

AUDIT REPORT

Tennessee State Veterans' Homes Board

**For the Year Ended
June 30, 2008**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**



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December 15, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee State Veterans' Homes Board
P. O. Box 11328
Murfreesboro, Tennessee 37129

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State Veterans' Homes Board for the year ended June 30, 2008. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The board's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/cj
09/065

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 2008

AUDIT OBJECTIVES

The objectives of the audit were to consider the board's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

OBSERVATIONS AND COMMENTS

Section 58-7-102, *Tennessee Code Annotated*, was amended effective June 13, 2008. This law increased the number of board members from 10 to 13. The Commissioner of the Tennessee Department of Finance and Administration now serves as an ex officio, voting member of the board along with the Commissioner of the Tennessee Department of Veterans Affairs. In addition, the law prescribed two more members to be appointed by the Governor—a nursing home administrator and a person with clinical experience in nursing homes. However, the Governor has not yet made the additional appointments.

Section 58-7-104, *Tennessee Code Annotated*, was also amended effective June 13, 2008. This law created an executive committee and prescribed its composition as three members of the board. One member is the Commissioner of the Department of Finance and Administration. The remaining two members are elected by the board subject to the qualifications that one member is either a nursing home administrator or has clinical experience in nursing homes, and the other member is the chair of the board. Since the Governor has not made the additional appointments to the board, the executive committee is only comprised of two members—the Commissioner of the Department of Finance and Administration and the chair of the board.

INTERNAL CONTROL FINDING

The Board Has Continued to Not Obtain Required Contract Approvals, Increasing the Risk of Inappropriate Purchases*

As noted in the seven previous audits, the board has not obtained the required contract approvals. For 34% of the service vendors tested, there was no contract. For those service vendors that had contracts, 47% did not have the approvals required by state regulations (page 11).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

* This finding is repeated from prior audits.

Audit Report
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 2008

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Tennessee State Veterans' Homes Board For the Year Ended June 30, 2008

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee State Veterans' Homes Board. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. Although the state contributed certain capital to the board during the construction of its facilities, the board does not receive operating funds from the state. Prior to September 11, 2003, the board was funded with revenue bonds. Subsequently, the revenue bonds were replaced by general obligation bonds of the State of Tennessee. The board is responsible for the debt service on their portion of the general obligation bonds. The board's primary revenue source is residents' fees. The board operates three facilities—one in Murfreesboro, one in Humboldt, and one in Knoxville, which began operations on January 1, 2007.

Prior to June 13, 2008, the board consisted of ten members. The Commissioner of the Tennessee Department of Veterans Affairs served ex officio as a voting member of the board. The remaining nine members were appointed by the Governor, three from each of the three grand divisions of the state. The Governor appointed a member of the board to serve as chairman. Each board member was to be a citizen of the state and an honorably discharged veteran.

Section 58-7-102, *Tennessee Code Annotated*, was amended effective June 13, 2008. This law increased the number of board members from 10 to 13. The Commissioner of the Tennessee Department of Finance and Administration now serves as an ex officio, voting member of the board along with the Commissioner of the Tennessee Department of Veterans Affairs. In addition, the law prescribed two more members to be appointed by the Governor—a nursing home administrator and a person with clinical experience in nursing homes. However, the Governor has not yet made the

additional appointments. Each member must still be a citizen of the state, and the remaining nine members must be honorably discharged veterans. The board now elects a chair from its members, and the chair must be a veteran.

Section 58-7-104, *Tennessee Code Annotated*, was also amended effective June 13, 2008. This law created an executive committee and prescribed its composition as three members of the board. One member is the Commissioner of the Department of Finance and Administration. The remaining two members are elected by the board subject to the qualifications that one member is either a nursing home administrator or has clinical experience in nursing homes, and the other member is the chair of the board. Since the Governor has not made the additional appointments to the board, the executive committee is only comprised of two members—the Commissioner of the Department of Finance and Administration and the chair of the board.

The executive committee is now responsible for the oversight of the day-to-day management and operation of the state veterans' homes. The executive committee has the authority to employ an executive director, subject to review by the full board, and other employees; to incur expenses as may be necessary for the proper discharge of the committee's duties; to establish policies regarding the rates for patient care in a state veterans' home; and to make and execute contracts. The board continues to have other authority such as: to incur debts, to provide for the rights of the holders of the debt instruments, to procure insurance, and to receive bequests and donations.

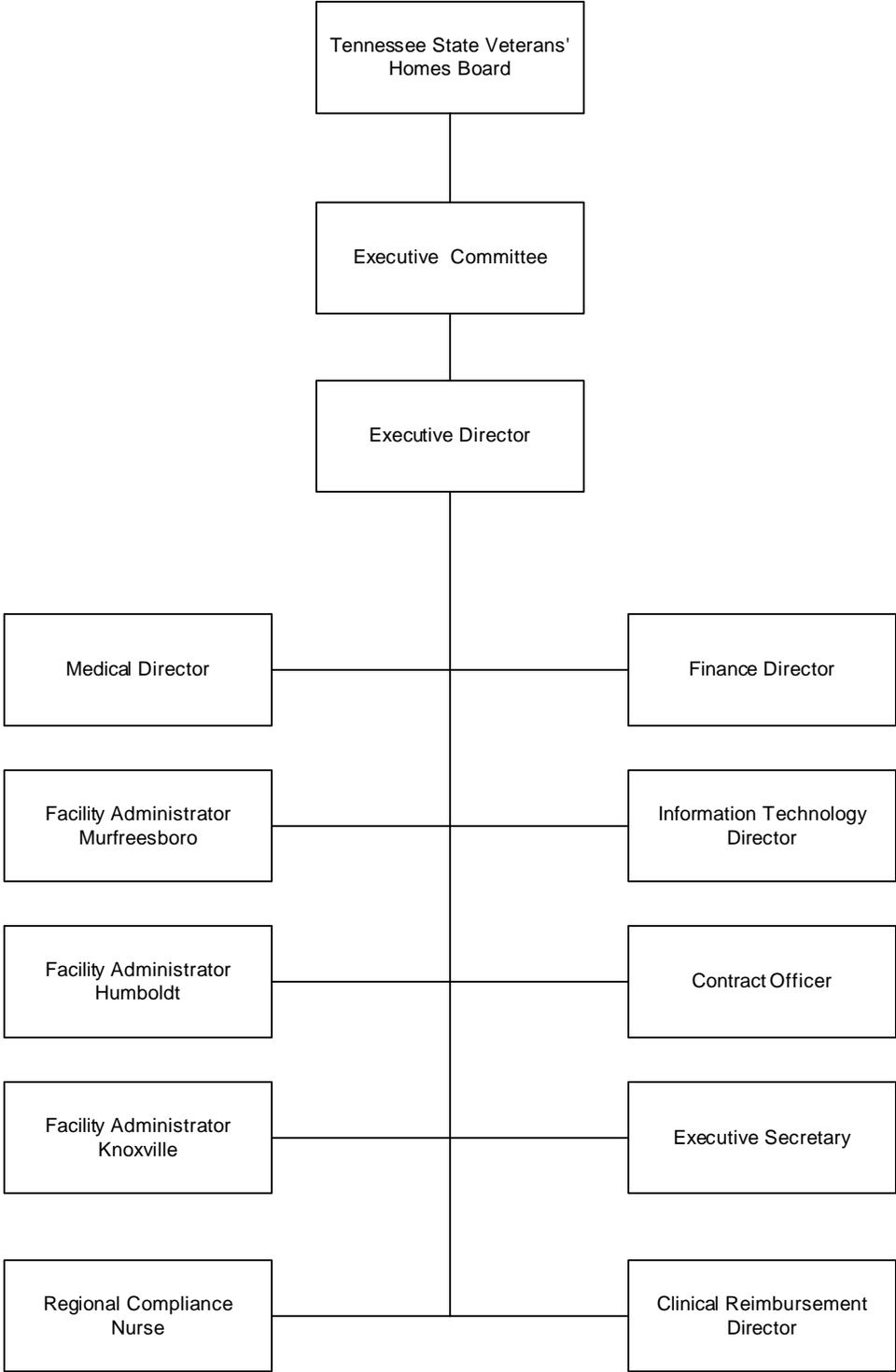
ORGANIZATION

The executive committee exercises its authority over operations through its executive staff. The executive staff consists of the Executive Director, Finance Director, Information Technology Director, and other executive staff. The Executive Director is responsible for the oversight of all the facilities. The Executive Director hires and supervises the executive staff and employs the administrators to oversee the daily operations of each facility. The administrator then hires the managerial staff and all other facility employees.

The Finance Director was hired in April 2004, and the board purchased and implemented a new information system and became completely self-managed after many years of contracting with various management companies. The administrators continued to have responsibility for the business offices even though the Finance Director was ultimately responsible for the results and the output from the business offices. To correct this, the Finance Director was assigned the responsibility for the business offices in February 2006, and a director of patient financial services and a controller were subsequently hired. In January 2008, the board began consolidating the fiscal operations of the three homes by requiring the executive staff at the Murfreesboro facility to handle these operations. Consolidation efforts were completed in March 2008.

An organization chart for the Tennessee State Veterans' Homes Board is on the following page.

Tennessee State Veterans' Homes Board Organization Chart



AUDIT SCOPE

The audit was limited to the period July 1, 2007, through June 30, 2008, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2008, and for comparative purposes, the year ended June 30, 2007. The Tennessee State Veterans' Homes Board has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the board's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. A follow-up of the prior audit finding was conducted as part of the current audit.

The prior audit report contained a finding concerning purchasing policies and procedures not being followed, contracts and approvals not being obtained, a contract payment for nurse staffing not being accurate, and prudent business practices not being followed. The current audit disclosed that the board has corrected all portions of the previous audit finding except for

contracts and approvals not being obtained. This issue has not been resolved and is repeated in this report.

OBSERVATIONS AND COMMENTS

TWO ADDITIONAL APPOINTMENTS TO THE BOARD ARE REQUIRED BY STATE LAW

Section 58-7-102, *Tennessee Code Annotated*, was amended effective June 13, 2008. This law increased the number of board members from 10 to 13. The Commissioner of the Tennessee Department of Finance and Administration now serves as an ex officio, voting member of the board along with the Commissioner of the Tennessee Department of Veterans Affairs. In addition, the law prescribed two more members to be appointed by the Governor—a nursing home administrator and a person with clinical experience in nursing homes. However, the Governor has not yet made the additional appointments.

Section 58-7-104, *Tennessee Code Annotated*, was also amended effective June 13, 2008. This law created an executive committee and prescribed its composition as three members of the board. One member is the Commissioner of the Department of Finance and Administration. The remaining two members are elected by the board subject to the qualifications that one member is either a nursing home administrator or has clinical experience in nursing homes, and the other member is the chair of the board. Since the Governor has not made the additional appointments to the board, the executive committee is only comprised of two members—the Commissioner of the Department of Finance and Administration and the chair of the board.

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the

time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee State Veterans' Homes Board's financial statements for the year ended June 30, 2008, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. A significant deficiency, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of this report. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the board's financial statements.



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**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***

October 8, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee State Veterans' Homes Board
P. O. Box 11328
Murfreesboro, Tennessee 37129

Ladies and Gentlemen:

We have audited the financial statements of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 8, 2009. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the board's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

- The board has continued to not obtain required contract approvals, increasing the risk of inappropriate purchases

This deficiency is described in the Finding and Recommendation section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

We also noted certain matters involving the internal control over financial reporting, which we have reported to the board's management in a separate letter.

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 the board's 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

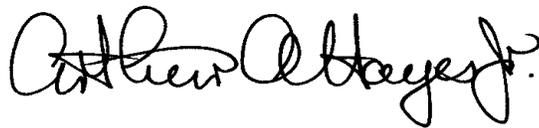
October 8, 2009
Page Three

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 generally accepted government auditing standards.

The board's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. We did not audit the board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/cj

FINDING AND RECOMMENDATION

The board has continued to not obtain required contract approvals, increasing the risk of inappropriate purchases

Finding

As noted in the seven prior audits, the Tennessee State Veterans' Homes Board did not obtain required service contract approvals. The board did correct the other deficiencies noted in the prior audit pertaining to purchasing.

In the prior audit, management concurred with the finding and stated, "The Contract Officer has developed a correction plan and is working with the facility administrators and other staff, as appropriate, to complete the process. . . . It is anticipated that improvements will be reflected in the audit for fiscal year 2009."

As management indicated in their response to the prior audit finding, we found that the board had not yet made improvements in the service contracts area for fiscal year 2008 and that service contracts were still not in compliance with state regulations. To test compliance, we reviewed service vendors with more than \$5,000 in purchased services. For 10 of 29 fiscal year 2008 service vendors tested (34%), there was no service contract. For the remaining 19 service vendors tested, 9 contracts (47%) were not signed by both the Commissioner of the Department of Finance and Administration and/or the Comptroller of the Treasury. Also, 8 of the 19 contracts (42%) were not signed by one or more parties until after the beginning of the contract date. The number of working days between the contract beginning date and the date of the last required signature ranged from 5 to 75 days. Contracts for services are necessary to ensure all parties are aware of the duties and responsibilities of each party, and proper approvals are necessary to ensure that agreements are enforceable and in the best interest of the state.

Recommendation

The Contract Officer should ensure that service contracts are established and approved in accordance with state regulations. The executive committee along with the audit committee should monitor service vendor contracts to ensure compliance with state regulations.

Management's Comment

We concur that the required service contract approvals were not always in accordance with state regulations for the fiscal year ended June 30, 2008. With the number of contracts inherent in the operation of nursing home facilities, this is a lengthy process. The Contract Officer continues to follow the correction plan, working with facility administrators and other staff, as appropriate, to review each contract, identify errors, and initiate processes to bring contracts and other agreements into compliance. Progress is being made and will continue in order to bring about substantial compliance. It is anticipated that improvements will be reflected in the audit for fiscal year 2009.



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Independent Auditor's Report

October 8, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee State Veterans' Homes Board
P. O. Box 11328
Murfreesboro, Tennessee 37129

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of June 30, 2008, and June 30, 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the board's management. Our responsibility is to express an opinion 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 generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

October 8, 2009

Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State Veterans' Homes Board as of June 30, 2008, and June 30, 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 19, the Schedule of Pension Funding Progress on page 43, and the Other Post Employment Benefits Schedule of Funding Progress on page 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information on pages 45 through 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated October 8, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA

Director

AAH/cj

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tennessee State Veterans' Homes Board provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008, and June 30, 2007, with comparative information presented for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Independent Auditor's Report, the Board's financial statements, and the notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2008

- ◆ The Board's operating revenues increased 41%, or \$8,416,399, from fiscal 2007 to fiscal 2008.
- ◆ The Board's operating expenses were 47%, or \$9,862,110, more in fiscal 2008 than in fiscal 2007.
- ◆ The Board's net assets increased 8%, or \$2,101,416, from June 30, 2007 to June 30, 2008.

Year Ended June 30, 2007

- ◆ The Board's operating revenues increased 31%, or \$4,798,305, from fiscal 2006 to fiscal 2007.
- ◆ The Board's operating expenses were 36%, or \$5,468,882, more in fiscal 2007 than in fiscal 2006.
- ◆ The Board's net assets increased 15%, or \$3,692,368, from June 30, 2006 to June 30, 2007.

USING THIS ANNUAL REPORT

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Tennessee State Veterans' Homes Board's basic financial statements. The financial statements consist of the following financial statements and required supplementary information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Board's financial activities.

The Statement of Net Assets presents information on the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Board's operating revenues and expenses, non-operating revenues and expenses and whether the Board's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Board's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Board financed its activities and how it met its cash requirements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

In addition to the three basic financial statements, the reader should also review the Schedule of Pension Funding Progress and the Other Post Employment Benefits Schedule of Funding Progress to gain an understanding of the funded status of the board's benefits over time. This information provides an indication of the board's ability to meet both current and future benefit payment obligations.

FINANCIAL ANALYSIS OF THE BOARD

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Board's financial position. A summary of the Board's net assets is presented below.

		Net Assets		
		June 30		
		2008	2007	2006
Current assets and other assets	\$	10,385,865.78	\$ 7,221,112.29	\$ 10,757,351.97
Capital assets at cost, less accumulated depreciation		<u>29,437,895.22</u>	<u>29,164,311.94</u>	<u>26,561,683.87</u>
Total assets		<u>39,823,761.00</u>	<u>36,385,424.23</u>	<u>37,319,035.84</u>
Long-term debt outstanding		6,143,752.55	5,848,211.68	5,775,695.48
Other liabilities		<u>4,048,157.60</u>	<u>3,006,777.78</u>	<u>7,705,274.03</u>
Total liabilities		<u>10,191,910.15</u>	<u>8,854,989.46</u>	<u>13,480,969.51</u>
Net assets:				
Invested in capital assets, net of related debt		23,294,142.67	23,316,100.26	20,785,988.39
Restricted		1,646,426.34	1,526,421.95	1,190,403.98
Unrestricted		<u>4,691,281.84</u>	<u>2,687,912.56</u>	<u>1,861,673.96</u>
Total net assets	\$	<u>29,631,850.85</u>	\$ <u>27,530,434.77</u>	\$ <u>23,838,066.33</u>

The restriction on net assets does not effect the availability of fund resources for future use.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2008 to 2007

The Board's net assets at the end of fiscal 2008 totaled \$29,631,851. This compares to \$27,530,435 at the end of fiscal 2007. The unrestricted portion of the Board's net assets (16%) may be used to meet the Board's obligations as they come due. The largest portion of the Board's net assets (79%) is invested in capital assets (e.g., land, buildings and equipment), less the related debt. The restricted portion of the Board's net assets (5%) represents funds that are required to be restricted according to the Funds Management Guidelines. The Funds Management Guidelines require the Board to deposit funds in a debt service fund, repair & replacement fund, and bond savings fund. The primary reason for the increase in net assets is due to grant revenue exceeding the board's operating loss.

2007 to 2006

The Board's net assets at the end of fiscal 2007 totaled approximately \$27,530,435. This compares to \$23,838,066 at the end of fiscal 2006. The unrestricted portion of the Board's net assets (10%) may be used to meet the Board's obligations as they come due. The largest portion of the Board's net assets (85%) is invested in capital assets (e.g., land, buildings and equipment), less the related debt. The restricted portion of the Board's net assets (5%) represents funds that are required to be restricted according to the Funds Management Guidelines. The Funds Management Guidelines require the Board to deposit funds in a debt service fund, repair & replacement fund, and bond savings fund. The primary reason for the increase in net assets is due to grant revenue exceeding the board's operating loss.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for nursing home services provided to veterans or spouses/children of veterans. Operating expenses are expenses paid to operate the nursing homes and corporate office. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets between fiscal years is presented below:

		Changes in Net Assets		
		June 30		
		2008	2007	2006
Operating revenue:				
Resident service revenue	\$	<u>28,711,187.88</u>	\$ <u>20,294,788.68</u>	\$ <u>15,496,483.78</u>
Total operating revenue		<u>28,711,187.88</u>	<u>20,294,788.68</u>	<u>15,496,483.78</u>
Operating expenses:				
Administrative and general		5,096,439.69	4,013,519.29	3,021,963.18

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nursing services	13,931,605.76	8,772,409.42	6,310,401.95
Central services	685,282.70	539,135.17	745,256.77
Ancillary departments	2,761,191.28	1,917,518.81	1,263,061.98
Dietary	2,404,181.14	1,510,215.28	1,165,301.27
Activities	692,843.59	380,205.62	267,577.98
Social services	506,973.49	334,609.89	287,755.07
Environmental services	1,781,340.93	1,174,980.35	920,237.17
Plant operations and maintenance	1,591,695.80	1,376,700.36	858,871.40
Depreciation	<u>1,274,750.71</u>	<u>844,901.09</u>	<u>554,886.56</u>
Total operating expenses	<u>30,726,305.09</u>	<u>20,864,195.28</u>	<u>15,395,313.33</u>
Operating income (loss)	<u>(2,015,117.21)</u>	<u>(569,406.60)</u>	<u>101,170.45</u>
Nonoperating revenues (expenses):			
Grant revenue	3,141,484.43	3,413,941.39	10,181,553.04
Interest revenue	152,543.36	203,800.12	119,515.88
Miscellaneous revenue	1,126,431.12	880,150.99	3,600,287.08
Interest expense	(222,643.65)	(194,972.91)	(202,278.74)
Amortization of premiums and issuance costs	(3,263.84)	(3,263.84)	(3,263.84)
Loss on disposal of equipment	(70,818.13)	(21,178.30)	(18,678.19)
Miscellaneous expense	<u>(7,200.00)</u>	<u>(16,702.41)</u>	<u>(17,117.12)</u>
Total nonoperating revenues	<u>4,116,533.29</u>	<u>4,261,775.04</u>	<u>13,660,018.11</u>
Increase in net assets	2,101,416.08	3,692,368.44	13,761,188.56
Net assets, July 1	<u>27,530,434.77</u>	<u>23,838,066.33</u>	<u>10,076,877.77</u>
Net assets, June 30	\$ <u>29,631,850.85</u>	\$ <u>27,530,434.77</u>	\$ <u>23,838,066.33</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

2008 to 2007

In fiscal 2008, operating revenues increased \$8,416,399, or 41%, primarily a result of Knox County's census increasing from 83.5 in fiscal year 2007 to 133.9 in fiscal year 2008. Operating expenses increased \$9,862,110, or 47%. The increase was primarily a result of nursing costs increasing approximately \$5,000,000 due to the increase in census and the rise in healthcare cost.

2007 to 2006

In fiscal 2007, operating revenues increased \$4,798,305, or 31%, and operating expenses increased \$5,468,882, or 36%. The increase in operating revenue and expenses is primarily a result of the new nursing home opening in Knox County and the opening of the additional 20 bed wing in Murfreesboro and Humboldt. In addition, the private pay semi-private and private room rates increased \$10 in Murfreesboro and \$7 in Humboldt per patient pay.

CAPITAL ASSETS

2008 to 2007

At June 30, 2008, the Board had \$29,437,895 invested in capital assets, net of accumulated depreciation of approximately \$6,574,746. Depreciation charges totaled \$1,274,751 for fiscal 2008.

2007 to 2006

At June 30, 2007, the Board had \$29,164,312 invested in capital assets, net of accumulated depreciation of approximately \$5,525,257. Depreciation charges totaled \$844,902 for fiscal 2007.

More detailed information about the Board's capital assets is presented in Note 6 to the financial statements.

LONG-TERM DEBT

The table below summarizes outstanding debt.

	June 30,		
	2008	2007	2006
Long-term debt	\$ 6,143,752.55	\$ 5,848,211.68	\$ 5,775,695.48

2008 to 2007

At June 30, 2008, the Board had \$6,143,753 in debt outstanding, an increase of \$295,541 from 2007.

2007 to 2006

At June 30, 2007, the Board had \$5,848,212 in debt outstanding, an increase of \$72,517 from 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term debt consists of a loan from the State of Tennessee and bonds and commercial paper that have been issued by the State of Tennessee on behalf of the board. Additional information about the Board's long-term debt is presented in Note 8 to the financial statements.

ECONOMIC FACTORS

Tennessee State Veterans' Homes Board continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Board officials. Some of the realities that may potentially become challenges for the Board to meet are:

- ◆ Facilities require constant maintenance and upkeep.
- ◆ Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up to date technology at a reasonable cost.
- ◆ Uncertainty in third party reimbursement rates.

The Board anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Board's ability to react to unknown issues.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Tennessee State Veterans' Homes Board finances for all those with an interest in the Board's finances. If you have questions about this report or need additional financial information, contact Joyce Ness, P.O. Box 11328, Murfreesboro, Tennessee 37129.

Tennessee State Veterans' Homes Board
Statements of Net Assets
June 30, 2008, and June 30, 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Assets:		
Current assets:		
Cash (Note 2)	\$ 2,994,658.43	\$ 2,616,784.91
Resident accounts receivable, net of allowance for doubtful accounts of \$704,784.88 at June 30, 2008, and \$744,022.99 at June 30, 2007 (Note 3)	3,043,078.21	2,228,182.82
Medicare cost settlement receivable	334,342.44	207,209.92
Due from primary government (Note 4)	175,412.45	-
Due from federal government	395,321.53	75,611.89
Inventories	324,198.60	235,033.76
Prepaid items	77,134.98	45,606.03
Restricted cash (Notes 2 and 5)	1,561,863.12	381,057.84
	<u>8,906,009.76</u>	<u>5,789,487.17</u>
Total current assets		
Noncurrent assets:		
Restricted cash (Notes 2 and 5)	1,434,509.65	1,383,014.91
Unamortized bond issuance costs	45,346.37	48,610.21
Capital assets (Note 6):		
Land and improvements	401,667.00	401,667.00
Infrastructure	676,338.00	676,063.00
Accumulated depreciation - infrastructure	(301,611.38)	(284,499.89)
Buildings and improvements	29,130,405.35	29,047,507.82
Accumulated depreciation - buildings and improvements	(4,469,967.95)	(3,754,895.29)
Furniture and equipment	4,438,819.82	2,670,670.40
Accumulated depreciation - furniture and equipment	(1,803,166.55)	(1,485,861.84)
Construction in progress	1,365,410.93	1,893,660.74
	<u>30,917,751.24</u>	<u>30,595,937.06</u>
Total noncurrent assets		
	<u>39,823,761.00</u>	<u>36,385,424.23</u>
Total assets		

Tennessee State Veterans' Homes Board
Statements of Net Assets
June 30, 2008, and June 30, 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Liabilities:		
Current liabilities:		
Accounts payable and accruals (Note 7)	1,666,405.31	2,010,970.01
Due to primary government (Note 4)	-	7,554.25
Amounts held in custody for others	137,387.92	132,881.33
Medicaid current financing	491,666.40	333,480.31
Deferred revenue	1,076,595.16	-
Current portion of long-term debt (Note 8)	229,360.69	175,000.00
Compensated absences (Note 8)	370,338.46	302,697.29
	<u>3,971,753.94</u>	<u>2,962,583.19</u>
Total current liabilities		
Noncurrent liabilities:		
Long-term debt outstanding (Note 8)	5,914,391.86	5,673,211.68
Compensated absences (Note 8)	268,176.12	219,194.59
Other post-employment benefits (Note 8 and 10)	37,588.23	-
	<u>6,220,156.21</u>	<u>5,892,406.27</u>
Total noncurrent liabilities		
Total liabilities	<u>10,191,910.15</u>	<u>8,854,989.46</u>
Net assets:		
Invested in capital assets, net of related debt	23,294,142.67	23,316,100.26
Restricted for:		
Debt service	211,916.69	143,191.96
Repairs and replacements	968,189.87	1,010,102.28
Other purposes	466,319.78	373,127.71
Unrestricted	4,691,281.84	2,687,912.56
	<u>4,691,281.84</u>	<u>2,687,912.56</u>
Total net assets	<u>\$ 29,631,850.85</u>	<u>\$ 27,530,434.77</u>

The notes to the financial statements are an integral part of this statement.

Tennessee State Veterans' Homes Board
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008, and June 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Operating revenue:		
Resident service revenue plus contractual adjustments of \$2,431,369.75 for the year ended June 30, 2008, and \$1,435,707.83 for the year ended June 30, 2007, and less provision for bad debts of \$240,831.76 for the year ended June 30, 2008, and plus provision for bad debts of \$329,433.86 for the year ended June 30, 2007	\$ 28,711,187.88	\$ 20,294,788.68
Total operating revenue	28,711,187.88	20,294,788.68
Operating expenses:		
Administrative and general	5,096,439.69	4,013,519.29
Nursing services	13,931,605.76	8,772,409.42
Central services	685,282.70	539,135.17
Ancillary departments	2,761,191.28	1,917,518.81
Dietary	2,404,181.14	1,510,215.28
Activities	692,843.59	380,205.62
Social services	506,973.49	334,609.89
Environmental services	1,781,340.93	1,174,980.35
Plant operations and maintenance	1,591,695.80	1,376,700.36
Depreciation	1,274,750.71	844,901.09
Total operating expenses	30,726,305.09	20,864,195.28
Operating loss	(2,015,117.21)	(569,406.60)
Nonoperating revenues (expenses):		
Grant revenue	3,141,484.43	3,413,941.39
Interest revenue	152,543.36	203,800.12
Miscellaneous revenue	1,126,431.12	880,150.99
Interest expense	(222,643.65)	(194,972.91)
Amortization of discounts and issuance costs	(3,263.84)	(3,263.84)
Loss on disposal of equipment	(70,818.13)	(21,178.30)
Miscellaneous expense	(7,200.00)	(16,702.41)
Total nonoperating revenues	4,116,533.29	4,261,775.04
Increase in net assets	2,101,416.08	3,692,368.44
Net assets, July 1	27,530,434.77	23,838,066.33
Net assets, June 30	\$ 29,631,850.85	\$ 27,530,434.77

The notes to the financial statements are an integral part of this statement.

Tennessee State Veterans' Homes Board
Statements of Cash Flows
For the Years Ended June 30, 2008, and June 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Cash flows from operating activities:		
Receipts from residents and third party payors	\$ 28,549,485.05	\$ 19,085,766.27
Other miscellaneous receipts	1,114,835.63	1,109,732.26
Payments to service providers and vendors	(12,968,481.75)	(8,504,343.99)
Payments to employees	(16,414,925.02)	(10,962,223.93)
Other miscellaneous payments	(978,269.51)	(810,729.68)
Net cash used for operating activities	<u>(697,355.60)</u>	<u>(81,799.07)</u>
Cash flows from noncapital financing activities:		
Principal paid on loan from the State of Tennessee	-	(30,000.00)
State appropriation	3,200,000.00	1,600,000.00
Foundation donations	-	278.34
Expenses paid by the foundation	-	(75,733.23)
Net cash provided by noncapital financing activities	<u>3,200,000.00</u>	<u>1,494,545.11</u>
Cash flows from capital and related financing activities:		
Capital grant received	645,714.60	7,586,122.93
Purchase of capital assets	(1,295,441.88)	(8,133,722.49)
Principal paid on debt	(165,000.00)	(160,000.00)
Interest paid on debt	(266,799.20)	(257,278.09)
Net cash used for capital and related financing activities	<u>(1,081,526.48)</u>	<u>(964,877.65)</u>
Cash flows from investing activities:		
Interest received	<u>189,055.62</u>	<u>207,368.91</u>
Net cash provided by investing activities	<u>189,055.62</u>	<u>207,368.91</u>
Net increase in cash	1,610,173.54	655,237.30
Cash, July 1	<u>4,380,857.66</u>	<u>3,725,620.36</u>
Cash, June 30	<u>\$ 5,991,031.20</u>	<u>\$ 4,380,857.66</u>

Tennessee State Veterans' Homes Board
Statements of Cash Flows
For the Years Ended June 30, 2008, and June 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (2,015,117.21)	\$ (569,406.60)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,274,750.71	844,901.09
Miscellaneous receipts	438,937.41	145,654.31
(Increase) in net resident accounts receivable	(824,264.05)	(1,479,823.75)
(Increase) decrease in due from federal government	(319,709.64)	5,909,829.26
(Increase) decrease in due from other facilities	-	0.30
(Increase) in Medicare cost settlement receivable	(127,132.52)	(25,857.26)
(Increase) in inventories	(89,164.84)	(180,274.38)
(Increase) in prepaid items	(31,528.95)	(35,661.03)
Increase (decrease) in noncapital accounts payable and accruals	(147,414.08)	1,120,932.88
(Decrease) in checks payable	-	(6,361.06)
Increase (decrease) in due to primary government	826,383.96	(6,014,656.34)
Increase in amounts held in custody for others	4,506.59	44,736.58
Increase in Medicaid current financing	158,186.09	33,341.82
Increase in compensated absences	116,622.70	130,845.11
Other post-employment benefits	37,588.23	-
Total adjustments	<u>1,317,761.61</u>	<u>487,607.53</u>
Net cash used for operating activities	<u>\$ (697,355.60)</u>	<u>\$ (81,799.07)</u>
Noncash capital activities		
Contributed capital assets	\$ 48,657.48	\$ 787,603.56

The notes to the financial statements are an integral part of this statement.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements
June 30, 2008, and June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. At June 30, 2008, three facilities, located in Murfreesboro, Humboldt, and Knoxville, were operating. The Knoxville facility began operations on January 1, 2007. The ten-member board has appointed an executive director to carry out its operations. Sections 58-7-102 and 58-7-104, *Tennessee Code Annotated*, were amended effective June 13, 2008, increasing the number of board members from 10 to 13 and creating an executive committee. The executive committee now has the authority to employ an executive director.

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee (the primary government). Although it is a separate legal entity, *Tennessee Code Annotated* states that the Commissioner of Veterans Affairs and the Commissioner of Finance and Administration shall serve on the board, and the remaining members of the board are appointed by the Governor, and its budget is approved by the state. In addition, the issuance of bonds must be approved by the State Funding Board. The board is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at <http://tennessee.gov/finance/act/cafr/html>.

The Tennessee Veterans Home Foundation, Inc., was established by the Tennessee State Veterans' Homes Board to receive donations for the benefit of the facilities' residents. The foundation's board of directors had 11 members, 6 of which were appointed by the Tennessee State Veterans' Homes Board. The board was developed solely to benefit the residents of Tennessee State Veterans' Homes. Due to this relationship, the foundation is included in the board's financial statements. The Tennessee State Veterans' Homes Board dissolved the foundation in February 2007. At this time, the funds held by the foundation were reverted back to the Murfreesboro and Humboldt facilities.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

C. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee State Veterans' Homes Board follows applicable GASB pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governmental entities also have the option of following subsequent private-sector guidance subject to this same limitation. The Tennessee State Veterans' Homes Board has elected not to follow subsequent private-sector guidance.

C. Measurement Focus and Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under the accrual basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Tennessee State Veterans' Homes Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. The board's principal operation is to provide support and care for honorably discharged veterans who served in the United States armed services. Any revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

The effects of internal activity between the individual facilities, the foundation, and the executive office have been eliminated. When the board has both restricted and unrestricted resources available to finance a particular activity, it is the board's policy to use restricted resources before unrestricted resources. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

D. Cash

Cash is defined as cash on hand and demand deposits. In addition to petty cash, facility bank accounts and foundation bank accounts, cash includes funds held with a trustee. The Tennessee State Veterans' Homes Board dissolved the foundation in February 2007. At that time, the funds held by the foundation reverted back to the Murfreesboro and Humboldt facilities. The unrestricted portion of the trustee funds included funds available for use for board operations through the budget process.

E. Inventories

Medical, dietary, and housekeeping supplies are recorded as expenses when purchased. At year end, inventories of these items are determined by physical count and are valued at replacement cost. This valuation is not materially different from historical cost.

F. Restricted Assets

Certain assets of the Tennessee State Veterans' Homes Board are classified as restricted assets because their use is restricted by applicable loan agreements. Other assets are the property of the homes' residents and are likewise classified as restricted assets.

G. Capital Assets and Depreciation

Capital assets are defined as assets with a useful life of at least 2 years and with a single-item value of at least \$1,000 or are part of group of similar items with a cumulative value of at least \$2,000. Capital assets are recorded at cost. Donated capital assets are stated at fair value at the date of donation. The board's policy is to capitalize interest expense incurred during the construction of assets. All capital assets other than land are depreciated using the straight-line method using these asset lives:

Infrastructure	8 to 40 years
Buildings and building improvements	5 to 40 years
Furniture and equipment	4 to 20 years

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

H. Loan Premiums, Deferred Amounts on Refunding and Issuance Costs

Loan Premiums and issuance costs are deferred and amortized over the life of the loans. The deferred amount on refunding is amortized over the shorter of the life of the loans or bonds that were refunded. The straight-line method of amortization is used and the premium and deferred amortization amount is a component of interest expense. The results of using the straight-line method are not materially different from those of the effective interest method. Loans payable are reported net of unamortized premium and unamortized deferred amount on refunding.

I. Compensated Absences

The board's employees accrue Earned Time Off (ETO) at varying rates, depending on length of service or classification. The amount of this liability and the related benefits are reported in the statement of net assets.

NOTE 2. DEPOSITS AND INVESTMENTS

At June 30, 2008, the carrying amount of the board's deposits was \$796,988.90, and the bank balance was \$1,139,400.16. At June 30, 2007, the carrying amount of the board's deposits was \$1,096,548.41, and the bank balance was \$1,922,631.44. The entire bank balance at June 30, 2008, and June 30, 2007, was considered insured by FDIC or was in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2008, the board also had \$5,192,642.30 deposited in the Local Government Investment Pool (LGIP) administered by the State Treasurer and \$1,400.00 of petty cash on hand. At June 30, 2007, the board had \$3,282,998.25 deposited in the Local Government Investment Pool (LGIP) administered by the State Treasurer and \$1,311.00 of petty cash on hand. The LGIP is part of the State Pooled Investment Fund. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury/> or by calling (615) 741-2956.

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

NOTE 3. ACCOUNTS RECEIVABLE

Receivables at June 30, 2008, consist of the following:

Receivables from patients and their insurance	\$1,275,199.19
Receivable from Medicare	1,269,685.68
Receivable from U.S. Department of Veterans Affairs	1,202,978.22
Allowance for doubtful accounts	<u>(704,784.88)</u>
Net amount reported as resident accounts receivable	<u>\$3,043,078.21</u>

The net receivable amount of \$3,043,078.21 represents accounts receivable that is expected to be collected within one year.

Receivables at June 30, 2007, consist of the following:

Receivables from patients and their insurance	\$1,192,045.58
Receivable from Medicare	745,465.98
Receivable from U.S. Department of Veterans Affairs	1,034,694.25
Allowance for doubtful accounts	<u>(744,022.99)</u>
Net amount reported as resident accounts receivable	<u>\$ 2,228,182.82</u>

The net receivable amount of \$2,228,182.82 represents accounts receivable that are expected to be collected within one year

NOTE 4. DUE TO (FROM) PRIMARY GOVERNMENT

Due From:	<u>June 30, 2008</u>
Department of Finance and Administration–State Building Commission	\$ 374,153.20
Department of Finance and Administration–Medicaid current services	(748,994.83)
Department of Attorney General	27,837.40
Department of Labor and Workforce Development – unemployment taxes	1,512.85
Department of Treasury – retirement contributions	92,203.94
Department of Health – Bed tax	<u>77,874.99</u>
Total due from primary government	<u>\$(175,412.45)</u>

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Due To:	<u>June 30, 2007</u>
Department of Finance and Administration—State Building Commission	\$ 79,160.33
Department of Finance and Administration—Medicaid current services less void adjustments	(353,668.50)
Department of Finance and Administration—Medicaid overpayments occurring before 1994	<u>282,062.42</u>
Total due to primary government	<u>\$ 7,554.25</u>

The amount Due from Primary Government, Department of Finance and Administration—Medicaid current services less void adjustments, includes both the receivable for amounts collectible from Medicaid for current services, and a payable to Medicaid for void adjustments that may be related to previous services. At June 30, 2007, the receivable from Medicaid is \$1,071,588.08, and the estimated payable to Medicaid for void adjustments is \$717,919.58.

NOTE 5. RESTRICTED ASSETS

The balances of the board's restricted asset accounts at June 30, 2008, are as follows:

Resident trust fund accounts	\$136,763.13
Debt service account	304,989.05
Bond savings account	466,319.78
Repair and replacement account	<u>2,088,300.81</u>
Total restricted assets	<u>\$2,996,372.77</u>

The balances of the board's restricted asset accounts at June 30, 2007, are as follows:

Resident trust fund accounts	\$ 136,959.39
Debt service account	240,529.66
Bond savings account	372,912.63
Repair and replacement account	<u>1,013,671.07</u>
Total restricted assets	<u>\$1,764,072.75</u>

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Capital assets, not being depreciated:				
Land and improvements	\$401,667.00	\$ -	\$ -	\$401,667.00
Construction in progress	<u>1,893,660.74</u>	<u>1,490,115.70</u>	<u>(2,018,365.51)</u>	<u>1,365,410.93</u>
Total capital assets, not being depreciated	<u>2,295,327.74</u>	<u>1,490,115.70</u>	<u>(2,018,365.51)</u>	<u>1,767,077.93</u>
Capital assets, being depreciated:				
Infrastructure	676,063.00	275.00	-	676,338.00
Buildings and improvements	29,047,507.82	144,185.53	(61,288.00)	29,130,405.35
Furniture and equipment	<u>2,670,670.40</u>	<u>2,207,330.57</u>	<u>(439,181.15)</u>	<u>4,438,819.82</u>
Total depreciable capital assets	<u>32,394,241.22</u>	<u>2,351,791.10</u>	<u>(500,469.15)</u>	<u>34,245,563.17</u>
Less accumulated depreciation:				
Infrastructure	(284,499.89)	(17,111.49)	-	(301,611.38)
Buildings and improvements	(3,754,895.29)	(747,412.98)	32,340.32	(4,469,967.95)
Furniture and equipment	<u>(1,485,861.84)</u>	<u>(613,708.87)</u>	<u>296,404.16</u>	<u>(1,803,166.55)</u>
Total accumulated depreciation	<u>(5,525,257.02)</u>	<u>(1,378,233.34)</u>	<u>328,744.48</u>	<u>(6,574,745.88)</u>
Total depreciable capital assets, net	<u>26,868,984.20</u>	<u>973,557.76</u>	<u>(171,724.67)</u>	<u>27,670,817.29</u>
Net capital assets	<u>\$29,164,311.94</u>	<u>\$2,463,673.46</u>	<u>(\$2,190,090.18)</u>	<u>\$29,437,895.22</u>

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Capital assets, not being depreciated:				
Land and improvements	\$401,667.00	\$ -	\$ -	\$401,667.00
Construction in progress	<u>17,619,999.79</u>	<u>2,875,097.96</u>	<u>(18,601,437.01)</u>	<u>1,893,660.74</u>
Total capital assets, not being depreciated	<u>18,021,666.79</u>	<u>2,875,097.96</u>	<u>(18,601,437.01)</u>	<u>2,295,327.74</u>
Capital assets, being depreciated:				
Infrastructure	676,063.00	-	-	676,063.00
Buildings and improvements	10,439,859.26	18,626,578.16	(18,929.60)	29,047,507.82
Furniture and equipment	<u>2,206,372.99</u>	<u>958,274.81</u>	<u>(493,977.40)</u>	<u>2,670,670.40</u>
Total depreciable capital assets	<u>13,322,295.25</u>	<u>19,584,852.97</u>	<u>(512,907.00)</u>	<u>32,394,241.22</u>
Less accumulated depreciation:				
Infrastructure	(264,751.64)	(47,955.09)	28,206.84	(284,499.89)
Buildings and improvements	(3,224,848.37)	(816,321.70)	286,274.78	(3,754,895.29)
Furniture and equipment	<u>(1,292,678.16)</u>	<u>(492,722.31)</u>	<u>299,538.63</u>	<u>(1,485,861.84)</u>
Total accumulated depreciation	<u>(4,782,278.17)</u>	<u>(1,356,999.10)</u>	<u>614,020.25</u>	<u>(5,525,257.02)</u>
Total depreciable capital assets, net	<u>8,540,017.08</u>	<u>18,227,853.87</u>	<u>101,113.25</u>	<u>26,868,984.20</u>
Net capital assets	<u>\$26,561,683.87</u>	<u>\$21,102,951.83</u>	<u>(\$18,500,323.76)</u>	<u>\$29,164,311.94</u>

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

NOTE 7. ACCOUNTS PAYABLE AND ACCRUALS

Payables at June 30, 2008, consist of the following:

Payables to suppliers	\$895,894.78
Accruals for salaries and benefits	683,136.87
Accrued interest	<u>87,373.66</u>
Amount reported as accounts payable and accruals	<u>\$1,666,405.31</u>

Payables at June 30, 2007, consist of the following:

Payables to suppliers	\$ 1,478,081.51
Accruals for salaries and benefits	435,550.80
Accrued interest	<u>97,337.70</u>
Amount reported as accounts payable and accruals	<u>\$ 2,010,970.01</u>

NOTE 8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amount due</u> <u>within 1</u> <u>year</u>
Long-term debt outstanding:					
Loan	\$ 100,000.00	\$ -	\$ (10,000.00)	\$ 90,000.00	\$ -
Bonds	3,363,764.89	1,187,213.80	(146,438.90)	4,404,539.79	229,360.69
Commercial paper	<u>2,384,446.79</u>	<u>451,979.77</u>	<u>(1,187,213.80)</u>	<u>1,649,212.76</u>	<u>-</u>
Subtotal	<u>5,848,211.68</u>	<u>1,639,193.57</u>	<u>(1,343,652.70)</u>	<u>6,143,752.55</u>	<u>229,360.69</u>
Compensated Absences	521,891.88	931,085.73	(814,463.03)	638,514.58	370,338.46
Other Post-Employment Benefits	<u>-</u>	<u>37,588.23</u>	<u>-</u>	<u>37,588.23</u>	<u>-</u>
Total long-term liabilities	<u>\$6,370,103.56</u>	<u>\$2,607,867.53</u>	<u>\$(2,158,115.73)</u>	<u>\$6,819,855.36</u>	<u>\$599,699.15</u>

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amount due</u> <u>within 1 year</u>
Long-term debt outstanding:					
Loan	\$ 120,000.00	\$ -	\$ (20,000.00)	\$ 100,000.00	\$ 10,000.00
Bonds	3,505,203.79	-	(141,438.90)	3,363,764.89	165,000.00
Commercial paper	<u>2,150,491.68</u>	<u>233,955.11</u>	<u>-</u>	<u>2,384,446.79</u>	<u>-</u>
Subtotal	<u>5,775,695.47</u>	<u>233,955.11</u>	<u>(161,438.90)</u>	<u>5,848,211.68</u>	<u>175,000.00</u>
Compensated Absences	<u>391,046.77</u>	<u>291,278.04</u>	<u>(160,432.93)</u>	<u>521,891.88</u>	<u>302,697.29</u>
Total long-term liabilities	<u>\$6,166,742.24</u>	<u>\$525,233.15</u>	<u>\$(321,871.83)</u>	<u>\$6,370,103.56</u>	<u>\$477,697.29</u>

Long-term debt consists of a loan from the State of Tennessee and bonds and commercial paper issued by the State of Tennessee on behalf of the board.

Loan Payable

The board received a \$200,000 loan from the State of Tennessee to be repaid from excess revenues from the operations of the Murfreesboro facility. No interest is accrued. Payments of \$10,000 are made yearly. In accordance with *Public Act Chapter 1037, Item 142, or 1988*, the \$10,000 due for the year ended June 30, 2008, was not paid due to the Murfreesboro facility not having excess revenues from operations.

Bonds

Bonds, with interest rates ranging from 3.0% to 5.125%, were issued by the State Funding Board, through the Division of Bond Finance.

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Commercial Paper

The State Funding Board, through the Division of Bond Finance, is currently issuing commercial paper to finance the renovation of the Murfreesboro facility. Once this project is complete, the Division of Bond Finance will retire the commercial paper with general obligation bonds. The board will be responsible for the debt service of these bonds. Until then, no principal payments will be made on this loan. The board is responsible for the interest on the commercial paper. These amounts represent the commercial paper that has been expended on the construction projects through June 30, 2008.

Debt-service requirements to maturity of the loans and bonds payable at June 30, 2008, are as follows:

<u>For the Year(s) Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 239,360.69	\$ 218,183.40	\$ 457,544.09
2010	244,360.69	206,590.36	450,951.05
2011	254,360.69	194,622.32	448,983.01
2012	259,360.69	182,279.29	441,639.98
2013	264,360.69	169,564.38	433,925.07
2014 – 2018	1,451,803.45	643,307.31	2,095,110.76
2019 – 2023	1,186,803.45	319,303.77	1,506,107.22
2024 - 2028	816,803.45	73,401.79	890,205.24
	<u>\$4,717,213.80</u>	<u>\$2,007,252.62</u>	<u>\$6,724,466.42</u>

The above debt principal is less than that presented on the accompanying financial statements by \$1,426,538.75 due to \$1,649,212.76 in commercial paper for which debt service requirements have not been established and due to \$118,911.53 of unamortized premium and \$(341,585.54) representing the deferred amount on refunding.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

NOTE 9. DEFINED BENEFIT PENSION PLAN

A. Plan Description

Employees of Tennessee State Veterans' Homes Board are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Tennessee State Veterans' Homes Board participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230, or on-line at <http://www.tn.gov/treasury/tcrs/PS/>.

B. Funding Policy

The Tennessee State Veterans' Homes Board has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5% of annual covered payroll.

The Tennessee State Veterans' Homes Board is required to contribute at an actuarially determined rate; the rate for the fiscal years ending June 30, 2008, and June 30, 2007, was 9.36% of annual covered payroll. The contribution

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

requirement of plan members is set by state statute. The contribution requirement for the board is established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

Tennessee State Veterans' Homes Board's annual pension cost of \$953,767 for the year ended June 30, 2008, and \$627,484 for the year ended June 30, 2007, to TCRS was equal to the board's required and actual contributions. The required contribution was determined as part of the July 1, 2005, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the social security wage base, and (d) projected post retirement increases of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The remaining amortization period at July 1, 2005, was 15 years.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$953,767	100%	-
June 30, 2007	\$627,484	100%	-
June 30, 2006	\$379,211	100%	-

NOTE 10. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The Tennessee State Veterans' Homes Board participates in the state-administered Local Government Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Tennessee Code Annotated (TCA) 8-27-207. Prior to reaching the age of 65, all members have the option of choosing a preferred provided organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr/html> or may be obtained by calling (615) 741-2140.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in the plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government participants. Plan members receiving benefits contributed \$715,445.95, or approximately 33 percent of the total premiums. The employer contributed \$1,447,749.19 or approximately 67 percent of the total premiums.

TSVHB Annual OPEB Cost and Net OPEB Obligation

Local Government Group Plan	
ARC	\$80,818.02
Interest on the NPO	0.00
Adjustment to the ARC	<u>0.00</u>
Annual OPEB cost:	80,818.02
Amount of contribution:	<u>(43,229.79)</u>
Increase in NPO	37,588.23
Net OPEB obligation-beginning of year	<u>0.00</u>
Net OPEB obligation-end of year	<u>\$37,588.23</u>

Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2008	Local Govt Group	\$80,818.02	53.49%	\$37,588.23

*Data not available for two preceding years.

**Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007**

Funding Status and Funding Progress

The funded status of the Tennessee State Veterans' Homes Board portion of the Local Government Group Insurance Plan as of July 1, 2007, was as follows:

	Local Govt Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	\$ 540,459.18
Actuarial value of plan assets	\$ <u>0.00</u>
Unfunded actuarial accrued liability (UAAL)	\$540,459.18
Actuarial Value of Assets as a % of the AAL	0.00%
Covered payroll (active plan members)	\$ 17,139,439.58
UAAL as a percentage of covered payroll	3.15%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 11% initially, reduced by decrements to an ultimate rate of 6% after ten years. Both rates include a 3% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

NOTE 11. EXTENDED DISABILITY BENEFITS

The board records the cost of extended disability benefits when paid. Generally, since these benefits (earn approximately one day per month with unlimited accumulation) are paid only when an employee who has successfully completed one year of employment is absent due to illness or injury, there is no liability for these benefits at June 30, 2008, or June 30, 2007.

NOTE 12. RISK MANAGEMENT

The board is exposed to various risks of loss related to general liability; automobile liability; professional malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

- A. The buildings and contents are insured by the State of Tennessee. At June 30, 2008, the board had scheduled coverage of \$31,438,900 for the buildings and \$4,077,100 for the contents. At June 30, 2007, the board had scheduled coverage of \$31,416,800 for the buildings and \$3,736,300 for the contents. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The insurance policy deductibles vary from \$25,000 per occurrence to an aggregate of \$7.5 million. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- B. The board participates in the State of Tennessee's Risk Management Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

- C. The board has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. Employees have the option of obtaining insurance through BlueCross BlueShield of Tennessee, CIGNA, or United Healthcare Insurance. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under BlueCross BlueShield of Tennessee, CIGNA, and United Healthcare.

NOTE 13. CHANGE IN ACCOUNTING ESTIMATE

The Tennessee State Veterans' Homes Board had a contingency liability recorded in the amount of \$999,982 related to Medicaid void adjustments prior to 2005. At June 30, 2008, it was determined the Board is not obligated or likely to be obligated to return the funds to Medicaid. An adjustment was made. The change did affect total nets assets.

NOTE 14. CHANGE IN ACCOUNTING PRINCIPLE

The Tennessee State Veterans' Homes Board has implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 2008, and June 30, 2007

information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 15. SUBSEQUENT EVENTS

Long-Term Borrowing

On September 1, 2008, the State issued 2008 Series A general obligation bonds for the Tennessee State Veterans' Homes Board in the amount of \$1,100,000. The interest rate on the bonds ranges from 3% to 5% and are due at varying amounts through September 2028.

On April 22, 2009, the State issued 2009 Series A general obligation bonds for the Tennessee State Veterans' Homes Board in the amount of \$451,881. The interest rate on the bonds ranges from 2% to 5% and are due at varying amounts through May 2029.

UNAUDITED
Tennessee State Veterans' Homes Board
Required Supplementary Information
Schedule of Pension Funding Progress

(Expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/01/07	\$4,930	\$5,397	\$467	91.34%	\$6,171	7.57%
7/01/05	\$3,456	\$3,456	\$0	100%	\$3,992	0%
7/01/03	\$2,569	\$2,569	\$0	100%	\$2,902	0%

UNAUDITED
Tennessee State Veterans' Homes Board
Required Supplementary Information
Other Post Employment Benefits Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/01/07	\$0	\$540,459	\$540,459	0%	\$17,139,440	3.15%

Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Net Assets
June 30, 2008

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knox County</u>	<u>Executive Office</u>	<u>Totals</u>
Assets:					
Current assets:					
Cash	\$ 414,011.30	\$ 929,464.80	\$ 1,645,463.44	\$ 5,718.89	\$ 2,994,658.43
Resident accounts receivable, net of allowance for doubtful accounts of \$704,784.88	1,042,621.21	1,020,020.95	980,436.05	-	3,043,078.21
Medicare cost settlement receivable	102,258.36	146,823.34	85,260.74	-	334,342.44
Due from primary government	(67,457.14)	184,991.51	48,509.42	9,368.66	175,412.45
Due from federal government	265,968.86	53,866.61	75,486.06	-	395,321.53
Due from other facilities	-	1,047,869.43	-	153,086.26	1,200,955.69
Inventories	102,360.86	52,959.45	168,878.29	-	324,198.60
Prepaid items	16,078.92	31,611.50	28,994.56	450.00	77,134.98
Restricted cash	206,149.21	227,862.75	11,569.48	1,116,281.68	1,561,863.12
Total current assets	<u>2,081,991.58</u>	<u>3,695,470.34</u>	<u>3,044,598.04</u>	<u>1,284,905.49</u>	<u>10,106,965.45</u>
Noncurrent assets:					
Restricted cash	840,416.61	594,093.04	-	-	1,434,509.65
Unamortized bond issuance costs	14,996.69	30,349.68	-	-	45,346.37
Capital assets:					
Land and improvements	58,540.00	200,127.00	143,000.00	-	401,667.00
Infrastructure	153,970.00	522,368.00	-	-	676,338.00
Accumulated depreciation - infrastructure	(139,459.53)	(162,151.85)	-	-	(301,611.38)
Buildings and improvements	7,177,132.74	9,728,457.01	12,224,815.60	-	29,130,405.35
Accumulated depreciation - buildings and improvements	(1,836,999.46)	(2,175,488.04)	(457,480.45)	-	(4,469,967.95)
Furniture and equipment	1,251,381.33	1,715,472.44	1,416,117.41	55,848.64	4,438,819.82
Accumulated depreciation - furniture and equipment	(640,617.22)	(918,142.70)	(213,261.04)	(31,145.59)	(1,803,166.55)
Construction in progress	1,365,410.93	-	-	-	1,365,410.93
Total noncurrent assets	<u>8,244,772.09</u>	<u>9,535,084.58</u>	<u>13,113,191.52</u>	<u>24,703.05</u>	<u>30,917,751.24</u>
Total assets	<u>10,326,763.67</u>	<u>13,230,554.92</u>	<u>16,157,789.56</u>	<u>1,309,608.54</u>	<u>41,024,716.69</u>

Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Net Assets (Cont.)
June 30, 2008

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knox County</u>	<u>Executive Office</u>	<u>Totals</u>
Liabilities:					
Current liabilities:					
Accounts payable and accruals	554,514.11	528,694.82	507,856.39	75,339.99	1,666,405.31
Amounts held in custody for others	42,506.22	84,595.88	10,285.82	-	137,387.92
Medicaid current financing	160,364.57	176,925.25	154,376.58	-	491,666.40
Due to other facilities	635,159.79	-	565,795.90	-	1,200,955.69
Deferred revenues	-	-	-	1,076,595.16	1,076,595.16
Current portion of long-term debt	138,460.69	90,900.00	-	-	229,360.69
Compensated absences	107,303.47	107,370.89	102,917.48	52,746.62	370,338.46
Total current liabilities	<u>1,638,308.85</u>	<u>988,486.84</u>	<u>1,341,232.17</u>	<u>1,204,681.77</u>	<u>5,172,709.63</u>
Noncurrent liabilities:					
Long-term debt outstanding	2,692,644.25	3,221,747.61	-	-	5,914,391.86
Compensated absences	77,702.51	77,751.34	74,526.45	38,195.82	268,176.12
Other post-employment benefits	10,477.69	11,754.76	13,411.56	1,944.22	37,588.23
Total noncurrent liabilities	<u>2,780,824.45</u>	<u>3,311,253.71</u>	<u>87,938.01</u>	<u>40,140.04</u>	<u>6,220,156.21</u>
Total liabilities	<u>4,419,133.30</u>	<u>4,299,740.55</u>	<u>1,429,170.18</u>	<u>1,244,821.81</u>	<u>11,392,865.84</u>
Net assets:					
Invested in capital assets, net of related debt	4,558,253.85	5,597,994.25	13,113,191.52	24,703.05	23,294,142.67
Restricted for:					
Debt service	122,342.54	89,574.15	-	-	211,916.69
Repairs and replacements	509,248.73	458,941.14	-	-	968,189.87
Other purposes	331,167.88	135,151.90	-	-	466,319.78
Unrestricted	386,617.37	2,649,152.93	1,615,427.86	40,083.68	4,691,281.84
Total net assets	<u>\$ 5,907,630.37</u>	<u>\$ 8,930,814.37</u>	<u>\$ 14,728,619.38</u>	<u>\$ 64,786.73</u>	<u>\$ 29,631,850.85</u>

Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Net Assets
June 30, 2007

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knox County</u>	<u>Executive Office</u>	<u>Totals</u>
Assets:					
Current assets:					
Cash	\$ 932,670.19	\$ 1,278,615.76	\$ 273,519.81	\$ 131,979.15	\$ 2,616,784.91
Resident accounts receivable, net of allowance for doubtful accounts of \$744,022.99	921,888.73	812,235.61	494,058.48	-	2,228,182.82
Medicare cost settlement receivable	106,022.53	101,187.39	-	-	207,209.92
Due from federal government	75,611.89	-	-	-	75,611.89
Due from other facilities	-	289,768.71	-	57,286.25	347,054.96
Inventories	117,885.50	54,172.61	62,975.65	-	235,033.76
Prepaid items	24,329.62	11,411.63	9,864.78	-	45,606.03
Restricted cash	156,298.79	216,463.75	8,295.30	-	381,057.84
Total current assets	<u>2,334,707.25</u>	<u>2,763,855.46</u>	<u>848,714.02</u>	<u>189,265.40</u>	<u>6,136,542.13</u>
Noncurrent assets:					
Restricted cash	754,253.77	628,761.14	-	-	1,383,014.91
Unamortized bond issuance costs	16,483.96	32,126.25	-	-	48,610.21
Capital assets:					
Land and improvements	58,540.00	200,127.00	143,000.00	-	401,667.00
Infrastructure	153,695.00	522,368.00	-	-	676,063.00
Accumulated depreciation - infrastructure	(134,209.51)	(150,290.38)	-	-	(284,499.89)
Buildings and improvements	7,203,817.92	9,643,873.58	12,199,816.32	-	29,047,507.82
Accumulated depreciation - buildings and improvements	(1,675,994.46)	(1,926,403.13)	(152,497.70)	-	(3,754,895.29)
Furniture and equipment	1,197,163.36	1,328,962.49	98,125.65	46,418.90	2,670,670.40
Accumulated depreciation - furniture and equipment	(673,727.43)	(780,949.56)	(15,318.22)	(15,866.63)	(1,485,861.84)
Construction in progress	354,185.26	186,055.42	1,353,420.06	-	1,893,660.74
Total noncurrent assets	<u>7,254,207.87</u>	<u>9,684,630.81</u>	<u>13,626,546.11</u>	<u>30,552.27</u>	<u>30,595,937.06</u>
Total assets	<u>9,588,915.12</u>	<u>12,448,486.27</u>	<u>14,475,260.13</u>	<u>219,817.67</u>	<u>36,732,479.19</u>

Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Net Assets (Cont.)
June 30, 2007

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knox County</u>	<u>Executive Office</u>	<u>Totals</u>
Liabilities:					
Current liabilities:					
Accounts payable and accruals	796,734.39	798,811.86	260,237.30	155,186.46	2,010,970.01
Due to primary government	165,297.51	128,512.65	(286,255.91)	-	7,554.25
Amounts held in custody for others	53,859.63	71,990.15	7,031.55	-	132,881.33
Medicaid current financing	191,058.01	142,422.30	-	-	333,480.31
Due to other facilities	66,190.76	-	280,864.20	-	347,054.96
Current portion of long-term debt	86,700.00	88,300.00	-	-	175,000.00
Compensated absences	103,029.99	107,220.15	38,339.08	54,108.07	302,697.29
Total current liabilities	<u>1,462,870.29</u>	<u>1,337,257.11</u>	<u>300,216.22</u>	<u>209,294.53</u>	<u>3,309,638.15</u>
Noncurrent liabilities:					
Long-term debt outstanding	2,410,232.93	3,262,978.75	-	-	5,673,211.68
Compensated absences	74,607.93	77,642.18	27,762.78	39,181.70	219,194.59
Total noncurrent liabilities	<u>2,484,840.86</u>	<u>3,340,620.93</u>	<u>27,762.78</u>	<u>39,181.70</u>	<u>5,892,406.27</u>
Total liabilities	<u>3,947,711.15</u>	<u>4,677,878.04</u>	<u>327,979.00</u>	<u>248,476.23</u>	<u>9,202,044.42</u>
Net assets:					
Invested in capital assets, net of related debt	3,986,537.21	5,672,464.67	13,626,546.11	30,552.27	23,316,100.26
Restricted for:					
Debt service	66,023.64	77,168.32	-	-	143,191.96
Repairs and replacements	499,216.41	510,885.87	-	-	1,010,102.28
Other purposes	255,037.56	118,090.15	-	-	373,127.71
Unrestricted	834,389.15	1,391,999.22	520,735.02	(59,210.83)	2,687,912.56
Total net assets	<u>\$ 5,641,203.97</u>	<u>\$ 7,770,608.23</u>	<u>\$ 14,147,281.13</u>	<u>\$ (28,658.56)</u>	<u>\$ 27,530,434.77</u>

Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Executive Office</u>	<u>Totals</u>
Operating revenue:					
Resident service revenue plus contractual adjustments of \$2,431,369.75 and less provision for bad debts of \$240,831.76	\$ 8,384,469.26	\$ 10,384,903.65	\$ 9,941,814.97	\$ -	\$ 28,711,187.88
Total operating revenue	<u>8,384,469.26</u>	<u>10,384,903.65</u>	<u>9,941,814.97</u>	<u>-</u>	<u>28,711,187.88</u>
Operating expenses:					
Administrative and general	1,510,634.34	1,253,117.32	990,751.08	1,341,936.95	5,096,439.69
Nursing services	4,657,250.11	4,706,110.84	4,568,244.81	-	13,931,605.76
Central services	216,297.13	292,199.10	176,786.47	-	685,282.70
Ancillary departments	923,971.08	866,644.52	970,575.68	-	2,761,191.28
Dietary	758,775.07	839,303.51	806,102.56	-	2,404,181.14
Activities	245,122.99	244,847.47	202,873.13	-	692,843.59
Social services	212,478.52	181,581.72	112,913.25	-	506,973.49
Environmental services	573,771.50	628,117.65	579,451.78	-	1,781,340.93
Plant operations and maintenance	516,513.12	566,762.91	508,419.77	-	1,591,695.80
Depreciation	<u>344,846.30</u>	<u>411,699.88</u>	<u>502,925.57</u>	<u>15,278.96</u>	<u>1,274,750.71</u>
Total operating expenses	<u>9,959,660.16</u>	<u>9,990,384.92</u>	<u>9,419,044.10</u>	<u>1,357,215.91</u>	<u>30,726,305.09</u>
Operating income (loss)	<u>(1,575,190.90)</u>	<u>394,518.73</u>	<u>522,770.87</u>	<u>(1,357,215.91)</u>	<u>(2,015,117.21)</u>
Nonoperating revenues (expenses):					
Grant revenue	1,667,712.09	794,179.65	363,591.26	316,001.43	3,141,484.43
Interest revenue	65,080.56	56,941.59	29,206.38	1,314.83	152,543.36
Miscellaneous revenue	581,393.37	487,187.79	57,699.96	150.00	1,126,431.12
Interest expense	(85,212.00)	(137,431.65)	-	-	(222,643.65)
Amortization of premiums and issuance costs	(1,487.27)	(1,776.57)	-	-	(3,263.84)
Loss on disposal of equipment	(54,628.54)	(16,189.59)	-	-	(70,818.13)
Miscellaneous expense	(2,400.00)	(2,400.00)	(2,400.00)	-	(7,200.00)
Intercompany transfers	<u>(328,840.91)</u>	<u>(414,823.81)</u>	<u>(389,530.22)</u>	<u>1,133,194.94</u>	<u>-</u>
Total nonoperating revenues	<u>1,841,617.30</u>	<u>765,687.41</u>	<u>58,567.38</u>	<u>1,450,661.20</u>	<u>4,116,533.29</u>
Increase in net assets	266,426.40	1,160,206.14	581,338.25	93,445.29	2,101,416.08
Net assets, July 1	<u>5,641,203.97</u>	<u>7,770,608.23</u>	<u>14,147,281.13</u>	<u>(28,658.56)</u>	<u>27,530,434.77</u>
Net assets, June 30	<u>\$ 5,907,630.37</u>	<u>\$ 8,930,814.37</u>	<u>\$ 14,728,619.38</u>	<u>\$ 64,786.73</u>	<u>\$ 29,631,850.85</u>

Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Executive Office</u>	<u>Foundation</u>	<u>Totals</u>
Operating revenue:						
Resident service revenue plus contractual adjustments of \$1,435,707.83 and plus provision for bad debts of \$329,433.86	\$ 9,938,434.90	\$ 8,817,586.12	\$ 1,538,767.66	\$ -	\$ -	\$ 20,294,788.68
Total operating revenue	<u>9,938,434.90</u>	<u>8,817,586.12</u>	<u>1,538,767.66</u>	<u>-</u>	<u>-</u>	<u>20,294,788.68</u>
Operating expenses:						
Administrative and general	1,157,278.00	1,212,315.96	518,869.79	1,125,055.54	-	4,013,519.29
Nursing services	4,295,561.55	3,608,241.29	868,606.58	-	-	8,772,409.42
Central services	184,302.92	287,927.49	66,904.76	-	-	539,135.17
Ancillary departments	870,235.86	775,621.95	271,661.00	-	-	1,917,518.81
Dietary	650,998.44	689,319.60	169,897.24	-	-	1,510,215.28
Activities	161,428.63	178,591.74	40,185.25	-	-	380,205.62
Social services	148,161.20	142,198.83	44,249.86	-	-	334,609.89
Environmental services	571,222.16	490,525.48	113,232.71	-	-	1,174,980.35
Plant operations and maintenance	518,888.64	509,074.53	348,737.19	-	-	1,376,700.36
Depreciation	298,244.95	366,474.43	167,815.92	12,365.79	-	844,901.09
Total operating expenses	<u>8,856,322.35</u>	<u>8,260,291.30</u>	<u>2,610,160.30</u>	<u>1,137,421.33</u>	<u>-</u>	<u>20,864,195.28</u>
Operating income (loss)	<u>1,082,112.55</u>	<u>557,294.82</u>	<u>(1,071,392.64)</u>	<u>(1,137,421.33)</u>	<u>-</u>	<u>(569,406.60)</u>
Nonoperating revenues (expenses):						
Grant revenue	268,979.04	165,509.01	2,979,453.34	-	-	3,413,941.39
Interest revenue	75,438.44	96,682.01	30,985.20	3.65	690.82	203,800.12
Miscellaneous revenue	36,743.71	49,561.13	793,357.81	210.00	278.34	880,150.99
Interest expense	(53,579.35)	(140,193.56)	(1,200.00)	-	-	(194,972.91)
Amortization of discounts and issuance costs	(1,487.27)	(1,776.57)	-	-	-	(3,263.84)
Loss on disposal of equipment	(1,169.04)	(20,009.26)	-	-	-	(21,178.30)
Miscellaneous expense	(3,200.00)	(3,200.00)	-	-	(10,302.41)	(16,702.41)
Intercompany transfers	(494,156.31)	(450,450.86)	(126,386.39)	1,136,424.38	(65,430.82)	-
Total nonoperating revenues (expenses)	<u>(172,430.78)</u>	<u>(303,878.10)</u>	<u>3,676,209.96</u>	<u>1,136,638.03</u>	<u>(74,764.07)</u>	<u>4,261,775.04</u>
Increase (decrease) in net assets	909,681.77	253,416.72	2,604,817.32	(783.30)	(74,764.07)	3,692,368.44
Net assets, July 1	<u>4,731,522.20</u>	<u>7,517,191.51</u>	<u>11,542,463.81</u>	<u>(27,875.26)</u>	<u>74,764.07</u>	<u>23,838,066.33</u>
Net assets, June 30	<u>\$ 5,641,203.97</u>	<u>\$ 7,770,608.23</u>	<u>\$ 14,147,281.13</u>	<u>\$ (28,658.56)</u>	<u>\$ -</u>	<u>\$ 27,530,434.77</u>

**Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Cash Flows
For the Year Ended June 30, 2008**

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Executive Office</u>	<u>Totals</u>
Cash flows from operating activities:					
Receipts from residents and third party payors	\$ 8,573,534.53	\$ 10,292,288.94	\$ 9,683,661.58	\$ -	\$ 28,549,485.05
Other miscellaneous receipts	423,572.66	593,707.30	88,077.36	9,478.31	1,114,835.63
Payments to service providers and vendors	(4,354,578.31)	(4,334,317.25)	(4,279,586.19)	-	(12,968,481.75)
Payments to employees	(5,185,368.44)	(6,709,791.55)	(4,431,827.89)	(87,937.14)	(16,414,925.02)
Other miscellaneous payments	(408,412.53)	(502,174.88)	(67,682.10)	-	(978,269.51)
Net cash provided by (used for) operating activities	<u>(951,252.09)</u>	<u>(660,287.44)</u>	<u>992,642.76</u>	<u>(78,458.83)</u>	<u>(697,355.60)</u>
Cash flows from noncapital financing activities					
State appropriation	<u>825,838.68</u>	<u>894,073.83</u>	<u>440,005.15</u>	<u>1,040,082.34</u>	<u>3,200,000.00</u>
Net cash provided by noncapital financing activities	<u>825,838.68</u>	<u>894,073.83</u>	<u>440,005.15</u>	<u>1,040,082.34</u>	<u>3,200,000.00</u>
Cash flows from capital and related financing activities:					
Capital grant received	645,714.60	-	-	-	645,714.60
Purchase of capital assets	(782,148.54)	(417,227.12)	(86,636.48)	(9,429.74)	(1,295,441.88)
Principal paid on debt	(76,700.00)	(88,300.00)	-	-	(165,000.00)
Interest paid on debt	(109,178.28)	(157,620.92)	-	-	(266,799.20)
Net cash used for capital and related financing activities	<u>(322,312.22)</u>	<u>(663,148.04)</u>	<u>(86,636.48)</u>	<u>(9,429.74)</u>	<u>(1,081,526.48)</u>
Cash flows from investing activities:					
Interest received	<u>65,080.00</u>	<u>56,941.59</u>	<u>29,206.38</u>	<u>37,827.65</u>	<u>189,055.62</u>
Net cash provided by investing activities	<u>65,080.00</u>	<u>56,941.59</u>	<u>29,206.38</u>	<u>37,827.65</u>	<u>189,055.62</u>
Net increase in cash	(382,645.63)	(372,420.06)	1,375,217.81	990,021.42	1,610,173.54
Cash, July 1	<u>1,843,222.75</u>	<u>2,123,840.65</u>	<u>281,815.11</u>	<u>131,979.15</u>	<u>4,380,857.66</u>
Cash, June 30	<u>\$ 1,460,577.12</u>	<u>\$ 1,751,420.59</u>	<u>\$ 1,657,032.92</u>	<u>\$ 1,122,000.57</u>	<u>\$ 5,991,031.20</u>

**Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Cash Flows
For the Year Ended June 30, 2008**

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Executive Office</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (1,575,190.90)	\$ 394,518.73	\$ 522,770.87	\$ (1,357,215.91)	\$ (2,015,117.21)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	344,846.30	411,699.88	502,925.57	15,278.96	1,274,750.71
Transfers (to) from other facilities	(328,840.91)	(414,823.81)	(389,530.22)	1,133,194.94	-
Miscellaneous receipts	24,814.76	80,928.74	17,042.48	316,151.43	438,937.41
(Increase) in net resident accounts receivable	(120,732.48)	(207,785.34)	(486,377.57)	(9,368.66)	(824,264.05)
(Increase) in due from federal government	(190,356.97)	(53,866.61)	(75,486.06)	-	(319,709.64)
(Increase) decrease in due from other facilities	568,969.03	(758,100.72)	284,931.70	(95,800.01)	-
(Increase) decrease in Medicare cost settlement receivable	3,764.17	(45,635.95)	(85,260.74)	-	(127,132.52)
(Increase) decrease in inventories	15,524.64	1,213.16	(105,902.64)	-	(89,164.84)
(Increase) decrease in prepaid items	8,250.70	(20,199.87)	(19,129.78)	(450.00)	(31,528.95)
Increase (decrease) in noncapital accounts payable and accruals	(129,109.01)	(244,986.78)	306,528.18	(79,846.47)	(147,414.08)
Increase in due to primary government	451,009.68	137,627.79	237,746.49	-	826,383.96
Increase (decrease) in amounts held in custody for others	(11,353.41)	12,605.73	3,254.27	-	4,506.59
Increase (decrease) in Medicaid current financing	(30,693.44)	34,502.95	154,376.58	-	158,186.09
Increase (decrease) in compensated absences	7,368.06	259.90	111,342.07	(2,347.33)	116,622.70
Other post-employment benefits	10,477.69	11,754.76	13,411.56	1,944.22	37,588.23
Total adjustments	<u>623,938.81</u>	<u>(1,054,806.17)</u>	<u>469,871.89</u>	<u>1,278,757.08</u>	<u>1,317,761.61</u>
Net cash provided by (used for) operating activities	<u>\$ (951,252.09)</u>	<u>\$ (660,287.44)</u>	<u>\$ 992,642.76</u>	<u>\$ (78,458.83)</u>	<u>\$ (697,355.60)</u>
Noncash capital activities					
Contributed capital assets	\$ -	\$ 8,000.00	\$ 40,657.48	\$ -	\$ 48,657.48

Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Cash Flows
For the Year Ended June 30, 2007

	Murfreesboro	Humboldt	Knoxville	Executive Office	Foundation	Totals
Cash flows from operating activities:						
Receipts from residents and third party payors	\$ 9,328,961.95	\$ 8,993,247.92	\$ 763,556.40	\$ -	\$ -	\$ 19,085,766.27
Other miscellaneous receipts	509,569.61	435,349.04	15,078.71	149,734.90	-	1,109,732.26
Payments to service providers and vendors	(3,777,087.89)	(3,622,452.04)	(1,104,804.06)	-	-	(8,504,343.99)
Payments to employees	(5,136,725.81)	(4,827,589.99)	(997,908.13)	-	-	(10,962,223.93)
Other miscellaneous payments	(472,832.72)	(335,904.05)	(1,992.91)	-	-	(810,729.68)
Net cash provided by (used for) operating activities	<u>451,885.14</u>	<u>642,650.88</u>	<u>(1,326,069.99)</u>	<u>149,734.90</u>	<u>-</u>	<u>(81,799.07)</u>
Cash flows from noncapital financing activities						
Principal paid on loan from the State of Tennessee	(30,000.00)	-	-	-	-	(30,000.00)
State appropriation	-	-	1,600,000.00	-	-	1,600,000.00
Foundation donations	-	-	-	-	278.34	278.34
Expenses paid by the foundation	-	-	-	-	(75,733.23)	(75,733.23)
Net cash provided by (used for) noncapital financing activities	<u>(30,000.00)</u>	<u>-</u>	<u>1,600,000.00</u>	<u>-</u>	<u>(75,454.89)</u>	<u>1,494,545.11</u>
Cash flows from capital and related financing activities:						
Capital grant received	1,532,197.30	1,126,180.62	4,927,745.01	-	-	7,586,122.93
Purchase of capital assets	(1,797,838.29)	(1,365,820.14)	(4,952,304.66)	(17,759.40)	-	(8,133,722.49)
Principal paid on debt	(74,500.00)	(85,500.00)	-	-	-	(160,000.00)
Interest paid on debt	(95,928.53)	(161,349.56)	-	-	-	(257,278.09)
Net cash used for capital and related financing activities	<u>(436,069.52)</u>	<u>(486,489.08)</u>	<u>(24,559.65)</u>	<u>(17,759.40)</u>	<u>-</u>	<u>(964,877.65)</u>
Cash flows from investing activities:						
Interest received	77,828.60	96,896.89	31,948.95	3.65	690.82	207,368.91
Net cash provided by investing activities	<u>77,828.60</u>	<u>96,896.89</u>	<u>31,948.95</u>	<u>3.65</u>	<u>690.82</u>	<u>207,368.91</u>
Net increase (decrease) in cash	63,644.22	253,058.69	281,319.31	131,979.15	(74,764.07)	655,237.30
Cash, July 1	<u>1,779,578.53</u>	<u>1,870,781.96</u>	<u>495.80</u>	<u>-</u>	<u>74,764.07</u>	<u>3,725,620.36</u>
Cash, June 30	<u>\$ 1,843,222.75</u>	<u>\$ 2,123,840.65</u>	<u>\$ 281,815.11</u>	<u>\$ 131,979.15</u>	<u>\$ -</u>	<u>\$ 4,380,857.66</u>

**Tennessee State Veterans' Homes Board
Supplementary Information
Supplementary Schedule of Cash Flows
For the Year Ended June 30, 2007**

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Executive Office</u>	<u>Foundation</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 1,082,112.55	\$ 557,294.82	\$ (1,071,392.64)	\$ (1,137,421.33)	\$ -	\$ (569,406.60)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	298,244.95	366,474.43	167,815.92	12,365.79	-	844,901.09
Transfers (to) from other facilities	(500,418.20)	(471,506.67)	(126,386.39)	1,098,311.26	-	-
Miscellaneous receipts	30,660.00	70,616.94	6,054.25	38,323.12	-	145,654.31
(Increase) in net resident accounts receivable	(843,324.00)	(142,441.27)	(494,058.48)	-	-	(1,479,823.75)
Decrease in due from federal government	1,343,218.26	1,018,340.03	3,548,270.97	-	-	5,909,829.26
(Increase) decrease in due from other facilities	46,752.27	(284,796.76)	257,393.72	(19,348.93)	-	0.30
(Increase) decrease in Medicare cost settlement receivable	(36,009.67)	10,152.41	-	-	-	(25,857.26)
(Increase) in inventories	(82,829.25)	(34,469.48)	(62,975.65)	-	-	(180,274.38)
(Increase) decrease in prepaid items	(18,218.12)	(8,218.13)	(9,864.78)	640.00	-	(35,661.03)
Increase in noncapital accounts payable and accruals	446,989.04	329,961.29	223,723.10	120,259.45	-	1,120,932.88
(Decrease) in checks payable	(3.72)	(6,357.34)	-	-	-	(6,361.06)
(Decrease) in due to primary government	(1,378,775.00)	(800,858.66)	(3,835,022.68)	-	-	(6,014,656.34)
Increase in amounts held in custody for others	6,821.76	30,883.27	7,031.55	-	-	44,736.58
Increase (decrease) in Medicaid current financing	43,484.01	(10,142.19)	-	-	-	33,341.82
Increase in compensated absences	13,180.26	17,718.19	63,341.12	36,605.54	-	130,845.11
Total adjustments	<u>(630,227.41)</u>	<u>85,356.06</u>	<u>(254,677.35)</u>	<u>1,287,156.23</u>	<u>-</u>	<u>487,607.53</u>
Net cash provided by (used for) operating activities	<u>\$ 451,885.14</u>	<u>\$ 642,650.88</u>	<u>\$ (1,326,069.99)</u>	<u>\$ 149,734.90</u>	<u>\$ -</u>	<u>\$ (81,799.07)</u>
Noncash capital activities						
Contributed capital assets	\$ -	\$ -	\$ 787,603.56	\$ -	\$ -	\$ 787,603.56