

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

Financial Statements and Supplementary Information

Years Ended March 31, 2016 and 2015



THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
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Years Ended March 31, 2016 and 2015

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THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
BOARD OF THE COUNTY OF KNOX  
Board Members  
Years Ended March 31, 2016 and 2015

Board Members

Alvin J. Nance  
Trey Coleman  
Tamara Boyer  
Paul Fortunato

Chairman  
Vice Chairman  
Secretary/Treasurer  
Assistant Secretary/Treasurer

Other Board Members

Greg McWhorter  
Terry Henley  
Dwaine Setzer  
Les Mirts

Sam Mayes  
Doug White  
Greg Meadows

Legal Counsel

R. Christopher Trump

Legal Counsel to the Board



## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Health, Educational and Housing Facility Board of the County of Knox (the "Board") as of and for the years ended March 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### **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 an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 opinion.

### **Opinion**

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, 2016 and 2015, and the respective changes in financial position, and cash flows for the years then ended in accordance 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 12, 2016, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Board's internal control over financial reporting and compliance.

*Rodehorst Moss & Co, PLLC*

Knoxville, Tennessee  
July 12, 2016



THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
BOARD OF THE COUNTY OF KNOX  
Management's Discussion and Analysis  
Years Ended March 31, 2016 and 2015

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, 2016. Please read it in conjunction with the Board's financial statements following this section. The 2015 and 2014 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 \$247,397 (net position). Net position amounted to \$246,245 and \$229,714 at March 31, 2015 and 2014, respectively. The Board's net position is 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 \$1,152 in 2016, \$16,531 in 2015, and \$14,952 in 2014. The decrease in change of net position from 2015 to 2016 is related to a decrease in project revenue received in 2016.

**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 include contractual services and professional fees.

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

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

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
 BOARD OF THE COUNTY OF KNOX  
 Management's Discussion and Analysis (Continued)

**Financial Analysis**

At the close of the 2016 fiscal year, the Board's assets exceeded liabilities by \$247,397. At the close of the 2015 and 2014 fiscal year, the Board's assets exceeded liabilities by \$246,245 and \$229,714, respectively. The following table provides the Board's net positions as of March 31, 2016, 2015 and 2014:

Statements of Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets			
Cash and cash equivalents	\$ 241,706	\$ 240,535	\$ 230,313
Prepaid expenses	<u>5,757</u>	<u>5,757</u>	<u>-</u>
Total current assets	247,463	246,292	230,313
Current Liabilities			
Accounts payable	<u>66</u>	<u>47</u>	<u>599</u>
Unrestricted net position	<u>\$ 247,397</u>	<u>\$ 246,245</u>	<u>\$ 229,714</u>

The Board's net position increased by \$1,152 during the year ended March 31, 2016. This was a decrease from the 2015 fiscal year change in net position of \$16,531. The decrease was due to additional application/project revenues that occurred in 2015.



THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
 BOARD OF THE COUNTY OF KNOX  
 Management's Discussion and Analysis (Continued)

**Financial Analysis - (Continued)**

The Board's unrestricted net position as of March 31, 2016 was \$247,397 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 the changes in net position for fiscal years 2016, 2015 and 2014:

Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues			
Project fees	\$ 12,000	\$ 28,000	\$ 16,000
Agenda revenue	1,500	1,000	500
Special called meeting	-	-	5,000
Total operating revenue	<u>13,500</u>	<u>29,000</u>	<u>21,500</u>
Operating expenses			
Insurance	6,280	6,280	523
Professional fees	5,400	5,400	5,200
Advertising	681	786	861
Administrative fees	543	524	431
Total operating expenses	<u>12,904</u>	<u>12,990</u>	<u>7,015</u>
Operating income	596	16,010	14,485
Non-operating income			
Interest income	556	521	467
Change in net position	1,152	16,531	14,952
Net position at the beginning of the year	<u>246,245</u>	<u>229,714</u>	<u>214,762</u>
Net position at the end of the year	<u>\$ 247,397</u>	<u>\$ 246,245</u>	<u>\$ 229,714</u>

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
BOARD OF THE COUNTY OF KNOX  
Management's Discussion and Analysis (Continued)

**Financial Analysis - (Continued)**

The following table provides a summary of cash receipts and disbursements for the fiscal years 2016, 2015 and 2014:

Statements of Cash Flows

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities			
Receipts from customers	\$ 13,500	\$ 29,000	\$ 21,500
Payments to vendors	<u>(12,885)</u>	<u>(19,299)</u>	<u>(6,450)</u>
Net cash provided by operating activities	615	9,701	15,050
Cash Flows from Investing Activities			
Interest received	<u>556</u>	<u>521</u>	<u>467</u>
Net change in cash and cash equivalents	1,171	10,222	15,517
Cash and cash equivalents at the beginning of the year	<u>240,535</u>	<u>230,313</u>	<u>214,796</u>
Cash and cash equivalents at the end of the year	<u>\$ 241,706</u>	<u>\$ 240,535</u>	<u>\$ 230,313</u>

**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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 241,706	\$ 240,535
Prepaid expenses	<u>5,757</u>	<u>5,757</u>
Total current assets	247,463	246,292
Current Liabilities		
Accounts payable	<u>66</u>	<u>47</u>
Unrestricted net position	<u>\$ 247,397</u>	<u>\$ 246,245</u>



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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenue		
Project revenue	\$ 12,000	\$ 28,000
Agenda revenue	<u>1,500</u>	<u>1,000</u>
Total operating revenue	<u>13,500</u>	<u>29,000</u>
Operating Expenses		
Insurance	6,280	6,280
Professional	5,400	5,400
Advertising	681	786
Administrative	<u>543</u>	<u>524</u>
Total operating expenses	<u>12,904</u>	<u>12,990</u>
Operating income	596	16,010
Non-operating Income		
Interest income	<u>556</u>	<u>521</u>
Change in net position	1,152	16,531
Net position at the beginning of the year	<u>246,245</u>	<u>229,714</u>
Net position at the end of the year	<u>\$ 247,397</u>	<u>\$ 246,245</u>

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
 BOARD OF THE COUNTY OF KNOX  
 Statements of Cash Flows  
 Years Ended March 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Receipts from customers	\$ 13,500	\$ 29,000
Payments to vendors	<u>(12,885)</u>	<u>(19,299)</u>
Net cash flows from operating activities	615	9,701
Cash Flows from Investing Activities		
Interest received	<u>556</u>	<u>521</u>
Net change in cash and cash equivalents	1,171	10,222
Cash and cash equivalents at the beginning of the year	<u>240,535</u>	<u>230,313</u>
Cash and cash equivalents at the end of the year	<u>\$ 241,706</u>	<u>\$ 240,535</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 596	\$ 16,010
Adjustments to reconcile operating income to net cash flows from operating activities:		
Increase in assets:		
Prepaid expense	-	(5,757)
Increase (decrease) in liabilities:		
Accounts payable	<u>19</u>	<u>(552)</u>
Net cash flows from operating activities	<u>\$ 615</u>	<u>\$ 9,701</u>

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
BOARD OF THE COUNTY OF KNOX  
Notes to Financial Statements  
March 31, 2016 and 2015

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 Accounting** - The Board's operations are accounted for as a proprietary fund. The financial statements are presented on the accrual basis of accounting, using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board include application revenue associated with the applications fee for bond financing through the Board. Operating expenses include contractual services costs, professional fees, and insurance. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**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, 2016 and 2015, 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, 2016, the Board had the following conduit debt arrangements:

- 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 its 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.
- In June 2013, the Board approved a tax exempt revenue bond for Webb School of Knoxville in order to finance the rebuilding of the school's gymnasium, as well as fund certain other capital projects at the school. The face amount of the debt obligation is \$12,500,000. The Board is not responsible for any of this amount.

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
BOARD OF THE COUNTY OF KNOX  
Notes to Financial Statements (Continued)

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

**Conduit Debt Obligations - (Continued)**

- In August 2013, the Board approved a tax exempt revenue bond for East Tennessee Children's Hospital which will be used to refund for interest cost savings the outstanding Series 2003 Bonds. The face amount of the debt obligation is \$37,465,000. The Board is not responsible for any of this amount.
- In November 2013, the Board approved two tax exempt revenue bonds for The Proton Therapy Center, LLC in order to refinance a portion of the Series 2012 Bonds previously issued by the Industrial Development Board of the County of Knox. The face amount of the debt obligations are \$15,000,000 and \$42,000,000. The Board is not responsible for any of this amount.
- In July 2014, the Board approved a tax exempt revenue bond for University Health Systems, Inc. which will be used to fund health facilities. The face amount of the debt obligation is \$10,000,000. The Board is not responsible for any of this amount.
- In August 2014, the Board approved a tax exempt revenue bond for Townview Towers Project which will be used to fund housing facilities. The face amount of the debt obligation is \$9,000,000. The Board is not responsible for any of this amount.
- In October 2014, the Board approved a tax exempt revenue bond for East Children's Hospital which will be used to fund health facilities. The face amount of the debt obligation is \$60,465,000. The Board is not responsible for any of this amount.
- In May 2015, the Board approved a tax exempt revenue bond for Crown College Project which will be used to fund education facilities. The face amount of the debt obligation is \$9,250,000. The Board is not responsible for any of this amount.
- In May 2015, the Board approved a tax exempt revenue bond for Emerald Academy which will be used to fund education facilities. The face amount of the debt obligation is \$3,600,000. The Board is not responsible for any of this amount.
- In June 2015, the Board approved a tax exempt revenue bond for Johnson University which will be used to fund education facilities. The face amount of the debt obligation is \$35,000,000. The Board is not responsible for any of this amount.
- In June 2015, the Board approved two tax exempt revenue bonds for UT Medical Center which will be used to fund capital expenditures. The face amount of the debt obligations are \$32,000,000 and \$58,000,000. The Board is not responsible for any of this amount.
- In September 2015, the Board approved a tax exempt revenue bond for Pinnacle Park Apts Project which will be used to fund housing facilities. The face amount of the debt obligation is \$15,000,000. The Board is not responsible for any of this amount.
- In February 2016, the Board approved a tax exempt revenue bond for The Episcopal School of Knoxville which will be used to fund education facilities. The face amount of the debt obligation is \$10,500,000. The Board is not responsible for any of this amount.

As of March 31, 2016, the Board had total outstanding debt obligations, for the debt listed above, in the amount of \$491,190,000. The face value for the debt obligations total \$495,210,000.

**Unrestricted Net Position** - This component of net position consists of net position that does not meet the definition of restricted.

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY  
BOARD OF THE COUNTY OF KNOX  
Notes to Financial Statements (Continued)

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

**Restricted Net Position** - This component of net position consists of restrictions placed on the use of funds 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.

**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, 2016 and 2015, respectively.

**Date of Management's Review** - Management has evaluated events and transactions occurring subsequent to the statements of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

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.



Independent Auditors' 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, 2016, 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 12, 2016.

**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 opinion 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.

*Roddefm Moss + Co, PLLC*

Knoxville, Tennessee  
July 12, 2016

