# STATE OF TENNESSEE
## COMPTROLLER OF THE TREASURY

# TENNESSEE STATE VETERANS' HOMES BOARD

**Financial and Compliance Audit Report**

For the Year Ended June 30, 2015

## Justin P. Wilson, Comptroller

**Division of State Audit**
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October 5, 2016

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, 2015. 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 certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The board's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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# Audit Report
# Tennessee State Veterans' Homes Board
## For the Year Ended June 30, 2015

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For the Year Ended June 30, 2015

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### Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

### Audit Findings

**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. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated* (page 37).

**Tennessee State Veterans' Homes Board's financial statements were misstated due to errors in recording construction transactions**

Construction in progress was overstated at June 30, 2015, by $399,583, capital appropriations were overstated by $361,456, and operational expenses were understated by $38,127 for the year ended June 30, 2015 (page 37).

* This finding is repeated from the prior audit.

STATE OF TENNESSEE
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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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the board's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 13, the board implemented Governmental Accounting Standards Board Statement (GASBS) 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

***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 9, the schedule of changes in net pension liability (asset) and related ratios on page 28, the schedule of Tennessee State Veterans' Homes Board's pension contributions on page 29, the other postemployment benefits schedule of funding progress on page 30, and the notes to the required supplementary information on page 31 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 audit was 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 32 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 audit 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 August 17, 2016, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
August 17, 2016

# 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 year ended June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014. 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, 2015

- ♦ The board's operating revenues increased 5%, or $2,086,170, from fiscal year 2014 to fiscal year 2015.
- ♦ The board's operating expenses were 3%, or $1,319,773, more in fiscal year 2015 than in fiscal year 2014.
- ♦ The board's net position increased 37%, or $18,209,062, from June 30, 2014, to June 30, 2015.

### 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these 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 changes in net pension liability (asset) and related ratios; the schedule of the Tennessee State Veterans' Homes Board's pension contributions; the other postemployment benefits schedule of funding progress; and the notes to required supplementary information 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, 2015, and June 30, 2014, is presented below:

**Net Position**

| | 2015 | 2014 |
|---|---|---|
| Assets: | | |
| Current assets and other assets | $25,686,161 | $26,173,255 |
| Capital assets, net | 51,804,294 | 36,816,981 |
| Total assets | 77,490,455 | 62,990,236 |
| Deferred outflows of resources | 1,931,862 | - |
| Liabilities: | | |
| Long-term debt outstanding | 5,685,363 | 6,157,122 |
| Other liabilities | 5,029,614 | 7,527,402 |
| Total liabilities | 10,714,977 | 13,684,524 |
| Deferred inflows of resources | 1,192,566 | - |
| Net position: | | |
| Net investment in capital assets | 46,118,931 | 32,410,504 |
| Restricted | 6,758,358 | 3,245,541 |
| Unrestricted | 14,637,485 | 13,649,667 |
| Total net position | $67,514,774 | $49,305,712 |

2015 to 2014

The board's net position at the end of fiscal year 2015 totaled $67,514,774. This compares to $49,305,712 at the end of fiscal year 2014. The unrestricted portion of the board's net position (22%) may be used to meet the board's obligations as they come due. The largest portion of the board's net position (68%) is invested in capital assets (e.g., land, buildings, and equipment), less the related debt. The restricted portion of the board's net position (10%) represents funds that are restricted for capital projects, pensions, 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 2015, operating revenues increased $2,086,170, or 5%, primarily a result of Veterans' Affairs (VA), Medicare, and Medicaid rates increasing and receiving acuity and quality payments from the State of Tennessee.

## 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**

| | 2015 | 2014 |
|---|---|---|
| Operating revenue: | | |
| Resident service revenue | $42,256,070 | $40,169,900 |
| Total operating revenue | 42,256,070 | 40,169,900 |
| | | |
| Operating expenses: | | |
| Administrative and general | 6,111,121 | 5,536,553 |
| Nursing services | 16,824,069 | 16,897,363 |
| Central services | 1,356,138 | 1,312,500 |
| Ancillary departments | 4,975,109 | 4,576,525 |
| Dietary | 3,606,893 | 3,524,857 |
| Activities | 1,128,905 | 1,008,852 |
| Social services | 598,332 | 585,484 |
| Environmental services | 2,466,711 | 2,520,437 |
| Plant operations and maintenance | 2,272,269 | 2,087,455 |
| Depreciation | 1,402,200 | 1,371,948 |
| Total operating expenses | 40,741,747 | 39,421,974 |

| | | |
|---|---|---|
| Operating income | 1,514,323 | 747,926 |
| Nonoperating revenues and expenses | 134,876 | (80,383) |
| Income before other revenues | 1,649,199 | 667,543 |
| Other revenues | 13,198,756 | 9,431,696 |
| Increase in net position | 14,847,955 | 10,099,239 |
| Net position, July 1 | 49,305,712 | 39,206,473 |
| Cumulative effect of a change in accounting principle | 3,361,107 | - |
| Net position, July 1 (restated) | 52,666,819 | 39,206,473 |
| Net position, June 30 | $67,514,774 | $49,305,712 |

2015 to 2014

In fiscal year 2015, operating revenues increased $2,086,170, or 5%, primarily a result of Veterans' Affairs (VA), Medicare, and Medicaid rates increasing and receiving acuity and quality payments from the State of Tennessee. Operating expenses increased $1,319,773, or 3%. The increase was primarily a result of an increase in salaries and related expenses and start-up costs for the Clarksville home.

## Capital Assets

At June 30, 2015, the board had $51,804,294 invested in capital assets, net of accumulated depreciation of approximately $15,140,738. Depreciation charges totaled $1,402,200 for fiscal year 2015. 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.

Significant additions to construction in progress occurred in fiscal year 2015 for the construction of an additional home in Clarksville, TN.

At June 30, 2015, outstanding commitments under construction contracts totaled $985,944 for the building of the Clarksville home and $579,633 for the building of the Cleveland home.

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 | |
|---|---|---|
| | 2015 | 2014 |
| Long-term debt | $5,685,363 | $6,157,122 |

2015 to 2014

At June 30, 2015, the board had $5,685,363 in debt outstanding, a decrease of $471,759 from 2014. 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
## Statement of Net Position
## June 30, 2015

| | June 30, 2015 |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash (Note 2) | $12,052,105.89 |
| Resident accounts receivable, net of allowance for doubtful accounts of $1,424,022.56 (Note 3) | 4,397,375.75 |
| Miscellaneous receivable | 27,893.57 |
| Inventories | 164,822.31 |
| Prepaid items | 144,266.99 |
| Restricted cash (Notes 2 and 5) | 539,194.90 |
| Total current assets | 17,325,659.41 |
| Noncurrent assets: | |
| Restricted cash (Notes 2 and 5) | 2,764,599.74 |
| Due from federal government | 2,725,978.85 |
| Net pension asset (Note 9) | 2,869,923.00 |
| Capital assets (Note 6): | |
| Land and improvements | 1,654,734.00 |
| Infrastructure | 2,035,115.36 |
| Accumulated depreciation - infrastructure | (884,319.59) |
| Buildings and improvements | 30,552,762.67 |
| Accumulated depreciation - buildings and improvements | (10,115,861.71) |
| Furniture and equipment | 6,618,202.80 |
| Accumulated depreciation - furniture and equipment | (4,140,556.32) |
| Construction in progress | 26,084,216.78 |
| Total noncurrent assets | 60,164,795.58 |
| Total assets | 77,490,454.99 |
| | |
| **Deferred outflows of resources** | |
| Deferred outflows related to pensions (Note 9) | 1,931,861.40 |
| Total deferred outflows of resources | 1,931,861.40 |
| | |
| **Liabilities** | |
| Current liabilities: | |
| Accounts payable and accruals (Note 7) | 1,809,244.09 |
| Due to primary government (Note 4) | 1,896,025.80 |
| Amounts held in custody for others | 107,841.27 |
| Current portion of long-term debt (Note 8) | 468,604.31 |
| Compensated absences (Note 8) | 465,901.39 |
| Total current liabilities | 4,747,616.86 |
| Noncurrent liabilities: | |
| Long-term debt outstanding, net (Note 8) | 5,216,758.37 |
| Compensated absences (Note 8) | 337,376.85 |
| Other postemployment benefits (Note 10) | 413,224.87 |
| Total noncurrent liabilities | 5,967,360.09 |
| Total liabilities | 10,714,976.95 |
| | |
| **Deferred inflows of resources** | |
| Deferred inflows related to pensions (Note 9) | 1,192,565.60 |
| Total deferred inflows of resources | 1,192,565.60 |
| | |
| **Net position** | |
| Net investment in capital assets | 46,118,931.31 |
| Restricted for: | |
| Debt service | 384,539.24 |
| Repairs and replacements | 2,265,278.41 |
| Technology | 499,321.33 |
| Pensions | 3,609,218.80 |
| Unrestricted | 14,637,484.75 |
| Total net position | $67,514,773.84 |

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

**TENNESSEE STATE VETERANS' HOMES BOARD**
**Statement of Revenues, Expenses, and Changes in Net Position**
**For the Year Ended June 30, 2015**

| | Year Ended June 30, 2015 |
|---|---|
| **Operating revenue** | |
| Resident service revenue less contractual adjustments of $1,145,970.34 and less provision for bad debts of $218,407.30 | $42,256,069.57 |
| Total operating revenue | 42,256,069.57 |
| **Operating expenses** | |
| Administrative and general | 6,111,120.96 |
| Nursing services | 16,824,068.92 |
| Central services | 1,356,138.12 |
| Ancillary departments | 4,975,109.40 |
| Dietary | 3,606,892.80 |
| Activities | 1,128,904.83 |
| Social services | 598,331.95 |
| Environmental services | 2,466,711.09 |
| Plant operations and maintenance | 2,272,268.76 |
| Depreciation | 1,402,199.73 |
| Total operating expenses | 40,741,746.56 |
| Operating income | 1,514,323.01 |
| **Nonoperating revenues (expenses)** | |
| Interest revenue | 14,060.90 |
| Miscellaneous revenue | 328,556.11 |
| Interest expense | (180,212.65) |
| Gain on extinguishment of debt | 13,155.28 |
| Loss on disposal of equipment | (33,483.61) |
| Miscellaneous expense | (7,200.00) |
| Total nonoperating revenues (expenses) | 134,876.03 |
| Income before other revenues | 1,649,199.04 |
| Capital appropriations | 13,198,755.53 |
| Total other revenues | 13,198,755.53 |
| Increase in net position | 14,847,954.57 |
| Net position - beginning of year, as originally reported | 49,305,712.27 |
| Cumulative effect of a change in accounting principle (Note 13) | 3,361,107.00 |
| Net position - beginning of year, restated | 52,666,819.27 |
| Net position - end of year | $67,514,773.84 |

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

**TENNESSEE STATE VETERANS' HOMES BOARD**
**Statement of Cash Flows**
**For the Year Ended June 30, 2015**

| | Year Ended June 30, 2015 |
|---|---|
| **Cash flows from operating activities** | |
| Receipts from residents and third party payors | $ 41,195,172.79 |
| Other miscellaneous receipts | 89,899.19 |
| Payments to service providers and vendors | (19,485,760.12) |
| Payments to employees | (20,382,874.58) |
| Net cash provided by operating activities | 1,416,437.28 |
| | |
| **Cash flows from noncapital financing activities** | |
| Principal paid on loan from the primary government | (10,000.00) |
| Net cash used for noncapital financing activities | (10,000.00) |
| | |
| **Cash flows from capital and related financing activities** | |
| Capital appropriations | 10,554,037.92 |
| Receipts from disposal of capital assets | 2,120.97 |
| Purchase and construction of capital assets | (11,637,450.16) |
| Principal paid on loans from the primary government | (448,604.31) |
| Interest paid on loans from the primary government | (245,185.12) |
| Net cash used for capital and related financing activities | (1,775,080.70) |
| | |
| **Cash flows from investing activities** | |
| Interest received | 14,060.90 |
| Net cash provided by investing activities | 14,060.90 |
| | |
| Net decrease in cash | (354,582.52) |
| Cash - beginning of year | 15,710,483.05 |
| Cash - end of year | $ 15,355,900.53 |
| | |
| **Reconciliation of operating income to net cash provided by operating activities:** | |
| Operating income | $ 1,514,323.01 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 1,402,199.73 |
| Miscellaneous receipts | 79,101.52 |
| Trustee fees | (7,200.00) |
| Pension expense | 822,295.32 |
| Other adjustments | 38,127.24 |
| Change in assets, deferred outflows of resources, and liabilities: | |
| Resident accounts receivable, net | (878,891.97) |
| Miscellaneous receivable | 1,570.01 |
| Due from primary government | (360,723.30) |
| Inventories | 238.83 |
| Prepaid items | (51,634.11) |
| Deferred outflows of resources | (1,070,407.12) |
| Noncapital accounts payable and accruals | (135,101.56) |
| Amounts held in custody for others | 9,227.66 |
| Compensated absences | 37,963.10 |
| Other postemployment benefits | 15,348.92 |
| Net cash provided by operating activities | $ 1,416,437.28 |
| | |
| **Noncash capital activities** | |
| Capital appropriations held by the primary government | $ 6,537,943.73 |
| Proceeds from capital debt issued by the primary government | 389,457.25 |
| Contributed capital assets | 249,454.59 |
| Construction costs paid by primary government | (6,538,829.39) |
| Sale of capital debt by the primary government | (376,301.97) |
| Loss on disposal of capital assets | (33,819.01) |

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

## 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, 2015, 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.

### 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 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.

Some employees also earn extended disability benefits. 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. There is no liability for unpaid accumulated extended disability benefits since these benefits (earned approximately one day per month with unlimited accumulation) are generally paid only when an employee who has successfully completed one year of employment is absent due to illness or injury.

**Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Tennessee State Veterans' Homes Board's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Tennessee State Veterans' Homes Board's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

## Note 2. Deposits and Investments

At June 30, 2015, the carrying amount of the Tennessee State Veterans' Homes Board's deposits was $260,830.42, and the bank balance was $298,839.97.

At June 30, 2015, the board also had $15,093,270.11 deposited in the Local Government Investment Pool (LGIP) administered by the State Treasurer and $1,800.00 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 or by calling (615) 741-2956.

## Note 3. Resident Accounts Receivable

Receivables at June 30, 2015, consist of the following:

| | |
|---|---|
| Receivables from patients and their insurance | $ 1,865,642.69 |
| Receivable from Medicare | 557,835.15 |
| Receivable from U.S. Department of Veterans Affairs | 3,397,920.47 |
| Allowance for doubtful accounts | (1,424,022.56) |
| Net amount reported as resident accounts receivable | $ 4,397,375.75 |

The net receivable amount of $4,397,375.75 represents the accounts receivable amount that is expected to be collected within one year.

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

| | June 30, 2015 |
|---|---|
| Department of Finance and Administration – capital projects | $(2,726,864.52) |
| Department of Finance and Administration – Medicaid current services | 1,042,010.07 |
| Department of Finance and Administration – interest on loans | (85,698.12) |
| Department of the Treasury – retirement contributions | (125,373.23) |
| Department of Health – health fiscal services | (100.00) |
| Total due to primary government | $(1,896,025.80) |

## Note 5. Restricted Assets

The balances of the Tennessee State Veterans' Homes Board's restricted asset accounts at June 30, 2015, are as follows:

| | |
|---|---|
| Resident trust fund accounts | $ 97,175.18 |
| Debt service account | 442,019.72 |
| Repair and replacement account | 2,265,278.41 |
| Technology account | 499,321.33 |
| Total restricted assets | $3,303,794.64 |

## Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Land and improvements | $ 1,389,684.00 | $ 265,050.00 | $ - | $ 1,654,734.00 |
| Infrastructure | 1,825,115.36 | 210,000.00 | - | 2,035,115.36 |
| Buildings and improvements | 30,476,814.41 | 88,330.03 | (12,381.77) | 30,552,762.67 |
| Furniture and equipment | 6,009,934.72 | 769,681.62 | (161,413.54) | 6,618,202.80 |
| Construction in progress | 10,990,320.02 | 15,093,896.76 | - | 26,084,216.78 |
| Total | 50,691,868.51 | 16,426,958.41 | (173,795.31) | 66,945,031.61 |
| Less accumulated depreciation: | | | | |
| Infrastructure | (817,547.46) | (66,772.13) | - | (884,319.59) |
| Buildings and improvements | (9,271,331.42) | (856,740.59) | 12,210.30 | (10,115,861.71) |
| Furniture and equipment | (3,786,008.77) | (478,687.01) | 124,139.46 | (4,140,556.32) |
| Total | (13,874,887.65) | (1,402,199.73) | 136,349.76 | (15,140,737.62) |
| Capital assets, net | $ 36,816,980.86 | $15,024,758.68 | $ (37,445.55) | $ 51,804,293.99 |

Additions to construction in progress included $57,587.01 of capitalized interest.

## Note 7. Accounts Payable and Accruals

Payables at June 30, 2015, consist of the following:

| | |
|---|---|
| Payables to suppliers | $1,388,607.68 |
| Accruals for salaries and benefits | 420,636.41 |
| Amount reported as accounts payable and accruals | $1,809,244.09 |

## Note 8. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Long-term debt outstanding: | | | | | |
| Loans | $6,157,122.27 | $ 209,320.97 | $ (681,080.56) | $5,685,362.68 | $468,604.31 |
| Compensated absences | 765,315.14 | 1,046,376.93 | (1,008,413.83) | 803,278.24 | 465,901.39 |
| Total long-term liabilities | $6,922,437.41 | $1,255,697.90 | $(1,689,494.39) | $6,488,640.92 | $934,505.70 |

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 1988, the $10,000 due for the year ended June 30, 2015, was paid before June 30, 2015.

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, 2015, are as follows:

| For the Year(s) Ended June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 468,604.31 | $ 227,261.00 | $ 695,865.31 |
| 2017 | 480,557.13 | 204,591.70 | 685,148.83 |
| 2018 | 476,131.71 | 181,566.81 | 657,698.52 |
| 2019 | 491,761.92 | 158,008.16 | 649,770.08 |
| 2020 | 372,915.54 | 136,392.16 | 509,307.70 |
| 2021 – 2025 | 1,941,180.79 | 423,026.11 | 2,364,206.90 |
| 2026 – 2030 | 1,159,763.45 | 129,085.72 | 1,288,849.17 |
| 2031 – 2033 | 294,447.83 | 13,340.31 | 307,788.14 |
| Total | $5,685,362.68 | $1,473,271.97 | $7,158,634.65 |

**Refunding of Debt**

In July 2014, the state issued $79.160 million in tax-exempt bonds, from which the state has made a loan to the Tennessee State Veterans' Homes Board, with an interest rate of 5% to advance refund $25.160 million and $58.975 million of the state's outstanding 2008A and 2009C Series bonds with interest rates ranging from 3% to 5%. The net proceeds of $95.282 million (after payment of $268,754.68 in underwriter's fees and issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the state's 2008A and 2009C Series bonds. As a result, the state's 2008A and 2009C Series bonds are considered to be defeased, and the liability for the related loan has been removed from the Tennessee State Veterans' Homes Board's long-term liabilities.

Although the advance refunding of the state's bonds resulted in the recognition of a deferred gain of $3.296 million to be amortized over the next 16 years, the savings were in effect passed on to the Tennessee State Veterans' Homes Board by refinancing the board's loan, which reduced its aggregate debt service payments by $7,147.81 over the next 16 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $5,049.78.

## Note 9. Defined Benefit Pension Plan

**Plan Description**

Employees of Tennessee State Veterans' Homes Board are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

**Benefits Provided**

Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service regardless of age. Benefits are determined by a formula using the member's highest five-consecutive-year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest.

**Employees Covered by Benefit Terms**

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 80 |
| Inactive employees entitled to but not yet receiving benefits | 216 |
| Active employees | 481 |
| Total | 777 |

**Contributions**

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Tennessee State Veterans' Homes Board makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation once an employee has completed a six-month probationary period. For the year ended June 30, 2015, employer contributions for the Tennessee State Veterans' Homes Board were $1,070,407.87 based on a rate of 6.35% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Tennessee State Veterans'

Homes Board's state appropriations if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Net Pension Liability (Asset)**

Tennessee State Veterans' Homes Board's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

The total pension liability as of the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.0% |
| Salary increases | Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25% |
| Investment rate of return | 7.5%, net of pension plan investment expenses, including inflation |
| Cost-of-living adjustment | 2.5% |

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Long-term Expected Real Rate of Return | Target Allocation |
|---|---|---|
| U.S. equity | 6.46% | 33% |
| Developed market international equity | 6.26% | 17% |
| Emerging market international equity | 6.40% | 5% |
| Private equity and strategic lending | 4.61% | 8% |
| U.S. fixed income | 0.98% | 29% |
| Real estate | 4.73% | 7% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from the Tennessee State Veterans' Homes Board will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net positon was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability (Asset)**

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Position Liability (Asset) (a) - (b) |
| Balance at June 30, 2013 | $13,745,772 | $15,866,009 | $(2,120,237) |
| Changes for the year: | | | |
| Service cost | 1,083,079 | - | 1,083,079 |
| Interest | 1,102,592 | - | 1,102,592 |
| Differences between expected and actual experience | 1,005,030 | - | 1,005,030 |
| Contributions – employer | - | 1,240,870 | (1,240,870) |
| Contributions – employees | - | - | - |
| Net investment income | - | 2,716,964 | (2,716,964) |

| | | | |
|---|---|---|---|
| Benefit payments, including refunds of employee contributions | (255,254) | (255,254) | - |
| Administrative expense | - | (17,447) | 17,447 |
| Net changes | 2,935,447 | 3,685,133 | (749,686) |
| Balance at June 30, 2014 | $16,681,219 | $19,551,142 | $(2,869,923) |

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the net pension liability (asset) of the Tennessee State Veterans' Homes Board calculated using the discount rate of 7.5%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Tennessee State Veterans' Homes Board net pension liability (asset) | $192 | $(2,869,923) | $(5,187,939) |

**Pension Expense**

For the year ended June 30, 2015, the Tennessee State Veterans' Homes Board recognized pension expense of $822,296.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

For the year ended June 30, 2015, the Tennessee State Veterans' Homes Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 861,454 | $ - |
| Net difference between projected and actual earnings on pension plan investments | - | 1,192,566 |
| Tennessee State Veterans' Homes Board's contributions subsequent to the measurement date of June 30, 2014 | 1,070,408 | - |
| Total | $1,931,862 | $1,192,566 |

Deferred outflows of resources, resulting from the Tennessee State Veterans' Homes Board's employer contributions of $1,070,408 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30 | |
|---|---|
| 2016 | $(154,565) |
| 2017 | (154,565) |
| 2018 | (154,565) |
| 2019 | (154,565) |
| 2020 | 143,576 |
| Thereafter | 143,576 |

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

### Payable to the Pension Plan

At June 30, 2015, the Tennessee State Veterans' Homes Board reported a payable of $125,373.23 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

## 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.

### 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 Tennessee State Veterans' Homes Board does not subsidize employee premiums beyond the implicit rate built into the plan provisions.

Annual OPEB Cost and Net OPEB Obligation
Local Government Plan

| | June 30, 2015 | June 30, 2014 | June 30, 2013 |
|---|---|---|---|
| Annual required contribution (ARC) | $ 58,000.00 | $ 57,000.00 | $ 105,000.00 |
| Interest on the net OPEB obligation | 15,915.04 | 14,055.40 | 11,842.19 |
| Less adjustment to the ARC | (15,505.09) | (13,693.35) | (12,570.26) |
| Annual OPEB cost | 58,409.95 | 57,362.05 | 104,271.93 |
| Less amount of contribution | (43,061.03) | (10,871.05) | (48,941.62) |
| Increase in the net OPEB obligation | 15,348.92 | 46,491.00 | 55,330.31 |
| Net OPEB obligation – beginning of year | 397,875.95 | 351,384.95 | 296,054.64 |
| Net OPEB obligation – end of year | $ 413,224.87 | $ 397,875.95 | $ 351,384.95 |

| Year End | Plan | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation at Year-end |
|---|---|---|---|---|
| 6/30/2015 | Local Govt. Group | $ 58,409.95 | 73.72% | $ 413,224.87 |
| 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 |

**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 | |
|---|---|---|
| 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.

### 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 decreased 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. The dollar amount of unused extended disability benefits was $2,849,197.04 at June 30, 2015.

### Construction in Progress

At June 30, 2015, outstanding commitments under construction contracts totaled $985,943.62 for the building of the Clarksville facility and $579,633.15 for the Cleveland 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 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, 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, 2015, the board had scheduled coverage of $58,103,800 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.

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. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the Tennessee State Veterans' Homes Board implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability (asset) and related expenses, deferred outflows of resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of $3,361,107. This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

# TENNESSEE STATE VETERANS' HOMES BOARD
## Required Supplementary Information
## Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

| | 2014 |
|---|---|
| **Total pension liability** | |
| Service cost | $ 1,083,079 |
| Interest | 1,102,592 |
| Changes in benefit terms | - |
| Differences between expected and actual experience | 1,005,030 |
| Changes of assumptions | - |
| Benefit payments, including refunds of employee contributions | (255,254) |
| **Net change in total pension liability** | 2,935,447 |
| **Total pension liability – beginning** | 13,745,772 |
| **Total pension liability – ending (a)** | $ 16,681,219 |
| | |
| **Plan fiduciary net position** | |
| Contributions – employer | $ 1,240,870 |
| Contributions – employee | - |
| Net investment income | 2,716,964 |
| Benefit payments, including refunds of employee contributions | (255,254) |
| Administrative expense | (17,447) |
| **Net change in plan fiduciary net position** | 3,685,133 |
| **Plan fiduciary net position – beginning** | 15,866,009 |
| **Plan fiduciary net position – ending (b)** | $ 19,551,142 |
| | |
| **Net pension liability (asset) – ending (a) - (b)** | $ (2,869,923) |
| | |
| **Plan fiduciary net position as a percentage of the total pension liability** | 117.2% |
| | |
| **Covered payroll** | $ 16,178,218 |
| **Net pension liability (asset) as a percentage of covered payroll** | (17.74%) |

This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

See notes to required supplementary information.

**TENNESSEE STATE VETERANS' HOMES BOARD**
**Required Supplementary Information**
**Schedule of Tennessee State Veterans' Homes Board's Pension Contributions**

| | 2015 | 2014 |
|---|---|---|
| Actuarially determined contribution | $ 1,070,408 | $ 1,240,870 |
| Contributions in relation to the actuarially determined contribution | 1,070,408 | 1,240,870 |
| Contribution deficiency (excess) | $ - | $ - |
| Covered payroll | $ 16,856,817 | $ 16,178,218 |
| Contributions as a percentage of covered payroll | 6.35% | 7.67% |

This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

See notes to required supplementary information.

# TENNESSEE STATE VETERANS' HOMES BOARD
## Required Supplementary Information
## Other Postemployment 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] |
|---|---|---|---|---|---|---|
| 7/01/13 | $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% |

### Notes to the Schedule of Tennessee State Veterans' Homes Board's Pension Contributions

***Valuation date:*** Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013, actuarial valuation.

***Methods and assumptions used to determine contribution rates:***

| | |
|---|---|
| Actuarial cost method | Frozen initial liability |
| Amortization method | Level dollar, closed (not to exceed 20 years) |
| Remaining amortization period | 1 year |
| Asset valuation | 10-year smoothed within a 20 percent corridor to market value |
| Inflation | 3.0 percent |
| Salary increases | Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent |
| Investment rate of return | 7.5 percent, net of investment expense, including inflation |
| Retirement age | Pattern of retirement determined by experience study |
| Mortality | Customized table based on actual experience including an adjustment for some anticipated improvement |
| Cost of living adjustments | 2.5 percent |

**TENNESSEE STATE VETERANS' HOMES BOARD**
**Supplementary Information**
**Supplementary Schedule of Net Position**
**June 30, 2015**

| | Murfreesboro | Humboldt | Knoxville | Clarksville | Cleveland | Executive Office | Totals |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Current assets: | | | | | | | |
| Cash | $ 43,791.98 | $ 46,219.67 | $ 62,235.36 | $ 799.59 | $ - | $11,899,059.29 | $ 12,052,105.89 |
| Resident accounts receivable, net of allowance for doubtful accounts of $1,424,022.56 | 1,502,963.78 | 1,569,063.43 | 1,325,348.54 | - | - | - | 4,397,375.75 |
| Miscellaneous receivable | 2,592.70 | 24,004.76 | 28.81 | - | - | 1,267.30 | 27,893.57 |
| Inventories | 60,704.71 | 56,289.39 | 47,828.21 | - | - | - | 164,822.31 |
| Prepaid items | 24,553.10 | 26,850.47 | 29,843.13 | 54,722.05 | - | 8,298.24 | 144,266.99 |
| Restricted cash | 235,523.67 | 296,111.18 | 7,560.05 | - | - | - | 539,194.90 |
| Total current assets | 1,870,129.94 | 2,018,538.90 | 1,472,844.10 | 55,521.64 | - | 11,908,624.83 | 17,325,659.41 |
| Noncurrent assets: | | | | | | | |
| Restricted cash | 752,326.56 | 757,703.81 | 755,248.04 | - | - | 499,321.33 | 2,764,599.74 |
| Due from federal government | - | - | - | 2,725,978.85 | - | - | 2,725,978.85 |
| Net pension asset | 890,671.03 | 835,226.12 | 870,950.92 | 12,674.56 | - | 260,400.37 | 2,869,923.00 |
| Capital assets: | | | | | | | |
| Land and improvements | 40,540.00 | 160,544.00 | 143,000.00 | 1,310,650.00 | - | - | 1,654,734.00 |
| Infrastructure | 216,681.23 | 598,798.37 | 1,219,635.76 | - | - | - | 2,035,115.36 |
| Accumulated depreciation - infrastructure | (186,039.62) | (477,579.39) | (220,700.58) | - | - | - | (884,319.59) |
| Buildings and improvements | 8,980,503.40 | 10,162,475.67 | 11,409,783.60 | - | - | - | 30,552,762.67 |
| Accumulated depreciation - buildings and improvements | (3,648,088.77) | (4,052,295.40) | (2,415,477.54) | - | - | - | (10,115,861.71) |
| Furniture and equipment | 2,228,296.19 | 2,314,019.93 | 1,863,625.29 | 54,834.62 | - | 157,426.77 | 6,618,202.80 |
| Accumulated depreciation - furniture and equipment | (1,360,868.06) | (1,530,854.47) | (1,128,623.91) | (4,529.18) | - | (115,680.70) | (4,140,556.32) |
| Construction in progress | - | - | - | 25,712,958.91 | 371,257.87 | - | 26,084,216.78 |
| Total noncurrent assets | 7,914,021.96 | 8,768,038.64 | 12,497,441.58 | 29,812,567.76 | 371,257.87 | 801,467.77 | 60,164,795.58 |
| Total assets | 9,784,151.90 | 10,786,577.54 | 13,970,285.68 | 29,868,089.40 | 371,257.87 | 12,710,092.60 | 77,490,454.99 |
| **Deferred outflows of resources** | | | | | | | |
| Deferred outflows related to pensions | 599,546.75 | 562,224.53 | 586,272.34 | 8,531.74 | - | 175,286.04 | 1,931,861.40 |
| Total deferred outflows of resources | 599,546.75 | 562,224.53 | 586,272.34 | 8,531.74 | - | 175,286.04 | 1,931,861.40 |
| **Liabilities** | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accruals | 435,181.22 | 556,845.72 | 679,657.47 | 64,207.02 | - | 73,352.66 | 1,809,244.09 |
| Due to primary government | (242,524.44) | (230,955.27) | (372,232.41) | 2,740,852.26 | 885.66 | - | 1,896,025.80 |
| Amounts held in custody for others | 31,545.56 | 65,794.60 | 10,501.11 | - | - | - | 107,841.27 |
| Current portion of long-term debt | 194,750.00 | 181,715.10 | - | 92,139.21 | - | - | 468,604.31 |
| Compensated absences | 112,654.75 | 117,198.58 | 166,080.41 | 1,271.48 | - | 68,696.17 | 465,901.39 |
| Total current liabilities | 531,607.09 | 690,598.73 | 484,006.58 | 2,898,469.97 | 885.66 | 142,048.83 | 4,747,616.86 |
| Noncurrent liabilities: | | | | | | | |
| Long-term debt outstanding, net | 1,342,358.10 | 2,308,033.72 | - | 1,566,366.55 | - | - | 5,216,758.37 |
| Compensated absences | 81,577.57 | 84,867.93 | 120,265.13 | 920.73 | - | 49,745.49 | 337,376.85 |
| Other postemployment benefits | 126,259.04 | 145,369.40 | 119,720.62 | - | - | 21,875.81 | 413,224.87 |
| Total noncurrent liabilities | 1,550,194.71 | 2,538,271.05 | 239,985.75 | 1,567,287.28 | - | 71,621.30 | 5,967,360.09 |
| Total liabilities | 2,081,801.80 | 3,228,869.78 | 723,992.33 | 4,465,757.25 | 885.66 | 213,670.13 | 10,714,976.95 |
| **Deferred inflows of resources** | | | | | | | |
| Deferred inflows related to pensions | 370,108.76 | 347,069.22 | 361,914.28 | 5,266.77 | - | 108,206.57 | 1,192,565.60 |
| Total deferred inflows of resources | 370,108.76 | 347,069.22 | 361,914.28 | 5,266.77 | - | 108,206.57 | 1,192,565.60 |
| **Net position** | | | | | | | |
| Net investment in capital assets | 4,733,916.27 | 4,685,359.89 | 10,871,242.62 | 25,415,408.59 | 371,257.87 | 41,746.07 | 46,118,931.31 |
| Restricted for: | | | | | | | |
| Debt service | 178,159.11 | 192,271.31 | - | - | - | 14,108.82 | 384,539.24 |
| Repairs and replacements | 752,326.56 | 757,703.81 | 755,248.04 | - | - | - | 2,265,278.41 |
| Technology | - | - | - | - | - | 499,321.33 | 499,321.33 |
| Pensions | 1,120,109.02 | 1,050,381.43 | 1,095,308.98 | 15,939.53 | - | 327,479.84 | 3,609,218.80 |
| Unrestricted | 1,147,277.13 | 1,087,146.63 | 748,851.77 | (25,751.00) | (885.66) | 11,680,845.88 | 14,637,484.75 |
| Total net position | $ 7,931,788.09 | $ 7,772,863.07 | $13,470,651.41 | $25,405,597.12 | $370,372.21 | $12,563,501.94 | $ 67,514,773.84 |

**TENNESSEE STATE VETERANS' HOMES BOARD**
**Supplementary Information**
**Supplementary Schedule of Revenues, Expenses, and Changes in Net Position**
**For the Year Ended June 30, 2015**

| | Murfreesboro | Humboldt | Knoxville | Clarksville | Cleveland | Executive Office | Totals |
|---|---|---|---|---|---|---|---|
| **Operating revenue** | | | | | | | |
| Resident service revenue less contractual adjustments of $1,145,970.34 | | | | | | | |
| and less provision for bad debts of $218,407.30 | $14,773,298.44 | $13,420,393.12 | $14,062,378.01 | $ - | $ - | $ - | $42,256,069.57 |
| Total operating revenue | 14,773,298.44 | 13,420,393.12 | 14,062,378.01 | - | - | - | 42,256,069.57 |
| **Operating expenses** | | | | | | | |
| Administrative and general | 1,266,743.53 | 1,269,111.66 | 1,231,405.96 | 148,742.23 | - | 2,195,117.58 | 6,111,120.96 |
| Nursing services | 5,805,773.87 | 5,590,904.43 | 5,413,850.73 | 13,539.89 | - | - | 16,824,068.92 |
| Central services | 404,279.26 | 412,040.61 | 539,533.31 | 284.94 | - | - | 1,356,138.12 |
| Ancillary departments | 1,509,849.06 | 1,800,540.21 | 1,660,720.13 | 4,000.00 | - | - | 4,975,109.40 |
| Dietary | 1,267,940.64 | 1,035,033.00 | 1,264,255.59 | 39,663.57 | - | - | 3,606,892.80 |
| Activities | 407,405.64 | 405,834.61 | 315,664.58 | - | - | - | 1,128,904.83 |
| Social services | 211,442.80 | 195,098.68 | 191,790.47 | - | - | - | 598,331.95 |
| Environmental services | 794,723.73 | 837,284.15 | 825,540.68 | 9,162.53 | - | - | 2,466,711.09 |
| Plant operations and maintenance | 692,502.37 | 732,245.89 | 732,037.99 | 115,482.51 | - | - | 2,272,268.76 |
| Depreciation | 445,756.27 | 444,452.24 | 487,003.19 | 4,529.18 | - | 20,458.85 | 1,402,199.73 |
| Total operating expenses | 12,806,417.17 | 12,722,545.48 | 12,661,802.63 | 335,404.85 | - | 2,215,576.43 | 40,741,746.56 |
| Operating income (loss) | 1,966,881.27 | 697,847.64 | 1,400,575.38 | (335,404.85) | - | (2,215,576.43) | 1,514,323.01 |
| **Nonoperating revenues (expenses)** | | | | | | | |
| Interest revenue | 1,287.71 | 923.78 | 769.30 | 0.01 | - | 11,080.10 | 14,060.90 |
| Miscellaneous revenue | 18,504.45 | 23,630.54 | 240,276.12 | 46,145.00 | - | - | 328,556.11 |
| Interest expense | (71,465.43) | (108,747.22) | - | - | - | - | (180,212.65) |
| Gain on extinguishment of debt | 146.42 | 13,008.86 | - | - | - | - | 13,155.28 |
| Loss on disposal of equipment | (19,247.85) | - | (14,235.76) | - | - | - | (33,483.61) |
| Miscellaneous expense | (2,400.00) | (2,400.00) | (2,400.00) | - | - | - | (7,200.00) |
| Total nonoperating revenues (expenses) | (73,174.70) | (73,584.04) | 224,409.66 | 46,145.01 | - | 11,080.10 | 134,876.03 |
| Income (loss) before other revenues and transfers | 1,893,706.57 | 624,263.60 | 1,624,985.04 | (289,259.84) | - | (2,204,496.33) | 1,649,199.04 |
| Capital appropriations | - | - | - | 12,920,658.44 | 278,097.09 | - | 13,198,755.53 |
| Transfers | (1,585,366.63) | (296,466.66) | (1,114,202.42) | 706,819.55 | 1,646.15 | 2,287,570.01 | - |
| Total other revenues and transfers | (1,585,366.63) | (296,466.66) | (1,114,202.42) | 13,627,477.99 | 279,743.24 | 2,287,570.01 | 13,198,755.53 |
| Increase in net position | 308,339.94 | 327,796.94 | 510,782.62 | 13,338,218.15 | 279,743.24 | 83,073.68 | 14,847,954.57 |
| Net position - beginning of year, as originally reported | 6,580,339.80 | 6,466,892.03 | 11,939,855.62 | 12,052,535.18 | 90,628.97 | 12,175,460.67 | 49,305,712.27 |
| Cumulative effect of a change in accounting principle | 1,043,108.35 | 978,174.10 | 1,020,013.17 | 14,843.79 | - | 304,967.59 | 3,361,107.00 |
| Net position - beginning of year, restated | 7,623,448.15 | 7,445,066.13 | 12,959,868.79 | 12,067,378.97 | 90,628.97 | 12,480,428.26 | 52,666,819.27 |
| Net position - end of year | $ 7,931,788.09 | $ 7,772,863.07 | $13,470,651.41 | $25,405,597.12 | $370,372.21 | $12,563,501.94 | $67,514,773.84 |

**TENNESSEE STATE VETERANS' HOMES BOARD**
**Supplementary Information**
**Supplementary Schedule of Cash Flows**
**For the Years Ended June 30, 2015**

| | Murfreesboro | Humboldt | Knoxville | Clarksville | Cleveland | Executive Office | Totals |
|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | | |
| Receipts from residents and third party payor | $14,772,655.51 | $13,088,227.72 | $13,334,289.56 | $ - | $ - | $ - | $41,195,172.79 |
| Other miscellaneous receipts | 17,083.01 | 34,496.80 | 38,284.38 | - | - | 35.00 | 89,899.19 |
| Payments to service providers and vendors | (6,065,447.55) | (6,579,138.22) | (6,038,648.79) | (161,341.25) | - | (641,184.31) | (19,485,760.12) |
| Payments to employees | (6,472,040.75) | (6,204,426.64) | (6,045,338.74) | (120,061.16) | - | (1,541,007.29) | (20,382,874.58) |
| Net cash provided by (used for) operating activitie | 2,252,250.22 | 339,159.66 | 1,288,586.41 | (281,402.41) | - | (2,182,156.60) | 1,416,437.28 |
| **Cash flows from noncapital financing activities** | | | | | | | |
| Principal paid on loan from the primary governmer | (10,000.00) | - | - | - | - | - | (10,000.00) |
| Transfers | (1,585,366.63) | (296,466.66) | (1,114,202.42) | 706,819.55 | 1,646.15 | 2,287,570.01 | - |
| Net cash provided by (used for) noncapital financing activitie | (1,595,366.63) | (296,466.66) | (1,114,202.42) | 706,819.55 | 1,646.15 | 2,287,570.01 | (10,000.00) |
| **Cash flows from capital and related financing activities** | | | | | | | |
| Capital appropriations | - | - | - | 10,554,037.92 | - | - | 10,554,037.92 |
| Receipts from disposal of capital assets | 335.40 | - | 1,785.57 | - | - | - | 2,120.97 |
| Purchase and construction of capital assets | (373,559.50) | (236,091.25) | (178,397.41) | (10,827,777.53) | (1,646.15) | (19,978.32) | (11,637,450.16) |
| Principal paid on loans from the primary governmer | (180,150.00) | (176,315.10) | - | (92,139.21) | - | - | (448,604.31) |
| Interest paid on loans from the primary governmer | (74,467.40) | (111,978.98) | - | (58,738.74) | - | - | (245,185.12) |
| Net cash used for capital and related financing activitie | (627,841.50) | (524,385.33) | (176,611.84) | (424,617.56) | (1,646.15) | (19,978.32) | (1,775,080.70) |
| **Cash flows from investing activities** | | | | | | | |
| Interest received | 1,287.71 | 923.78 | 769.30 | 0.01 | - | 11,080.10 | 14,060.90 |
| Net cash provided by investing activitie | 1,287.71 | 923.78 | 769.30 | 0.01 | - | 11,080.10 | 14,060.90 |
| Net increase (decrease) in cash | 30,329.80 | (480,768.55) | (1,458.55) | 799.59 | - | 96,515.19 | (354,582.52) |
| Cash - beginning of year | 1,001,312.41 | 1,580,803.21 | 826,502.00 | - | - | 12,301,865.43 | 15,710,483.05 |
| Cash - end of year | $ 1,031,642.21 | $ 1,100,034.66 | $ 825,043.45 | $ 799.59 | $ - | $12,398,380.62 | $15,355,900.53 |
| **Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:** | | | | | | | |
| Operating income (loss) | $ 1,966,881.27 | $ 697,847.64 | $ 1,400,575.38 | $ (335,404.85) | $ - | $ (2,215,576.43) | $ 1,514,323.01 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used fo operating activities | | | | | | | |
| Depreciation | 445,756.27 | 444,452.24 | 487,003.19 | 4,529.18 | - | 20,458.85 | 1,402,199.73 |
| Miscellaneous receipts | 18,504.45 | 23,630.54 | 36,966.53 | - | - | - | 79,101.52 |
| Trustee fees | (2,400.00) | (2,400.00) | (2,400.00) | - | - | - | (7,200.00) |
| Pension expense | 255,196.61 | 239,310.44 | 249,546.37 | 3,631.53 | - | 74,610.37 | 822,295.32 |
| Other adjustments | - | - | - | 38,127.24 | - | - | 38,127.24 |
| Change in assets, deferred outflows of resources, and liabilities | | | | | | | |
| Resident accounts receivable, ne | (48,088.81) | (333,165.08) | (497,638.08) | - | - | - | (878,891.97) |
| Miscellaneous receivable | 1,513.82 | - | 21.19 | - | - | 35.00 | 1,570.01 |
| Due from primary governmen | 3,080.18 | (95,423.88) | (269,144.19) | 764.59 | - | - | (360,723.30) |
| Inventories | 24,607.45 | (20,522.30) | (3,846.32) | - | - | - | 238.83 |
| Prepaid items | 10,501.61 | 2,021.44 | (6,887.37) | (54,722.05) | - | (2,547.74) | (51,634.11) |
| Deferred outflows of resources | (332,197.28) | (311,517.76) | (324,842.19) | (4,727.28) | - | (97,122.61) | (1,070,407.12) |
| Noncapital accounts payable and accruals | (104,887.95) | (312,303.04) | 193,942.30 | 64,207.02 | - | 23,940.11 | (135,101.56) |
| Amounts held in custody for others | (2,935.26) | 10,866.26 | 1,296.66 | - | - | - | 9,227.66 |
| Compensated absences | 10,545.84 | (9,188.79) | 21,376.87 | 2,192.21 | - | 13,036.97 | 37,963.10 |
| Other postemployment benefits | 6,172.02 | 5,551.95 | 2,616.07 | - | - | 1,008.88 | 15,348.92 |
| Net cash provided by (used for) operating activitie | $ 2,252,250.22 | $ 339,159.66 | $ 1,288,586.41 | $ (281,402.41) | $ - | $ (2,182,156.60) | $ 1,416,437.28 |
| **Noncash capital activities** | | | | | | | |
| Capital appropriations held by the primary governmer | $ - | $ - | $ - | $6,259,846.64 | $278,097.09 | $ - | $ 6,537,943.73 |
| Proceeds from capital debt issued by the primary governmer | 4,457.25 | 385,000.00 | - | - | - | - | 389,457.25 |
| Contributed capital assets | - | - | 203,309.59 | 46,145.00 | - | - | 249,454.59 |
| Construction costs paid by the primary governmer | - | - | - | (6,259,846.64) | (278,982.75) | - | (6,538,829.39) |
| Sale of capital debt by the primary governmer | (4,310.83) | (371,991.14) | - | - | - | - | (376,301.97) |
| Loss on disposal of capital assets | (19,583.25) | - | (14,235.76) | - | - | - | (33,819.01) |

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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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, 2015, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated August 17, 2016. 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 certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

- Tennessee State Veterans' Homes Board management did not provide adequate internal controls in one specific area
- Tennessee State Veterans' Homes Board's financial statements were misstated due to errors in recording construction transactions

These deficiencies are described in the Findings and Recommendations 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*.

## Tennessee State Veterans' Homes Board's Responses to Findings

The Tennessee State Veterans' Homes Board's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The Tennessee State Veterans' Homes Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## 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

Deborah V. Loveless, CPA
Director
August 17, 2016

## Findings and Recommendations

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

**Finding**

As noted in the prior audit, the Tennessee State Veterans' Homes Board did not design and monitor effective internal controls. We observed a condition that continued to be in violation of the agency'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 the circumstances noted in the finding.

### 2. **Tennessee State Veterans' Homes Board's financial statements were misstated due to errors in recording construction transactions**

**Condition**

Construction in progress was overstated at June 30, 2015, by $399,583, capital appropriations were overstated by $361,456, and operational expenses were understated by $38,127 for the year ended June 30, 2015. The following deficiencies were noted:

- The Department of Finance and Administration (F&A) accrued liabilities for the same invoices up to three times ($155,926).
- F&A accrued liabilities for board projects which were not liabilities of the board ($79,871).
- F&A accrued liabilities for expenses of the next fiscal year ($73,275).

- F&A accrued liabilities in excess of the actual cost of the items ($52,961).
- The Tennessee State Veterans' Homes Board capitalized costs that did not meet the board's capitalization policy ($38,127).
- The Tennessee State Veterans' Homes Board did not include prior year contractor travel reimbursements in construction in progress ($577).

**<u>Criteria</u>**

Under generally accepted accounting principles for the accrual basis of accounting, costs are to be recognized in the period in which they have been incurred, regardless of when cash is received or disbursed. Additionally, Section D of F&A's *Procedures for Recording Accrued Liabilities* requires that "the accrued liability must be the actual costs of the item or the best possible estimate available. An estimated accrual should have sufficient evidence supporting the calculation and its reasonableness, such as procedures or historical data used to arrive at the estimate. Agencies that accrue incorrect amounts for accrued liabilities may be subject to audit findings."

The Tennessee State Veterans' Homes Board's *Capital Assets* policy requires an asset to be capitalized when it is acquired for use in operations, has a useful life of at least two years, and has an initial cost of at least $1,000 for a single item or is part of a group of similar items with a cumulative cost of at least $2,000.

**<u>Cause</u>**

The Department of Finance and Administration's Office of Capital Projects Accounting and Consulting Services is responsible for accounting oversight of all capital projects, and the Department of Finance and Administration's Division of Accounts is responsible for journal entries, as well as construction related journal entries on behalf on the Tennessee State Veterans' Homes Board.

The F&A accountant charged construction costs of $362,033 to the incorrect project, duplicated costs, estimated costs in excess of the actual costs without supporting documentation, and charged costs to the incorrect fiscal year. The journal entry prepared by the accountant contained an attached schedule of accrued liabilities that did not contain detailed information, such as invoice numbers or amounts, to support the reasonableness of the entry; however, both the Office of Capital Projects Accounting and Consulting Services and the Division of Accounts approved the entry even though the supporting documentation was not adequate.

The Tennessee State Veterans' Homes Board also contributed to the reporting errors. The finance director capitalized $38,127 in construction costs that did not meet the board's capitalization policies because she stated she did not have adequate supporting documentation to know the items purchased. The finance director stated that she has requested invoices from the Office of Capital Projects Accounting and Consulting Services on multiple occasions with very little success unless the costs were to be financed with federal grant monies, which the board draws down from the U.S. Department of Veterans Affairs. Because the board does not have access to the state's accounting system, the finance director is dependent upon the Office of Capital Projects Accounting and Consulting Services to provide her with the information necessary to record construction costs.

**Effect**

When financial statements are not prepared in accordance with generally accepted accounting principles, users of those financial statements may not get a true understanding of the board's financial position and changes in financial position for the reporting period.

**Recommendation**

F&A accounting personnel should ensure that liabilities are accrued in accordance with generally accepted accounting principles and should follow established procedures. The Office of Capital Projects Accounting and Consulting Services and the Division of Accounts should ensure that established processes are followed when approving journal entries. The Division of Accounts should consider requiring invoices or other cost details to be included in the supporting documentation for accrued liabilities journal entries. The Office of Capital Projects Accounting and Consulting Services should provide invoices for capital projects in a timely manner, regardless of funding source, to the Tennessee State Veterans' Homes Board. The Tennessee State Veterans' Homes Board's finance director should review all invoices in a timely manner to ensure that costs are properly capitalized, expensed, or recorded in the correct fiscal year.

**Managements' Comments**
**Tennessee State Veterans' Homes Board**

We concur with the comments in the recommendation concerning the Tennessee State Veterans' Homes Board. The "Notes on Accounting for Tennessee State Veterans' Homes Board for Clarksville Construction Project" (developed in April 2014) was utilized by board staff for construction and moveable equipment. The finance director met with Capital Accounting in February 2016 and acquired all the invoices, construction and moveable equipment, for the project. The Capital Accounting staff has been very supportive in assisting the finance director in acquiring the supporting documentation for transactions. The finance director will request revisions to the "Notes on Accounting for Construction Projects" that clearly define responsibility and lines of communication.

**Finance and Administration**
**Office of Capital Projects Accounting and Consulting Services**

We concur with the comments in the finding's recommendation concerning the Office of Capital Projects Accounting and Consulting Services (Capital Accounting). Liabilities should be accrued in accordance with generally accepted accounting principles, and established processes should be followed when approving journal entries. To assist in mitigating the risk of future interfund payables (as established to recognize the capital project funding of accruals of other departments) being recorded at an incorrect amount, Capital Accounting will require all future supporting detailed schedules of accrued liabilities to be certified as accurate and verifiable by the preparing department's Controller or Fiscal Officer. In addition, Capital Accounting will continue to obtain additional supporting documentation on an as needed basis to ensure proper and complete recording of capital project transactions.

Capital Accounting also agrees that it has a responsibility to provide invoices for capital projects in a timely manner, regardless of funding source, to the Tennessee State Veterans' Home Board and will continue to work collaboratively with the staff there to provide monthly cost detailed reports to assist TSVHB in recording necessary construction related transactions, and provide supporting invoices or other cost details supporting the activities reported as requested.

**Finance and Administration**
**Division of Accounts, Central Accounting Services for General Services**

We concur with the comments in the finding's recommendation concerning the Division of Accounts, Central Accounting Services for General Services (Accounts). Liabilities should be accrued in accordance with generally accepted accounting principles and follow established procedures. Before processing journal entries to record accrued liabilities during future year-end closings, Accounts will ensure that adequate documentation is obtained to support the reasonableness of the accrued liabilities being recorded, and that a thorough review is made of this documentation, as well as any included estimates.