



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**TENNESSEE STATE VETERANS' HOMES BOARD**

**Financial and Compliance Audit Report**

For the Year Ended June 30, 2014

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**Justin P. Wilson, Comptroller**



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COMPTROLLER OF THE TREASURY  
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October 8, 2015

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
Board of Directors, Tennessee State Veterans' Homes Board

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State Veterans' Homes Board for the year ended June 30, 2014. You will note from the independent auditor's report that an unmodified 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 Finding and Recommendation 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,

Deborah V. Loveless, CPA  
Director

15/046

**Audit Report**  
**Tennessee State Veterans' Homes Board**  
**For the Year Ended June 30, 2014**

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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, 2014

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### Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

### Audit Finding

**Tennessee State Veterans' Homes Board management did not provide adequate internal controls in one specific area**

The Tennessee State Veterans' Homes Board did not design and monitor effective internal controls in a specific area. We observed a condition in violation of the board's policies and/or industry-accepted best practices (page 37).



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## Independent Auditor's Report

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
Board of Directors, Tennessee State Veterans' Homes Board

### Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of and for the years ended June 30, 2014, and June 30, 2013, and the related notes to the financial statements, which collectively comprise the board's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State Veterans' Homes Board as of June 30, 2014, and June 30, 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

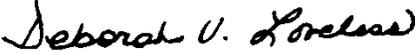
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10, the schedule of pension funding progress on page 27, and the other postemployment benefits schedule of funding progress on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the board's basic financial statements. The accompanying financial information on pages 29 through 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2015, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA  
Director  
September 18, 2015

## **TENNESSEE STATE VETERANS' HOMES BOARD**

### **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 years ended June 30, 2014, and June 30, 2013, with comparative information presented for the fiscal year ended June 30, 2012. 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 basic financial statements, notes, and this discussion are the responsibility of management.

### **Financial Highlights**

#### Year Ended June 30, 2014

- ◆ The board's operating revenues increased 4%, or \$1,457,007, from fiscal year 2013 to fiscal year 2014.
- ◆ The board's operating expenses were 7%, or \$2,509,601, more in fiscal year 2014 than in fiscal year 2013.
- ◆ The board's net position increased 26%, or \$10,099,239, from June 30, 2013, to June 30, 2014.

#### Year Ended June 30, 2013

- ◆ The board's operating revenues increased 4%, or \$1,554,052, from fiscal year 2012 to fiscal year 2013.
- ◆ The board's operating expenses were 0.3%, or \$96,609, more in fiscal year 2013 than in fiscal year 2012.
- ◆ The board's net position increased 12%, or \$4,178,185, from June 30, 2012, to June 30, 2013.

### **Financial Analysis of the Board**

The Tennessee State Veterans' Homes Board is a discretely presented 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 is intended to serve as an introduction to Tennessee State Veterans' Homes Board's basic financial statements. The financial statements consist of the following basic financial statements and required supplementary information:

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

The statement of revenues, expenses, and changes in net position is the basic statement of activities for business-type activities. This statement presents information on the board's operating revenues and expenses; nonoperating revenues and expenses; other revenues, expenses, gains, or losses; 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 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.

The notes to the 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 postemployment 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.

## Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the board's financial position. A summary of the board's net position at June 30, 2014; June 30, 2013; and June 30, 2012, is presented below:

	<b>Net Position</b>		
	2014	2013	2012
<b>Assets:</b>			
Current assets and other assets	\$26,173,255	\$18,901,755	\$16,248,689
Capital assets, net	36,816,981	27,585,670	26,408,189
<b>Total assets</b>	<b>62,990,236</b>	<b>46,487,425</b>	<b>42,656,878</b>
<b>Liabilities:</b>			
Long-term debt outstanding	6,157,122	4,767,942	5,109,408
Other liabilities	7,527,402	2,513,010	2,519,182
<b>Total liabilities</b>	<b>13,684,524</b>	<b>7,280,952</b>	<b>7,628,590</b>

Net position:			
Net investment in capital assets	32,410,504	22,817,728	21,298,782
Restricted	3,245,541	3,514,315	2,916,346
Unrestricted	13,649,667	12,874,430	10,813,160
<b>Total net position</b>	<b>\$49,305,712</b>	<b>\$39,206,473</b>	<b>\$35,028,288</b>

### 2014 to 2013

The board's net position at the end of fiscal year 2014 totaled \$49,305,712. This compares to \$39,206,473 at the end of fiscal year 2013. The unrestricted portion of the board's net position (28%) may be used to meet the board's obligations as they come due. The largest portion of the board's net position (66%) is invested in capital assets (e.g., land, buildings, and equipment), less the related debt. The restricted portion of the board's net position (6%) represents funds that are restricted for capital projects and funds 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 and replacement fund, and technology fund. The increase in net position is due primarily to an increase in capital assets for the construction of a new home in Clarksville, TN, which has been financed with a combination of a federal grant, donations, loans, and capital appropriations from the state. In fiscal year 2014, operating revenues increased \$1,457,007, or 4%, primarily a result of Veterans' Affairs (VA), Medicare, and Medicaid rates increasing and an increase in VA 70% patient mix from fiscal year 2013 to fiscal year 2014, respectively.

### 2013 to 2012

The board's net position at the end of fiscal year 2013 totaled \$39,206,473. This compares to \$35,028,288 at the end of fiscal year 2012. The unrestricted portion of the board's net position (33%) may be used to meet the board's obligations as they come due. The largest portion of the board's net position (58%) is invested in capital assets (e.g., land, buildings, and equipment), less the related debt. The restricted portion of the board's net position (9%) 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 and replacement fund, and technology fund. The increase in net position is due primarily to an increase in cash from patient revenue. In fiscal year 2013, operating revenues increased \$1,554,052, or 4%, primarily a result of Humboldt and Knox County's Medicare patient mix increasing from 14% and 10% in fiscal year 2012 to 15% and 12% in fiscal year 2013, respectively.

## Statement of Revenues, Expenses, and Changes in Net Position

Operating revenues are received for nursing home services provided to veterans, spouses of veterans, and gold star parents (parents of service persons killed in action). 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 position between fiscal years is presented below:

### Change in Net Position

	2014	2013	2012
<b>Operating revenue:</b>			
Resident service revenue	\$40,169,900	\$38,712,893	\$37,158,841
<b>Total operating revenue</b>	<b>40,169,900</b>	<b>38,712,893</b>	<b>37,158,841</b>
<b>Operating expenses:</b>			
Administrative and general	5,536,553	5,127,754	4,843,458
Nursing services	16,897,363	15,974,061	16,731,683
Central services	1,312,500	1,195,934	1,071,373
Ancillary departments	4,576,525	4,140,422	3,373,213
Dietary	3,524,857	3,269,653	3,333,094
Activities	1,008,852	977,894	1,077,319
Social services	585,484	560,145	646,046
Environmental services	2,520,437	2,269,029	2,442,541
Plant operations and maintenance	2,087,455	1,936,793	1,936,201
Depreciation	1,371,948	1,460,688	1,360,836
<b>Total operating expenses</b>	<b>39,421,974</b>	<b>36,912,373</b>	<b>36,815,764</b>
<b>Operating income</b>	<b>747,926</b>	<b>1,800,520</b>	<b>343,077</b>
<b>Nonoperating revenues and expenses</b>	<b>(80,383)</b>	<b>(167,935)</b>	<b>58,262</b>
<b>Income before other revenues</b>	<b>667,543</b>	<b>1,632,585</b>	<b>401,339</b>
<b>Other revenues</b>	<b>9,431,696</b>	<b>2,545,600</b>	<b>-</b>
<b>Increase in net position</b>	<b>10,099,239</b>	<b>4,178,185</b>	<b>401,339</b>
<b>Net position, July 1</b>	<b>39,206,473</b>	<b>35,028,288</b>	<b>34,626,949</b>
<b>Net position, June 30</b>	<b>\$49,305,712</b>	<b>\$39,206,473</b>	<b>\$35,028,288</b>

#### 2014 to 2013

In fiscal year 2014, operating revenues increased \$1,457,007, or 4%, primarily a result of Veterans' Affairs (VA), Medicare, and Medicaid rates increasing and an increase in VA 70% patient mix from fiscal year 2013 to fiscal year 2014, respectively. Operating expenses increased \$2,509,601, or 7%. The increase was primarily a result of an increase in salaries and related expenses.

#### 2013 to 2012

In fiscal year 2013, operating revenues increased \$1,554,052, or 4%, primarily a result of Humboldt and Knox County's Medicare patient mix increasing from 14% and 10% in fiscal year 2012 to 15% and 12% in fiscal year 2013, respectively. Operating expenses increased \$96,609, or 0.3%. The increase was primarily a result of an increase in salaries and related expenses.

## Capital Assets

At June 30, 2014, the board had \$36,816,981 invested in capital assets, net of accumulated depreciation of approximately \$13,874,888. Depreciation charges totaled \$1,371,948 for fiscal year 2014. At June 30, 2013, the board had \$27,585,670 invested in capital assets, net of accumulated depreciation of approximately \$12,602,635. Depreciation charges totaled \$1,460,688 for fiscal year 2013. At June 30, 2012, the board had \$26,408,189 invested in capital assets, net of accumulated depreciation of approximately \$11,543,979. Depreciation charges totaled \$1,360,836 for fiscal year 2012.

Significant additions to construction in progress occurred in fiscal year 2014 for the construction of an additional home in Clarksville, TN.

At June 30, 2014, outstanding commitments under construction contracts totaled \$13,246,162.

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		
	2014	2013	2012
Long-term debt	\$6,157,122	\$4,767,942	\$5,109,408

### 2014 to 2013

At June 30, 2014, the board had \$6,157,122 in debt outstanding, an increase of \$1,389,180 from 2013. The increase was due to the loans being issued by the State Funding Board, through the Division of State and Local Finance.

### 2013 to 2012

At June 30, 2013, the board had \$4,767,942 in debt outstanding, a decrease of \$341,466 from 2012. The decrease was due to the principal paid on the debt.

Long-term debt consists of loans from the State of Tennessee. 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 ongoing challenge to maintain up-to-date technology at a reasonable cost.
- ◆ Veterans' Affairs (VA), Medicare, and Medicaid rates are uncertain.
- ◆ Expansion costs for new homes.

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 the Tennessee State Veterans' Homes Board's 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 Danielle Brown, P.O. Box 11328, Murfreesboro, Tennessee 37129.

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Statements of Net Position**  
**June 30, 2014, and June 30, 2013**

	June 30, 2014	June 30, 2013
<b>Assets</b>		
Current assets:		
Cash (Note 2)	\$12,413,900.64	\$10,478,925.38
Assets held in custody by others	-	398,677.96
Resident accounts receivable, net of allowance for doubtful accounts of \$1,205,515.26 at June 30, 2014, and \$749,145.02 at June 30, 2013 (Note 3)	3,518,483.78	3,795,850.69
Miscellaneous receivable	29,463.58	9,017.00
Due from primary government (Note 4)	-	586,383.43
Inventories	165,061.14	244,477.83
Prepaid items	92,632.88	67,346.08
Restricted cash (Notes 2 and 5)	534,372.74	561,351.09
<b>Total current assets</b>	<b>16,753,914.76</b>	<b>16,142,029.46</b>
Noncurrent assets:		
Restricted cash (Notes 2 and 5)	2,762,209.67	2,759,725.68
Assets held in custody by others	1,873,149.65	-
Due from federal government	4,783,980.86	-
Capital assets (Note 6):		
Land and improvements	1,389,684.00	1,389,684.00
Infrastructure	1,825,115.36	1,818,363.69
Accumulated depreciation - infrastructure	(817,547.46)	(770,953.15)
Buildings and improvements	30,476,814.41	30,415,682.07
Accumulated depreciation - buildings and improvements	(9,271,331.42)	(8,422,002.62)
Furniture and equipment	6,009,934.72	5,457,403.59
Accumulated depreciation - furniture and equipment	(3,786,008.77)	(3,409,679.68)
Construction in progress	10,990,320.02	1,107,172.04
<b>Total noncurrent assets</b>	<b>46,236,321.04</b>	<b>30,345,395.62</b>
<b>Total assets</b>	<b>62,990,235.80</b>	<b>46,487,425.08</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accruals (Note 7)	1,944,345.65	1,304,860.32
Due to primary government (Note 4)	4,321,250.91	-
Amounts held in custody for others	98,613.61	122,164.85
Current portion of long-term debt (Note 8)	458,604.31	361,465.10
Compensated absences (Note 8)	443,882.79	426,067.66
<b>Total current liabilities</b>	<b>7,266,697.27</b>	<b>2,214,557.93</b>
Noncurrent liabilities:		
Long-term debt outstanding, net (Note 8)	5,698,517.96	4,406,477.30
Compensated absences (Note 8)	321,432.35	308,531.76
Other postemployment benefits (Note 10)	397,875.95	351,384.95
<b>Total noncurrent liabilities</b>	<b>6,417,826.26</b>	<b>5,066,394.01</b>
<b>Total liabilities</b>	<b>13,684,523.53</b>	<b>7,280,951.94</b>
<b>Net position</b>		
Net investment in capital assets	32,410,503.56	22,817,727.54
Restricted for:		
Debt service	360,827.42	355,911.48
Repairs and replacements	2,263,320.01	2,261,284.65
Technology	498,889.66	498,441.03
Capital projects	122,504.68	398,677.96
Unrestricted	13,649,666.94	12,874,430.48
<b>Total net position</b>	<b>\$49,305,712.27</b>	<b>\$39,206,473.14</b>

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 Position**  
**For the Years Ended June 30, 2014, and June 30, 2013**

	Year Ended June 30, 2014	Year Ended June 30, 2013
<b>Operating revenue</b>		
Resident service revenue plus contractual adjustments of \$81,152.18 for the year ended June 30, 2014, and \$511,940.18 for the year ended June 30, 2013, and less provision for bad debts of \$750,336.37 for the year ended June 30, 2014, and plus \$58,568.61 for the year ended June 30, 2013	\$40,169,899.63	\$38,712,892.99
<b>Total operating revenue</b>	<b>40,169,899.63</b>	<b>38,712,892.99</b>
<b>Operating expenses</b>		
Administrative and general	5,536,552.62	5,127,754.25
Nursing services	16,897,363.50	15,974,060.96
Central services	1,312,500.28	1,195,933.85
Ancillary departments	4,576,524.91	4,140,421.95
Dietary	3,524,856.71	3,269,653.26
Activities	1,008,852.12	977,893.98
Social services	585,484.31	560,144.31
Environmental services	2,520,436.67	2,269,029.20
Plant operations and maintenance	2,087,454.86	1,936,792.71
Depreciation	1,371,947.86	1,460,688.30
<b>Total operating expenses</b>	<b>39,421,973.84</b>	<b>36,912,372.77</b>
<b>Operating income</b>	<b>747,925.79</b>	<b>1,800,520.22</b>
<b>Nonoperating revenues (expenses)</b>		
Interest revenue	13,303.07	23,106.98
Miscellaneous revenue	134,257.46	99,198.11
Interest expense	(202,365.72)	(252,429.29)
Loss on disposal of equipment	(18,377.54)	(30,610.69)
Miscellaneous expense	(7,200.00)	(7,200.00)
<b>Total nonoperating revenues (expenses)</b>	<b>(80,382.73)</b>	<b>(167,934.89)</b>
<b>Income before other revenues</b>	<b>667,543.06</b>	<b>1,632,585.33</b>
Capital appropriations	9,431,696.07	2,545,600.00
<b>Total other revenues</b>	<b>9,431,696.07</b>	<b>2,545,600.00</b>
<b>Increase in net position</b>	<b>10,099,239.13</b>	<b>4,178,185.33</b>
<b>Net position - beginning of year</b>	<b>39,206,473.14</b>	<b>35,028,287.81</b>
<b>Net position - end of year</b>	<b>\$49,305,712.27</b>	<b>\$39,206,473.14</b>

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, 2014, and June 30, 2013**

	Year Ended June 30, 2014	Year Ended June 30, 2013
<b>Cash flows from operating activities</b>		
Receipts from residents and third party payors	\$ 40,465,752.97	\$ 39,204,126.33
Other miscellaneous receipts	48,117.98	93,881.18
Payments to service providers and vendors	(17,145,674.89)	(16,440,245.02)
Payments to employees	(20,028,240.16)	(19,162,200.25)
Other miscellaneous payments	(25,493.74)	-
<b>Net cash provided by operating activities</b>	<b>3,314,462.16</b>	<b>3,695,562.24</b>
<b>Cash flows from noncapital financing activities</b>		
Principal paid on loan from the State of Tennessee	(10,000.00)	(10,000.00)
<b>Net cash used for noncapital financing activities</b>	<b>(10,000.00)</b>	<b>(10,000.00)</b>
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations	5,016,027.70	991,322.04
Receipts from disposal of capital assets	2,764.92	-
Purchase and construction of capital assets	(5,710,821.36)	(1,501,959.66)
Principal paid on loans from the State of Tennessee	(443,604.31)	(331,465.10)
Interest paid on loans from the State of Tennessee	(271,651.28)	(236,570.55)
<b>Net cash used for capital and related financing activities</b>	<b>(1,407,284.33)</b>	<b>(1,078,673.27)</b>
<b>Cash flows from investing activities</b>		
Interest received	13,303.07	23,106.98
<b>Net cash provided by investing activities</b>	<b>13,303.07</b>	<b>23,106.98</b>
Net increase in cash	1,910,480.90	2,629,995.95
Cash - beginning of year	13,800,002.15	11,170,006.20
<b>Cash - end of year</b>	<b>\$ 15,710,483.05</b>	<b>\$ 13,800,002.15</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 747,925.79	\$ 1,800,520.22
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,371,947.86	1,460,688.30
Miscellaneous receipts	66,622.06	87,978.11
Trustee fees	(7,200.00)	(7,200.00)
Change in assets and liabilities:		
Resident accounts receivable, net	277,366.91	(358,945.49)
Miscellaneous receivable	(20,446.58)	(4,911.82)
Due from primary government	130,975.42	878,148.56
Inventories	79,416.69	(101,091.13)
Prepaid items	(25,286.80)	(19,176.78)
Noncapital accounts payable and accruals	639,485.33	(50,565.99)
Amounts held in custody for others	(23,551.24)	10,814.89
Compensated absences	30,715.72	(56,026.94)
Other postemployment benefits	46,491.00	55,330.31
<b>Net cash provided by operating activities</b>	<b>\$ 3,314,462.16</b>	<b>\$ 3,695,562.24</b>
<b>Noncash capital activities</b>		
Contributed capital assets	\$ 67,635.40	\$ 1,166,820.00
Loss on disposal of capital assets	(18,778.54)	-

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, 2014, and June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies**

**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, 2014, three facilities located in Murfreesboro, Humboldt, and Knoxville, were operating. The 13-member board has an executive committee composed of 3 of its members. The executive committee has the authority to employ an executive director to carry out its operations.

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee (the primary government). Although the Tennessee State Veterans' Homes Board 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. Its budget is approved by the state; thus, the state may impose its will on the board. 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 [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr).

**Presentation, Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements have been prepared using the accrual basis of accounting and the economic resources measurement focus. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

The preparation of financial statements in accordance 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 the disclosure of contingent assets and liabilities at the date of the financial statements, as well as 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

## **Notes to the Financial Statements (Continued)**

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armed forces. 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 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.

### **Cash**

Cash is defined as cash on hand and demand deposits. In addition to petty cash and facility bank accounts, cash includes funds held with a trustee. The unrestricted portion of the trustee funds included funds available for use for board operations through the budget process.

### **Inventories**

At year-end, inventories are determined by physical count and are valued at replacement cost. This valuation is not materially different from historical cost.

### **Restricted Assets**

Certain assets 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.

### **Capital Assets and Depreciation**

Capital assets are defined as assets with a useful life of at least two years and with a single-item value of at least \$1,000 or are part of a group of similar items with a cumulative value of at least \$2,000. Capital assets are recorded at historical cost. Donated capital assets are stated at fair value at the date of donation. The board's policy is to capitalize interest 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	2 to 20 years

### **Compensated Absences**

The board's employees accrue paid time off at varying rates, depending on length of service or classification. The amount of this liability and the related benefits are reported in the statements of net position.

## Notes to the Financial Statements (Continued)

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### Note 2. Deposits and Investments

At June 30, 2014, the carrying amount of the Tennessee State Veterans' Homes Board's deposits was \$710,695.71, and the bank balance was \$752,832.69. At June 30, 2013, the carrying amount of the board's deposits was \$213,579.38, and the bank balance was \$382,775.00.

At June 30, 2014, the board also had \$14,998,187.34 deposited in the Local Government Investment Pool (LGIP) administered by the State Treasurer and \$1,600.00 of petty cash on hand. At June 30, 2013, the board had \$13,584,822.77 deposited in the Local Government Investment Pool (LGIP) administered by the State Treasurer and \$1,600.00 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 [www.treasury.tn.gov](http://www.treasury.tn.gov) or by calling (615) 741-2956.

### Note 3. Resident Accounts Receivable

Receivables at June 30, 2014, consist of the following:

Receivables from patients and their insurance	\$1,516,219.13
Receivable from Medicare	539,906.12
Receivable from U.S. Department of Veterans Affairs	2,667,873.79
<u>Allowance for doubtful accounts</u>	<u>(1,205,515.26)</u>
<u>Net amount reported as resident accounts receivable</u>	<u>\$3,518,483.78</u>

The net receivable amount of \$3,518,483.78 represents the accounts receivable amount that is expected to be collected within one year.

Receivables at June 30, 2013, consist of the following:

Receivables from patients and their insurance	\$1,355,367.03
Receivable from Medicare	616,669.51
Receivable from U.S. Department of Veterans Affairs	2,572,959.17
<u>Allowance for doubtful accounts</u>	<u>(749,145.02)</u>
<u>Net amount reported as resident accounts receivable</u>	<u>\$3,795,850.69</u>

The net receivable amount of \$3,795,850.69 represents the accounts receivable amount that is expected to be collected within one year.

## Notes to the Financial Statements (Continued)

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### Note 4. Due From (to) Primary Government

	<u>June 30, 2014</u>
Department of Finance and Administration – capital projects	\$(4,806,364.96)
Department of Finance and Administration – Medicaid current services	807,924.97
Department of Finance and Administration – interest on loans	(93,083.58)
Department of Attorney General	(2,861.03)
Department of the Treasury – retirement contributions	(148,991.32)
Department of Health – bed tax	(77,874.99)
<u>Total due from primary government</u>	<u>\$(4,321,250.91)</u>

	<u>June 30, 2013</u>
Department of Finance and Administration – Medicaid current services	\$ 857,911.11
Department of Finance and Administration – interest on loans	(100,405.52)
Department of Attorney General	(806.94)
Department of the Treasury – retirement contributions	(92,440.23)
Department of Health – bed tax	(77,874.99)
<u>Total due from primary government</u>	<u>\$ 586,383.43</u>

### Note 5. Restricted Assets

The balances of the Tennessee State Veterans' Homes Board's restricted asset accounts at June 30, 2014, are as follows:

Resident trust fund accounts	\$ 95,722.29
Debt service account	438,650.45
Repair and replacement account	2,263,320.01
Technology account	498,889.66
<u>Total restricted assets</u>	<u>\$3,296,582.41</u>

The balances of the board's restricted asset accounts at June 30, 2013, are as follows:

Resident trust fund accounts	\$ 121,216.03
Debt service account	440,135.06
Repair and replacement account	2,261,284.65
Technology account	498,441.03
<u>Total restricted assets</u>	<u>\$3,321,076.77</u>

## Notes to the Financial Statements (Continued)

### Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 1,389,684.00	\$ -	\$ -	\$ 1,389,684.00
Infrastructure	1,818,363.69	6,751.67	-	1,825,115.36
Buildings and improvements	30,415,682.07	65,615.59	(4,483.25)	30,476,814.41
Furniture and equipment	5,457,403.59	668,886.00	(116,354.87)	6,009,934.72
Construction in progress	1,107,172.04	9,883,147.98	-	10,990,320.02
<b>Total</b>	<b>40,188,305.39</b>	<b>10,624,401.24</b>	<b>(120,838.12)</b>	<b>50,691,868.51</b>
Less accumulated depreciation:				
Infrastructure	(770,953.15)	(46,594.31)	-	(817,547.46)
Buildings and improvements	(8,422,002.62)	(851,122.01)	1,793.21	(9,271,331.42)
Furniture and equipment	(3,409,679.68)	(474,231.54)	97,902.45	(3,786,008.77)
<b>Total</b>	<b>(12,602,635.45)</b>	<b>(1,371,947.86)</b>	<b>99,695.66</b>	<b>(13,874,887.65)</b>
<b>Capital assets, net</b>	<b>\$ 27,585,669.94</b>	<b>\$ 9,252,453.38</b>	<b>\$ (21,142.46)</b>	<b>\$ 36,816,980.86</b>

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 344,084.00	\$ 1,045,600.00	\$ -	\$ 1,389,684.00
Infrastructure	1,788,921.50	29,442.19	-	1,818,363.69
Buildings and improvements	30,248,077.61	193,340.45	(25,735.99)	30,415,682.07
Furniture and equipment	5,561,698.03	332,721.54	(437,015.98)	5,457,403.59
Construction in progress	9,387.19	1,101,322.04	(3,537.19)	1,107,172.04
<b>Total</b>	<b>37,952,168.33</b>	<b>2,702,426.22</b>	<b>(466,289.16)</b>	<b>40,188,305.39</b>
Less accumulated depreciation:				
Infrastructure	(564,151.05)	(206,802.10)	-	(770,953.15)
Buildings and improvements	(7,593,096.79)	(828,905.83)	-	(8,422,002.62)
Furniture and equipment	(3,386,731.22)	(475,271.76)	452,323.30	(3,409,679.68)
<b>Total</b>	<b>(11,543,979.06)</b>	<b>(1,510,979.69)</b>	<b>452,323.30</b>	<b>(12,602,635.45)</b>
<b>Capital assets, net</b>	<b>\$ 26,408,189.27</b>	<b>\$ 1,191,446.53</b>	<b>\$ (13,965.86)</b>	<b>\$ 27,585,669.94</b>

## Notes to the Financial Statements (Continued)

### Note 7. Accounts Payable and Accruals

Payables at June 30, 2014, consist of the following:

Payables to suppliers	\$1,592,113.94
Accruals for salaries and benefits	352,231.71
<u>Amount reported as accounts payable and accruals</u>	<u>\$1,944,345.65</u>

Payables at June 30, 2013, consist of the following:

Payables to suppliers	\$1,022,277.52
Accruals for salaries and benefits	282,582.80
<u>Amount reported as accounts payable and accruals</u>	<u>\$1,304,860.32</u>

### Note 8. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt outstanding:					
Loans	\$4,767,942.40	\$1,842,784.18	\$ (453,604.31)	\$6,157,122.27	\$458,604.31
Compensated absences	734,599.42	1,016,974.22	(986,258.50)	765,315.14	443,882.79
<u>Total long-term liabilities</u>	<u>\$5,502,541.82</u>	<u>\$2,859,758.40</u>	<u>\$ (1,439,862.81)</u>	<u>\$6,922,437.41</u>	<u>\$902,487.10</u>

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt outstanding:					
Loans	\$5,109,407.50	\$ -	\$ (341,465.10)	\$4,767,942.40	\$361,465.10
Compensated absences	790,626.36	715,933.94	(771,960.88)	734,599.42	426,067.66
<u>Total long-term liabilities</u>	<u>\$5,900,033.86</u>	<u>\$715,933.94</u>	<u>\$ (1,113,425.98)</u>	<u>\$5,502,541.82</u>	<u>\$787,532.76</u>

Long-term debt consists of loans from the State of Tennessee and commercial paper issued by the State of Tennessee on behalf of the Tennessee State Veterans' Homes Board.

#### Loans 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 Chapter 1037, Item 142 of the Public Acts of

## Notes to the Financial Statements (Continued)

1988, the \$10,000 due for the year ended June 30, 2014, was paid before June 30, 2014, and the \$10,000 due for the year ended June 30, 2013, was paid before June 30, 2013.

Loans, with interest rates ranging from 2.0% to 5.125%, were issued by the State Funding Board, through the Division of State and Local Finance. The loans are due serially to 2033.

Debt-service requirements to maturity of the loans at June 30, 2014, are as follows:

<u>For the Year(s) Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 458,604.31	\$ 249,489.54	\$ 708,093.85
2016	468,604.31	226,681.25	695,285.56
2017	480,557.13	204,011.96	684,569.09
2018	476,131.71	180,987.06	657,118.77
2019	491,761.92	157,428.41	649,190.32
2020 – 2024	1,898,930.57	500,379.64	2,399,310.20
2025 – 2029	1,486,434.93	169,305.25	1,655,740.18
2030 – 2033	396,097.39	24,166.58	420,263.97
<b>Total</b>	<b>\$6,157,122.27</b>	<b>\$1,712,449.69</b>	<b>\$7,869,571.94</b>

### Note 9. Defined Benefit Pension Plan

#### Plan Description

Employees of Tennessee State Veterans' Homes Board are members of the Public Employee Retirement Plan, 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, *Tennessee Code Annotated*. 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.

## Notes to the Financial Statements (Continued)

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The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employee Retirement Plan. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

### 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 ended June 30, 2014, and June 30, 2013, was 7.67% of annual covered payroll. The contribution 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.

### Annual Pension Cost

Tennessee State Veterans' Homes Board's annual pension cost of \$1,240,870 for the year ended June 30, 2014, and \$1,182,398 for the year ended June 30, 2013, to TCRS was equal to the board's required and actual contributions. The required contribution was determined as part of the July 1, 2011, 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 3.0% annual rate of inflation, (c) 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), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post-retirement increases of 2.5% 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 ten-year period. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011, was one year. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

### 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, 2014	\$1,240,870	100%	-
June 30, 2013	\$1,182,398	100%	-
June 30, 2012	\$1,538,442	100%	-

## **Notes to the Financial Statements (Continued)**

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### **Funded Status and Funding Progress**

As of July 1, 2013, the most recent actuarial valuation date, the plan was 100.00% funded. The actuarial accrued liability for benefits was \$16.51 million, and the actuarial value of assets was \$16.51 million, resulting in no unfunded actuarial accrued liability.

The schedule of pension funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **Note 10. Other Postemployment Benefits**

#### **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 Section 8-27-207, *Tennessee Code Annotated*. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plan is reported in the State of Tennessee *Comprehensive Annual Financial Report (CAFR)*. The CAFR is available on the state's website at [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr).

#### **Funding Policy**

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are 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. Administrative costs of the plan are allocated to plan participants. 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. Plan members receiving benefits contributed \$995,421.96, or approximately 27% of the total premiums. The employer contributed \$2,717,763.05, or approximately 73% of the total premiums.

## Notes to the Financial Statements (Continued)

### Annual OPEB Cost and Net OPEB Obligation Local Government Plan

	June 30, 2014	June 30, 2013	June 30, 2012
Annual required contribution (ARC)	\$ 57,000.00	\$ 105,000.00	\$ 105,000.00
Interest on the net OPEB obligation	14,055.40	11,842.19	8,729.00
Less adjustment to the ARC	(13,693.35)	(12,570.26)	(9,265.67)
Annual OPEB cost	57,362.05	104,271.93	104,463.33
Less amount of contribution	(10,871.05)	(48,941.62)	(26,633.77)
Increase in the net OPEB obligation	46,491.00	55,330.31	77,829.56
Net OPEB obligation – beginning of year	351,384.95	296,054.64	218,225.08
Net OPEB obligation – end of year	\$ 397,875.95	\$ 351,384.95	\$ 296,054.64

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
6/30/2014	Local Govt. Group	\$ 57,362.05	18.95%	\$ 397,875.95
6/30/2013	Local Govt. Group	\$ 104,271.93	46.94%	\$ 351,384.95
6/30/2012	Local Govt. Group	\$ 104,463.33	25.50%	\$ 296,054.64

### Funding Status and Funding Progress

The funded status of the Tennessee State Veterans' Homes Board portion of the Local Government Insurance Plan as of July 1, 2013, and July 1, 2011, was as follows:

#### Local Government Group Plan

	July 1, 2013	July 1, 2011
Actuarial valuation date	July 1, 2013	July 1, 2011
Actuarial accrued liability (AAL)	\$ 190,000.00	\$ 273,000.00
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 190,000.00	\$ 273,000.00
Actuarial value of assets as a % of the AAL	-	-
Covered payroll (active plan members)	\$ 20,680,497.85	\$ 19,983,068.03
UAAL as a percentage of covered payroll	0.92%	1.37%

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 other postemployment benefits schedule of funding progress, presented as required supplementary information 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.

## **Notes to the Financial Statements (Continued)**

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### **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, 2013, actuarial valuation for the Local Government Plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5% initially. The rate decreases to 7% in fiscal year 2015 and then will reduce by decrements to an ultimate rate of 4.7% in fiscal year 2044. Rates include a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payrolls on a closed basis over a 30-year period beginning with July 1, 2007.

### **Note 11. Commitments and Contingencies**

#### **Extended Disability Benefits**

The board records the cost of extended disability benefits when paid. This leave is intended to provide continuation of pay for employees in the event of a serious illness or injury and is only authorized for extended leave that begins with a hospitalization or a physician's note. Generally, since these benefits (earned 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, 2014, or June 30, 2013. The dollar amount of unused extended disability benefits was \$2,569,468.48 at June 30, 2014, and \$2,310,981.12 at June 30, 2013.

#### **Construction in Progress**

At June 30, 2014, outstanding commitments under construction contracts totaled \$13,246,161.67 for the building of the Clarksville facility.

### **Note 12. Insurance-Related Activities**

#### **Risk Management Fund**

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is \$300,000 per person and \$1 million per occurrence. The state's management believes it is more economical to manage these risks internally and set

## Notes to the Financial Statements (Continued)

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aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property; builder's risk (for construction projects starting prior to July 1, 2012); and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the Risk Management Fund. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The Risk Management Fund is responsible for property losses for the annual aggregate deductible of \$10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the three past fiscal years.

The board participates in the State of Tennessee's Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the board based on a percentage of the board's expected loss costs, which includes both experience and exposures. This charge considers recent trends in actual claims experienced of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of claims liability and the changes in balances of the claims liability is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr), or by calling (615) 741-2140. Since the board participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the board for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund.

The buildings and contents are insured by the State of Tennessee. At June 30, 2014, and June 30, 2013, the board had scheduled coverage of \$37,605,800 for the buildings and \$3,554,900 for the contents.

### **Employee Health Insurance**

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.

## **Notes to the Financial Statements (Continued)**

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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.

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Required Supplementary Information**  
**Schedule of Pension Funding Progress**

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(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]
7/01/13	\$16,511	\$16,511	\$0	100.00%	\$12,691	0.00%
7/01/11	\$12,481	\$12,481	\$0	100.00%	\$12,691	0.00%
7/01/09	\$7,462	\$7,462	\$0	100.00%	\$12,785	0.00%

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Required Supplementary Information**  
**Other Postemployment Benefits Schedule of Funding Progress**

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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]
7/01/13	\$0	\$190,000	\$190,000	0%	\$20,680,498	0.92%
7/01/11	\$0	\$273,000	\$273,000	0%	\$19,983,068	1.37%
7/01/10	\$0	\$330,000	\$330,000	0%	\$19,514,011	1.69%

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Supplementary Information**  
**Supplementary Schedule of Net Position**  
**June 30, 2014**

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Clarksville</u>	<u>Cleveland</u>	<u>Executive Office</u>	<u>Totals</u>
<b>Assets</b>							
Current assets:							
Cash	\$ 12,787.07	\$ 534,215.44	\$ 63,922.36	\$ -	\$ -	\$11,802,975.77	\$12,413,900.64
Resident accounts receivable, net of allowance for doubtful accounts of \$1,205,515.26	1,454,874.97	1,235,898.35	827,710.46	-	-	-	3,518,483.78
Miscellaneous receivable	4,106.52	24,004.76	50.00	-	-	1,302.30	29,463.58
Inventories	85,312.16	35,767.09	43,981.89	-	-	-	165,061.14
Prepaid items	35,054.71	28,871.91	22,955.76	-	-	5,750.50	92,632.88
Restricted cash	236,849.19	289,539.01	7,984.54	-	-	-	534,372.74
<b>Total current assets</b>	<b>1,828,984.62</b>	<b>2,148,296.56</b>	<b>966,605.01</b>	<b>-</b>	<b>-</b>	<b>\$11,810,028.57</b>	<b>16,753,914.76</b>
Noncurrent assets:							
Restricted cash	751,676.15	757,048.76	754,595.10	-	-	498,889.66	2,762,209.67
Assets held in custody by others	-	-	-	1,873,149.65	-	-	1,873,149.65
Due from federal government	-	-	-	4,783,980.86	-	-	4,783,980.86
Capital assets:							
Land and improvements	40,540.00	160,544.00	143,000.00	1,045,600.00	-	-	1,389,684.00
Infrastructure	216,681.23	588,798.37	1,019,635.76	-	-	-	1,825,115.36
Accumulated depreciation - infrastructure	(179,850.32)	(454,459.72)	(183,237.42)	-	-	-	(817,547.46)
Buildings and improvements	8,926,329.14	10,162,475.67	11,388,009.60	-	-	-	30,476,814.41
Accumulated depreciation - buildings and improvements	(3,380,680.67)	(3,776,454.55)	(2,114,196.20)	-	-	-	(9,271,331.42)
Furniture and equipment	2,042,225.34	2,087,928.69	1,742,332.23	-	-	137,448.46	6,009,934.72
Accumulated depreciation - furniture and equipment	(1,302,440.33)	(1,385,362.75)	(1,002,983.84)	-	-	(95,221.85)	(3,786,008.77)
Construction in progress	-	-	-	10,899,691.05	90,628.97	-	10,990,320.02
<b>Total noncurrent assets</b>	<b>7,114,480.54</b>	<b>8,140,518.47</b>	<b>11,747,155.23</b>	<b>18,602,421.56</b>	<b>90,628.97</b>	<b>541,116.27</b>	<b>46,236,321.04</b>
<b>Total assets</b>	<b>8,943,465.16</b>	<b>10,288,815.03</b>	<b>12,713,760.24</b>	<b>18,602,421.56</b>	<b>90,628.97</b>	<b>12,351,144.84</b>	<b>62,990,235.80</b>
<b>Liabilities</b>							
Current liabilities:							
Accounts payable and accruals	540,069.17	869,148.76	485,715.17	-	-	49,412.55	1,944,345.65
Due to primary government	(242,602.65)	(132,299.63)	(103,088.22)	4,799,241.41	-	-	4,321,250.91
Amounts held in custody for others	34,480.82	54,928.34	9,204.45	-	-	-	98,613.61
Current portion of long-term debt	190,150.00	176,315.10	-	92,139.21	-	-	458,604.31
Compensated absences	106,538.16	122,528.08	153,681.83	-	-	61,134.72	443,882.79
<b>Total current liabilities</b>	<b>628,635.50</b>	<b>1,090,620.65</b>	<b>545,513.23</b>	<b>4,891,380.62</b>	<b>-</b>	<b>110,547.27</b>	<b>7,266,697.27</b>
Noncurrent liabilities:							
Long-term debt outstanding, net	1,537,254.52	2,502,757.68	-	1,658,505.76	-	-	5,698,517.96
Compensated absences	77,148.32	88,727.22	111,286.84	-	-	44,269.97	321,432.35
Other postemployment benefits	120,087.02	139,817.45	117,104.55	-	-	20,866.93	397,875.95
<b>Total noncurrent liabilities</b>	<b>1,734,489.86</b>	<b>2,731,302.35</b>	<b>228,391.39</b>	<b>1,658,505.76</b>	<b>-</b>	<b>65,136.90</b>	<b>6,417,826.26</b>
<b>Total liabilities</b>	<b>2,363,125.36</b>	<b>3,821,923.00</b>	<b>773,904.62</b>	<b>6,549,886.38</b>	<b>-</b>	<b>175,684.17</b>	<b>13,684,523.53</b>
<b>Net position</b>							
Net investment in capital assets	4,635,399.87	4,704,396.93	10,992,560.13	11,945,291.05	90,628.97	42,226.61	32,410,503.56
Restricted for:							
Debt service	173,694.38	187,133.04	-	-	-	-	360,827.42
Repairs and replacements	751,676.15	757,048.76	754,595.10	-	-	-	2,263,320.01
Technology	-	-	-	-	-	498,889.66	498,889.66
Capital projects	-	-	-	122,504.68	-	-	122,504.68
Unrestricted	1,019,569.40	818,313.30	192,700.39	(15,260.55)	-	11,634,344.40	13,649,666.94
<b>Total net position</b>	<b>\$ 6,580,339.80</b>	<b>\$ 6,466,892.03</b>	<b>\$11,939,855.62</b>	<b>\$12,052,535.18</b>	<b>\$90,628.97</b>	<b>\$12,175,460.67</b>	<b>\$49,305,712.27</b>

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Supplementary Information**  
**Supplementary Schedule of Net Position**  
**June 30, 2013**

	Murfreesboro	Humboldt	Knoxville	Clarksville	Executive Office	Totals
<b>Assets</b>						
Current assets:						
Cash	\$ 13,302.79	\$ 47,345.01	\$ 24,628.82	\$ -	\$10,393,648.76	\$10,478,925.38
Assets held in custody by others	-	-	-	398,677.96	-	398,677.96
Resident accounts receivable, net of allowance for doubtful accounts of \$749,145.02	1,270,175.83	1,199,627.91	1,326,046.95	-	-	3,795,850.69
Miscellaneous receivable	4,724.90	2,989.80	-	-	1,302.30	9,017.00
Due from primary government	248,823.86	174,799.60	178,941.91	(16,181.94)	-	586,383.43
Inventories	151,014.87	46,008.62	47,454.34	-	-	244,477.83
Prepaid items	21,555.51	19,713.91	22,091.77	-	3,984.89	67,346.08
Restricted cash	252,901.96	297,792.58	10,656.55	-	-	561,351.09
<b>Total current assets</b>	<b>1,962,499.72</b>	<b>1,788,277.43</b>	<b>1,609,820.34</b>	<b>382,496.02</b>	<b>10,398,935.95</b>	<b>16,142,029.46</b>
Noncurrent assets:						
Restricted cash	751,000.19	756,367.95	753,916.51	-	498,441.03	2,759,725.68
Capital assets:						
Land and improvements	40,540.00	160,544.00	143,000.00	1,045,600.00	-	1,389,684.00
Infrastructure	209,929.56	588,798.37	1,019,635.76	-	-	1,818,363.69
Accumulated depreciation - infrastructure	(176,755.53)	(435,923.38)	(158,274.24)	-	-	(770,953.15)
Buildings and improvements	8,914,382.50	10,153,693.36	11,347,606.21	-	-	30,415,682.07
Accumulated depreciation - buildings and improvements	(3,107,294.17)	(3,498,506.86)	(1,816,201.59)	-	-	(8,422,002.62)
Furniture and equipment	1,831,171.48	1,901,573.84	1,592,358.92	-	132,299.35	5,457,403.59
Accumulated depreciation - furniture and equipment	(1,189,262.35)	(1,260,262.83)	(886,817.29)	-	(73,337.21)	(3,409,679.68)
Construction in progress	-	-	-	1,107,172.04	-	1,107,172.04
<b>Total noncurrent assets</b>	<b>7,273,711.68</b>	<b>8,366,284.45</b>	<b>11,995,224.28</b>	<b>2,152,772.04</b>	<b>557,403.17</b>	<b>30,345,395.62</b>
<b>Total assets</b>	<b>9,236,211.40</b>	<b>10,154,561.88</b>	<b>13,605,044.62</b>	<b>2,535,268.06</b>	<b>10,956,339.12</b>	<b>46,487,425.08</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accruals	391,958.60	410,284.81	467,255.96	-	35,360.95	1,304,860.32
Amounts held in custody for others	49,783.40	61,051.15	11,330.30	-	-	122,164.85
Current portion of long-term debt	186,350.00	175,115.10	-	-	-	361,465.10
Compensated absences	100,891.15	123,186.55	144,904.63	-	57,085.33	426,067.66
<b>Total current liabilities</b>	<b>728,983.15</b>	<b>769,637.61</b>	<b>623,490.89</b>	<b>-</b>	<b>92,446.28</b>	<b>2,214,557.93</b>
Noncurrent liabilities:						
Long-term debt outstanding, net	1,727,404.52	2,679,072.78	-	-	-	4,406,477.30
Compensated absences	73,059.12	89,204.05	104,930.94	-	41,337.65	308,531.76
Other postemployment benefits	105,730.74	123,876.50	103,482.45	-	18,295.26	351,384.95
<b>Total noncurrent liabilities</b>	<b>1,906,194.38</b>	<b>2,892,153.33</b>	<b>208,413.39</b>	<b>-</b>	<b>59,632.91</b>	<b>5,066,394.01</b>
<b>Total liabilities</b>	<b>2,635,177.53</b>	<b>3,661,790.94</b>	<b>831,904.28</b>	<b>-</b>	<b>152,079.19</b>	<b>7,280,951.94</b>
<b>Net position</b>						
Net investment in capital assets	4,608,956.97	4,755,728.62	11,241,307.77	2,152,772.04	58,962.14	22,817,727.54
Restricted for:						
Debt service	170,053.88	185,857.60	-	-	-	355,911.48
Repairs and replacements	751,000.19	756,367.95	753,916.51	-	-	2,261,284.65
Technology	-	-	-	-	498,441.03	498,441.03
Capital projects	-	-	-	398,677.96	-	398,677.96
Unrestricted	1,071,022.83	794,816.77	777,916.06	(16,181.94)	10,246,856.76	12,874,430.48
<b>Total net position</b>	<b>\$ 6,601,033.87</b>	<b>\$ 6,492,770.94</b>	<b>\$12,773,140.34</b>	<b>\$2,535,268.06</b>	<b>\$10,804,259.93</b>	<b>\$39,206,473.14</b>

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Supplementary Information**  
**Supplementary Schedule of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2014**

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Clarksville</u>	<u>Cleveland</u>	<u>Executive Office</u>	<u>Totals</u>
<b>Operating revenue</b>							
Resident service revenue plus contractual adjustments of \$81,152.18 and less provision for bad debts of \$750,336.37	\$13,788,157.76	\$12,568,015.11	\$13,813,726.76	\$ -	\$ -	\$ -	\$40,169,899.63
<b>Total operating revenue</b>	<b>13,788,157.76</b>	<b>12,568,015.11</b>	<b>13,813,726.76</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,169,899.63</b>
<b>Operating expenses</b>							
Administrative and general	1,090,168.17	1,236,859.69	1,090,986.38	-	-	2,118,538.38	5,536,552.62
Nursing services	5,849,707.16	5,758,006.70	5,289,649.64	-	-	-	16,897,363.50
Central services	424,149.43	421,190.66	467,160.19	-	-	-	1,312,500.28
Ancillary departments	1,441,835.33	1,599,100.71	1,535,588.87	-	-	-	4,576,524.91
Dietary	1,257,958.33	1,050,250.82	1,216,647.56	-	-	-	3,524,856.71
Activities	383,632.53	324,889.01	300,330.58	-	-	-	1,008,852.12
Social services	209,847.31	192,759.79	182,877.21	-	-	-	585,484.31
Environmental services	908,291.21	827,154.78	784,990.68	-	-	-	2,520,436.67
Plant operations and maintenance	679,590.21	657,099.25	750,765.40	-	-	-	2,087,454.86
Depreciation	432,315.87	462,629.34	454,903.01	-	-	22,099.64	1,371,947.86
<b>Total operating expenses</b>	<b>12,677,495.55</b>	<b>12,529,940.75</b>	<b>12,073,899.52</b>	<b>-</b>	<b>-</b>	<b>2,140,638.02</b>	<b>39,421,973.84</b>
<b>Operating income (loss)</b>	<b>1,110,662.21</b>	<b>38,074.36</b>	<b>1,739,827.24</b>	<b>-</b>	<b>-</b>	<b>(2,140,638.02)</b>	<b>747,925.79</b>
<b>Nonoperating revenues (expenses)</b>							
Interest revenue	846.80	1,004.19	726.33	42.58	-	10,683.17	13,303.07
Miscellaneous revenue	65,201.87	19,097.96	49,957.63	-	-	-	134,257.46
Interest expense	(80,620.44)	(121,745.28)	-	-	-	-	(202,365.72)
Loss on disposal of equipment	(8,381.66)	(9,995.88)	-	-	-	-	(18,377.54)
Miscellaneous expense	(2,400.00)	(2,400.00)	(2,400.00)	-	-	-	(7,200.00)
<b>Total nonoperating revenues (expenses)</b>	<b>(25,353.43)</b>	<b>(114,039.01)</b>	<b>48,283.96</b>	<b>42.58</b>	<b>-</b>	<b>10,683.17</b>	<b>(80,382.73)</b>
<b>Income (loss) before other revenues and transfers</b>	<b>1,085,308.78</b>	<b>(75,964.65)</b>	<b>1,788,111.20</b>	<b>42.58</b>	<b>-</b>	<b>(2,129,954.85)</b>	<b>667,543.06</b>
Capital appropriations	-	-	-	9,362,242.90	69,453.17	-	9,431,696.07
Transfers	(1,106,002.85)	50,085.74	(2,621,395.92)	154,981.64	21,175.80	3,501,155.59	-
<b>Total other revenues and transfers</b>	<b>(1,106,002.85)</b>	<b>50,085.74</b>	<b>(2,621,395.92)</b>	<b>9,517,224.54</b>	<b>90,628.97</b>	<b>3,501,155.59</b>	<b>9,431,696.07</b>
<b>Increase (decrease) in net position</b>	<b>(20,694.07)</b>	<b>(25,878.91)</b>	<b>(833,284.72)</b>	<b>9,517,267.12</b>	<b>90,628.97</b>	<b>1,371,200.74</b>	<b>10,099,239.13</b>
Net position - beginning of year	6,601,033.87	6,492,770.94	12,773,140.34	2,535,268.06	-	10,804,259.93	39,206,473.14
<b>Net position - end of year</b>	<b>\$ 6,580,339.80</b>	<b>\$ 6,466,892.03</b>	<b>\$11,939,855.62</b>	<b>\$12,052,535.18</b>	<b>\$90,628.97</b>	<b>\$12,175,460.67</b>	<b>\$49,305,712.27</b>

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Supplementary Information**  
**Supplementary Schedule of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2013**

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Clarksville</u>	<u>Executive Office</u>	<u>Totals</u>
<b>Operating revenue</b>						
Resident service revenue plus contractual adjustments of \$511,940.18 and plus provision for bad debts of \$58,568.61	\$12,746,428.89	\$12,783,230.06	\$13,183,234.04	\$ -	\$ -	\$38,712,892.99
<b>Total operating revenue</b>	<b>12,746,428.89</b>	<b>12,783,230.06</b>	<b>13,183,234.04</b>	<b>-</b>	<b>-</b>	<b>38,712,892.99</b>
<b>Operating expenses</b>						
Administrative and general	1,092,022.03	1,104,739.31	1,041,488.29	-	1,889,504.62	5,127,754.25
Nursing services	5,353,517.39	5,417,048.34	5,203,495.23	-	-	15,974,060.96
Central services	374,548.83	399,228.63	422,156.39	-	-	1,195,933.85
Ancillary departments	1,214,377.59	1,419,071.17	1,506,973.19	-	-	4,140,421.95
Dietary	1,051,307.39	1,011,941.92	1,206,403.95	-	-	3,269,653.26
Activities	376,165.79	300,978.94	300,749.25	-	-	977,893.98
Social services	209,109.86	176,941.50	174,092.95	-	-	560,144.31
Environmental services	727,117.05	815,269.50	726,642.65	-	-	2,269,029.20
Plant operations and maintenance	666,340.99	660,489.05	609,962.67	-	-	1,936,792.71
Depreciation	439,040.29	617,384.54	385,485.33	-	18,778.14	1,460,688.30
<b>Total operating expenses</b>	<b>11,503,547.21</b>	<b>11,923,092.90</b>	<b>11,577,449.90</b>	<b>-</b>	<b>1,908,282.76</b>	<b>36,912,372.77</b>
<b>Operating income (loss)</b>	<b>1,242,881.68</b>	<b>860,137.16</b>	<b>1,605,784.14</b>	<b>-</b>	<b>(1,908,282.76)</b>	<b>1,800,520.22</b>
<b>Nonoperating revenues (expenses)</b>						
Interest revenue	4,175.20	1,362.04	4,050.74	-	13,519.00	23,106.98
Miscellaneous revenue	26,341.35	38,834.98	34,021.78	-	-	99,198.11
Interest expense	(87,134.04)	(128,076.78)	-	(37,218.47)	-	(252,429.29)
Loss on disposal of equipment	(10,688.54)	(12,823.06)	(6,139.77)	-	(959.32)	(30,610.69)
Miscellaneous expense	(2,400.00)	(2,400.00)	(2,400.00)	-	-	(7,200.00)
<b>Total nonoperating revenues (expenses)</b>	<b>(69,706.03)</b>	<b>(103,102.82)</b>	<b>29,532.75</b>	<b>(37,218.47)</b>	<b>12,559.68</b>	<b>(167,934.89)</b>
<b>Income (loss) before other revenues and transfers</b>	<b>1,173,175.65</b>	<b>757,034.34</b>	<b>1,635,316.89</b>	<b>(37,218.47)</b>	<b>(1,895,723.08)</b>	<b>1,632,585.33</b>
Capital appropriations	-	-	-	2,545,600.00	-	2,545,600.00
Transfers	(1,486,515.57)	(1,056,303.64)	(1,820,703.30)	26,886.53	4,336,635.98	-
<b>Total other revenues and transfers</b>	<b>(1,486,515.57)</b>	<b>(1,056,303.64)</b>	<b>(1,820,703.30)</b>	<b>2,572,486.53</b>	<b>4,336,635.98</b>	<b>2,545,600.00</b>
<b>Increase (decrease) in net position</b>	<b>(313,339.92)</b>	<b>(299,269.30)</b>	<b>(185,386.41)</b>	<b>2,535,268.06</b>	<b>2,440,912.90</b>	<b>4,178,185.33</b>
<b>Net position - beginning of year</b>	<b>6,914,373.79</b>	<b>6,792,040.24</b>	<b>12,958,526.75</b>	<b>-</b>	<b>8,363,347.03</b>	<b>35,028,287.81</b>
<b>Net position - end of year</b>	<b>\$ 6,601,033.87</b>	<b>\$ 6,492,770.94</b>	<b>\$12,773,140.34</b>	<b>\$2,535,268.06</b>	<b>\$10,804,259.93</b>	<b>\$39,206,473.14</b>

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Supplementary Information**  
**Supplementary Schedule of Cash Flows**  
**For the Years Ended June 30, 2014**

	Murfreesboro	Humboldt	Knoxville	Clarksville	Cleveland	Executive Office	Totals
<b>Cash flows from operating activities</b>							
Receipts from residents and third party payors	\$13,580,456.22	\$12,537,097.48	\$14,348,199.27	\$ -	\$ -	\$ -	\$40,465,752.97
Other miscellaneous receipts	21,212.20	(1,912.61)	28,818.39	-	-	-	48,117.98
Payments to service providers and vendors	(5,562,490.57)	(5,278,719.05)	(5,698,954.33)	-	-	(605,510.94)	(17,145,674.89)
Payments to employees	(6,428,460.19)	(6,275,690.26)	(5,832,901.64)	-	-	(1,491,188.07)	(20,028,240.16)
Other miscellaneous payments	(16,694.53)	(6,127.20)	(2,672.01)	-	-	-	(25,493.74)
<b>Net cash provided by (used for) operating activities</b>	<b>1,594,023.13</b>	<b>974,648.36</b>	<b>2,842,489.68</b>	<b>-</b>	<b>-</b>	<b>(2,096,699.01)</b>	<b>3,314,462.16</b>
<b>Cash flows from noncapital financing activities</b>							
Principal paid on loan from the State of Tennessee	(10,000.00)	-	-	-	-	-	(10,000.00)
Transfers	(1,106,002.85)	50,085.74	(2,621,395.92)	154,981.64	21,175.80	3,501,155.59	-
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>(1,116,002.85)</b>	<b>50,085.74</b>	<b>(2,621,395.92)</b>	<b>154,981.64</b>	<b>21,175.80</b>	<b>3,501,155.59</b>	<b>(10,000.00)</b>
<b>Cash flows from capital and related financing activities</b>							
Capital appropriations	-	-	-	4,946,574.53	69,453.17	-	5,016,027.70
Receipts from disposal of capital assets	401.00	-	2,363.92	-	-	-	2,764.92
Purchase and construction of capital assets	(235,191.43)	(246,178.43)	(186,883.89)	(4,946,574.53)	(90,628.97)	(5,364.11)	(5,710,821.36)
Principal paid on loans from the State of Tennessee	(176,350.00)	(175,115.10)	-	(92,139.21)	-	-	(443,604.31)
Interest paid on loans from the State of Tennessee	(83,619.18)	(125,147.09)	-	(62,885.01)	-	-	(271,651.28)
<b>Net cash used for capital and related financing activities</b>	<b>(494,759.61)</b>	<b>(546,440.62)</b>	<b>(184,519.97)</b>	<b>(155,024.22)</b>	<b>(21,175.80)</b>	<b>(5,364.11)</b>	<b>(1,407,284.33)</b>
<b>Cash flows from investing activities</b>							
Interest received	846.80	1,004.19	726.33	42.58	-	10,683.17	13,303.07
<b>Net cash provided by investing activities</b>	<b>846.80</b>	<b>1,004.19</b>	<b>726.33</b>	<b>42.58</b>	<b>-</b>	<b>10,683.17</b>	<b>13,303.07</b>
Net increase (decrease) in cash	(15,892.53)	479,297.67	37,300.12	-	-	1,409,775.64	1,910,480.90
Cash - beginning of year	1,017,204.94	1,101,505.54	789,201.88	-	-	10,892,089.79	13,800,002.15
<b>Cash - end of year</b>	<b>\$ 1,001,312.41</b>	<b>\$ 1,580,803.21</b>	<b>\$ 826,502.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$12,301,865.43</b>	<b>\$15,710,483.05</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>							
Operating income (loss)	\$ 1,110,662.21	\$ 38,074.36	\$ 1,739,827.24	\$ -	\$ -	\$(2,140,638.02)	\$ 747,925.79
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Depreciation	432,315.87	462,629.34	454,903.01	-	-	22,099.64	1,371,947.86
Miscellaneous receipts	19,201.87	19,097.96	28,322.23	-	-	-	66,622.06
Trustee fees	(2,400.00)	(2,400.00)	(2,400.00)	-	-	-	(7,200.00)
Change in assets and liabilities:							
Resident accounts receivable, net	(184,699.14)	(36,270.44)	498,336.49	-	-	-	277,366.91
Miscellaneous receivable	618.38	(21,014.96)	(50.00)	-	-	-	(20,446.58)
Due from primary government	9,219.95	45,901.78	75,853.69	-	-	-	130,975.42
Inventories	65,702.71	10,241.53	3,472.45	-	-	-	79,416.69
Prepaid items	(13,499.20)	(9,158.00)	(863.99)	-	-	(1,765.61)	(25,286.80)
Noncapital accounts payable and accruals	148,110.57	458,863.95	18,459.21	-	-	14,051.60	639,485.33
Amounts held in custody for others	(15,302.58)	(6,122.81)	(2,125.85)	-	-	-	(23,551.24)
Compensated absences	9,736.21	(1,135.30)	15,133.10	-	-	6,981.71	30,715.72
Other postemployment benefits	14,356.28	15,940.95	13,622.10	-	-	2,571.67	46,491.00
<b>Net cash provided by (used for) operating activities</b>	<b>\$ 1,594,023.13</b>	<b>\$ 974,648.36</b>	<b>\$ 2,842,489.68</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$(2,096,699.01)</b>	<b>\$ 3,314,462.16</b>
<b>Noncash capital activities</b>							
Contributed capital assets	\$ 46,000.00	\$ -	\$ 21,635.40	\$ -	\$ -	\$ -	\$ 67,635.40
Loss on disposal of capital assets	(8,782.66)	(9,995.88)	-	-	-	-	(18,778.54)

**TENNESSEE STATE VETERANS' HOMES BOARD**  
**Supplementary Information**  
**Supplementary Schedule of Cash Flows**  
**For the Years Ended June 30, 2013**

	Murfreesboro	Humboldt	Knoxville	Clarksville	Executive Office	Totals
<b>Cash flows from operating activities</b>						
Receipts from residents and third party payors	\$13,079,306.71	\$12,873,314.27	\$13,251,505.35	\$ -	\$ -	\$39,204,126.33
Other miscellaneous receipts	17,334.11	45,189.46	31,357.61	-	-	93,881.18
Payments to service providers and vendors	(5,198,494.08)	(5,270,899.02)	(5,412,612.04)	-	(558,239.88)	(16,440,245.02)
Payments to employees	(6,010,026.57)	(6,020,157.57)	(5,792,141.90)	-	(1,339,874.21)	(19,162,200.25)
<b>Net cash provided by (used for) operating activities</b>	<b>1,888,120.17</b>	<b>1,627,447.14</b>	<b>2,078,109.02</b>	<b>-</b>	<b>(1,898,114.09)</b>	<b>3,695,562.24</b>
<b>Cash flows from noncapital financing activities</b>						
Principal paid on loan from the State of Tennessee	(10,000.00)	-	-	-	-	(10,000.00)
Transfers	(1,486,515.57)	(1,056,303.64)	(1,820,703.30)	21,036.53	4,342,485.98	-
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>(1,496,515.57)</b>	<b>(1,056,303.64)</b>	<b>(1,820,703.30)</b>	<b>21,036.53</b>	<b>4,342,485.98</b>	<b>(10,000.00)</b>
<b>Cash flows from capital and related financing activities</b>						
Capital contributions	-	-	-	991,322.04	-	991,322.04
Purchase and construction of capital assets	(133,372.49)	(212,389.53)	(128,499.05)	(991,322.04)	(36,376.55)	(1,501,959.66)
Principal paid on loans from the State of Tennessee	(168,214.10)	(163,251.00)	-	-	-	(331,465.10)
Interest paid on loans from the State of Tennessee	(85,773.57)	(129,760.45)	-	(21,036.53)	-	(236,570.55)
<b>Net cash used for capital and related financing activities</b>	<b>(387,360.16)</b>	<b>(505,400.98)</b>	<b>(128,499.05)</b>	<b>(21,036.53)</b>	<b>(36,376.55)</b>	<b>(1,078,673.27)</b>
<b>Cash flows from investing activities</b>						
Interest received	4,175.20	1,362.04	4,050.74	-	13,519.00	23,106.98
<b>Net cash provided by investing activities</b>	<b>4,175.20</b>	<b>1,362.04</b>	<b>4,050.74</b>	<b>-</b>	<b>13,519.00</b>	<b>23,106.98</b>
Net increase in cash	8,419.64	67,104.56	132,957.41	-	2,421,514.34	2,629,995.95
Cash - beginning of year	1,008,785.30	1,034,400.98	656,244.47	-	8,470,575.45	11,170,006.20
<b>Cash - end of year</b>	<b>\$ 1,017,204.94</b>	<b>\$ 1,101,505.54</b>	<b>\$ 789,201.88</b>	<b>\$ -</b>	<b>\$10,892,089.79</b>	<b>\$13,800,002.15</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>						
Operating income (loss)	\$ 1,242,881.68	\$ 860,137.16	\$ 1,605,784.14	\$ -	\$ (1,908,282.76)	\$ 1,800,520.22
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	439,040.29	617,384.54	385,485.33	-	18,778.14	1,460,688.30
Miscellaneous receipts	23,821.35	31,334.98	32,821.78	-	-	87,978.11
Trustee fees	(2,400.00)	(2,400.00)	(2,400.00)	-	-	(7,200.00)
Change in assets and liabilities:						
Resident accounts receivable, net	(111,721.08)	(49,970.89)	(197,253.52)	-	-	(358,945.49)
Miscellaneous receivable	(3,266.52)	(1,645.30)	-	-	-	(4,911.82)
Due from primary government	425,474.35	202,533.06	252,693.28	-	(2,552.13)	878,148.56
Inventories	(90,280.61)	(6,680.78)	(4,129.74)	-	-	(101,091.13)
Prepaid items	(6,753.32)	(2,005.33)	(8,015.89)	-	(2,402.24)	(19,176.78)
Noncapital accounts payable and accruals	(27,271.38)	(29,477.64)	8,200.68	-	(2,017.65)	(50,565.99)
Amounts held in custody for others	(3,220.72)	15,499.78	(1,464.17)	-	-	10,814.89
Compensated absences	(11,295.46)	(31,131.78)	(9,887.98)	-	(3,711.72)	(56,026.94)
Other postemployment benefits	13,111.59	23,869.34	16,275.11	-	2,074.27	55,330.31
<b>Net cash provided by (used for) operating activities</b>	<b>\$ 1,888,120.17</b>	<b>\$ 1,627,447.14</b>	<b>\$ 2,078,109.02</b>	<b>\$ -</b>	<b>\$ (1,898,114.09)</b>	<b>\$ 3,695,562.24</b>
<b>Noncash capital activities</b>						
Contributed capital assets	\$ 2,520.00	\$ 7,500.00	\$ 1,200.00	\$ 1,155,600.00	\$ -	\$ 1,166,820.00



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**Independent Auditor's 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***

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
Board of Directors, Tennessee State Veterans' Homes Board

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, 2014, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated September 18, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency.

- Tennessee State Veterans' Homes Board management did not provide adequate internal controls in one specific area.

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

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



Deborah V. Loveless, CPA  
Director  
September 18, 2015

## **Finding and Recommendation**

### **Tennessee State Veterans' Homes Board management did not provide adequate internal controls in one specific area**

#### **Finding**

The Tennessee State Veterans' Homes Board did not design and monitor effective internal controls. We observed a condition in violation of the board's policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or error.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided management with detailed information regarding the specific condition we identified, as well as our recommendation for improvement.

#### **Recommendation**

Management should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

#### **Management's Comment**

We concur. The Tennessee State Veterans' Homes Board will modify procedures and controls to ensure proper internal controls are in place to appropriately address circumstances noted in the finding.