	2012	2011
Cash Flows from Operating Activities			
Receipts from customers	$ 4,500	$ 8,000	$ 18,000
Payments to vendors	(6,135)	(6,619)	(6,522)
Net cash provided by operating activities	(1,635)	1,381	11,478
Cash Flows from Investing Activities			
Interest received	386	833	2,582
Net cash provided by investing activities	386	833	2,582
Cash Flows from Capital and Related Financing Activities			
Receipt from bond issue settlement	43,199	-	-
Net cash provided by financing activities	43,199	-	-
Net change in cash and cash equivalents	41,950	2,214	14,060
Cash and cash equivalents at the beginning of the year	172,846	170,632	156,572
Cash and cash equivalents at the end of the year	$ 214,796	$ 172,846	$ 170,632

Requests for Information

This financial report is designed to provide a general overview of the Board's finances for all of those with an interest in the Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Chair, The Health, Educational and Housing Facility Board of the County of Knox, 17 Market Square, #201, Knoxville, Tennessee 37902-1405.

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY
BOARD OF THE COUNTY OF KNOX
Statements of Net Position
March 31, 2013 and 2012

	2013	2012
Current Assets		
Cash and cash equivalents	$ 214,796	$ 172,846
Current Liabilities		
Accounts payable	34	62
Unrestricted net position	$ 214,762	$ 172,784

See notes to financial statements.

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY
BOARD OF THE COUNTY OF KNOX
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2013 and 2012

	2013	2012
Operating Revenue		
Project revenue	$ 4,000	$ 8,000
Agenda revenue	500	-
Total operating revenue	4,500	8,000
Operating Expenses		
Professional	5,000	5,450
Advertising	645	683
Administrative	462	494
Total operating expenses	6,107	6,627
Operating (loss) income	(1,607)	1,373
Non-operating Income		
Bond issue settlement	43,199	-
Interest income	386	833
Total non-operating income	43,585	833
Change in net position	41,978	2,206
Net position at the beginning of the year	172,784	170,578
Net position at the end of the year	$ 214,762	$ 172,784

See notes to financial statements.

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY
BOARD OF THE COUNTY OF KNOX
Statements of Cash Flows
Years Ended March 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts from customers	$ 4,500	$ 8,000
Payments to vendors	(6,135)	(6,619)
Net cash flows from operating activities	(1,635)	1,381
Cash Flows from Investing Activities		
Interest received	386	833
Net cash flows from investing activities	386	833
Cash flows from Capital and Related Financing Activities		
Receipts from bond issue settlement	43,199	-
Net cash flows from financing activities	43,199	-
Net change in cash and cash equivalents	41,950	2,214
Cash and cash equivalents at the beginning of the year	172,846	170,632
Cash and cash equivalents at the end of the year	$ 214,796	$ 172,846
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (1,607)	$ 1,373
Adjustments to reconcile operating income to net cash flows from operating activities:		
Increase (decrease) in liabilities:		
Accounts payable	(28)	8
Net cash flows from operating activities	$ (1,635)	$ 1,381

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities - The Health, Educational and Housing Facility Board of the County of Knox (the "Board") is a non-profit corporation formed pursuant to the specific authority granted at Tennessee Code Annotated Section 48-101-301 et. Seq. The Board performs public functions on behalf of Knox County (the "County") and its purpose is to improve health and higher education. The Board was organized to finance, acquire, own, lease and/or dispose of properties to increase the commerce, welfare and prosperity and the improvement and maintenance of physical and mental health, higher education, and the housing and living conditions of the people of Knox County, Tennessee and surrounding areas. The Board serves as a non-recourse conduit lender for taxable and non-taxable bond issues for eligible projects. The Board is not considered to be a component unit of the County because the County does not exercise significant influence over operations or have accountability for the Board. However, the Board was created to carry out functions for the County government and the Knox County Commission appoints the Board members. Therefore, the entities are considered to be related parties.

Basis of Presentation - The financial statements are presented using the accrual basis of accounting. The Board accounts for activities by charging fees for applications submitted and for consideration of projects for bond issues.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, the Board considers investments with original maturities of three months or less readily convertible into cash without significant loss due to penalties or interest, deposits in banks, and certificates of deposit to be cash and cash equivalents. At March 31, 2013 and 2012, all of the Board's bank accounts were fully insured either by the FDIC or by the banks' participation in the State of Tennessee's collateral pool.

Conduit Debt Obligations - From time to time, the Board has entered into conduit debt arrangements in accordance with the Board's enabling legislation to provide financial assistance to private-sector entities for acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The conduit debt obligations are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the debts, ownership of the acquired facilities transfers to the private-sector entity serviced by the conduit debt issuance. The Board is not obligated in any manner for repayment of the obligations. Accordingly, the obligations are not reported as liabilities in the accompanying financial statements. At March 31, 2013, the Board had the following conduit debt arrangement:

> In December 2012, the Board approved a tax exempt revenue bond for Covenant Health and affiliated entities in order to finance or refinance the acquisition, construction, and installation of certain renovations, expansions, buildings and equipment for healthcare facilities owned by Covenant and it's affiliates. The bond will also cover financing to refund all the outstanding 2002A Bonds and to pay, in part, for the costs of such financing including fees, payments to financial advisors, fees and payments to investment bankers, and other legal, accounting and other necessary expenses in connection with such financing. The face amount of the debt obligation is $145,430,000. The Board is not responsible for any of this amount.

Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of "temporarily" or "permanently" restricted.

Temporarily Restricted Net Position - This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations or other governments or restrictions imposed by law through constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue Recognition - Project fees are recorded at the time the fee is earned. Any fees earned but not received as of period end are recorded as accounts receivable. There were no accounts receivable as of March 31, 2013.

New Accounting Pronouncements - For fiscal year 2013, the Board implemented GASB Statements No. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, Elements of Financial Statements, as a consumption of net position applicable to future reporting period and an acquisition of net position applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

Date of Management's Review - Management has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2013 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through the date of these financial statements, July 9, 2013 and no items of a significant nature were noted.

NOTE 2 - ADMINISTRATIVE SERVICES AGREEMENT

The Board has an administrative services agreement with The Development Corporation of Knox County. These services include clerical and personnel services and other ordinary, necessary services for the Board, including the retention and maintenance of records.

NOTE 3 - BOND ISSUE SETTLEMENT

During the year ended March 31, 2013, the Board received a bond issue settlement from Wachovia in the amount of $43,199. The settlement pertained to the marketing, sale, and placement of derivatives. Wachovia agreed under the settlement to pay a certain amount to each issuer of municipal securities to which the subject derivative transactions relate. There was no such settlement during the year ended March 31, 2012.

• Certified Public Accountants
• Business Advisors

p: 865.583.0091
f: 865.583.0560
w: rodefermoss.com
608 Mabry Hood Road
Knoxville, TN 37932

RODEFER MOSS & CO, PLLC

Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
of The Health, Educational and Housing Facility Board of the County of Knox
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Health, Educational and Housing Facility Board of the County of Knox (the "Board"), which comprise the statement of net position as of the year ended March 31, 2013, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiency. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
July 9, 2013