Tennessee State Veterans' Homes Board

For the Year Ended
June 30, 1997

Arthur A. Hayes, Jr., CPA
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Editor

June 9, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee State Veterans' Homes Board
2865 Main Street
Humboldt, Tennessee 38343

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State Veterans' Homes Board for the year ended June 30, 1997. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The board 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,

John G. Morgan
Comptroller of the Treasury

JGM/ms
98/086

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1997

AUDIT OBJECTIVES

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

INTERNAL CONTROL FINDINGS

Accounts Receivable Practices Not Adequate
The Tennessee State Veterans' Homes Board's accounts receivable balance does not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The management company has not properly reduced the rate adjustments for certain Medicaid eligible veterans. In addition, the management company has not appropriately written off uncollectible receivable accounts (page 8).

Equipment Accountability Needs Improvement
The board could not locate all equipment items selected for testing and not all items tested were properly tagged (page 15).

Payments Not Made in a Timely Manner*
Vendor invoices were not always paid within 45 days, the management fee for the Humbolt facility was not paid timely, and interest expense of $5,936.44 was incurred due to late payments of the Tennessee Bed Tax (page 16).

* This finding is repeated from the prior audit.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1997

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Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

LEGISLATIVE HISTORY

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. (Facilities located in Murfreesboro and Humboldt are operating. The board has plans to build a third facility in East Tennessee.) The board has the authority to employ an executive director and other employees; to incur expenses as may be necessary for the proper discharge of the board's duties; to establish policies regarding the rates for patient care in a state veterans' home; and to incur debts, borrow money, issue debt instruments, and provide for the rights of the holders of the debt instruments.

The board consists of ten members. The Commissioner of the Tennessee Department of Veterans Affairs serves *ex officio* as a voting member of the board. The remaining nine members are appointed by the Governor, three from each of the three grand divisions of the state. The Governor appoints a member of the board to serve as chairman. Each board member must be a citizen of the state and an honorably discharged veteran.

ORGANIZATION

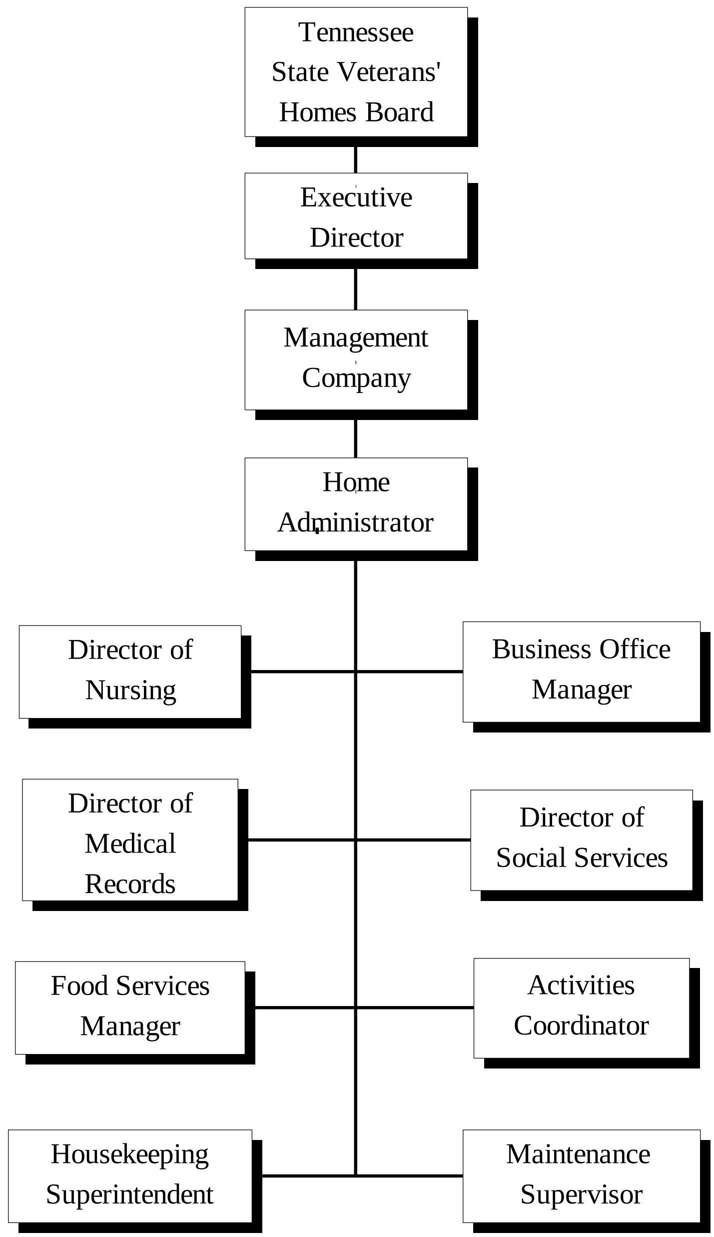
As of November 1, 1994, the board contracted with ServiceMaster Diversified Health Services, L.P., (Diversified) to manage both the financial and clinical operations of the

Murfreesboro facility as well as those of the Humboldt facility upon its opening. The Humboldt facility admitted its first resident on February 7, 1996.

Diversified employs an administrator to oversee daily operations of each facility. The administrator then hires the managerial staff including the Director of Nursing, Business Office Manager, Director of Medical Records, Director of Social Services, Food Services Manager, Activities Coordinator, Housekeeping Superintendent, Maintenance Supervisor, and all other facility employees. Although these employees are hired by the administrator from Diversified, they are employees of the board.

An organization chart is on the following page.

TENNESSEE STATE VETERANS' HOMES BOARD
ORGANIZATION CHART



AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1997, and for comparative purposes, the year ended June 30, 1996. The Tennessee State Veterans' Homes Board has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the board's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The board filed its report with the Department of Audit on May 6, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the board has corrected a previous audit finding concerning controls over foundation donations.

Repeated Audit Finding

The prior audit report also contained a finding concerning payments not made in a timely manner. This finding has not been resolved and is repeated in this report.

RESULTS OF THE AUDIT

Audit Conclusions

Internal Control

As part of the audit of the Tennessee State Veterans' Homes Board's financial statements for the year ended June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations section. Consideration of internal control disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Tennessee State Veterans' Homes Board.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

June 5, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1997, and have issued our report thereon dated June 5, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the board's financial statements are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the board's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Accounts receivable practices are not adequate
- Accountability for equipment needs improvement
- Payments were not made in a timely manner

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

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

This report is intended for the information of the General Assembly of the State of Tennessee, the board of directors, and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms

FINDINGS AND RECOMMENDATIONS

1. Accounts receivable practices are not adequate

Finding

The Tennessee State Veterans' Homes Board's accounts receivable balance does not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The management company has not properly reduced the rate adjustments for certain Medicaid eligible veterans. In addition, the management company has not appropriately written off uncollectible receivable accounts.

Background

All residents of a board facility are charged a standard rate for each day that he or she resides in the facility. To meet these charges, a resident may be eligible for assistance from Medicaid if the resident is both medically and financially eligible. Assistance from the Medicaid program consists of both a contractually established reduction in the standard rate (to the "Medicaid rate") and assistance payments from the U. S. Department of Health and Human Services via the Tennessee Department of Health. In assessing a resident's financial eligibility for Medicaid assistance, the resident's ability to contribute to his or her cost of care is evaluated. The resident's calculated contribution to his or her cost of care is referred to as the patient liability amount. Many Medicaid eligible residents have limited sources of income and may have no patient liability, or the amount may be very minimal.

For example, assume the standard rate is $92 per day, and the Medicaid rate is $80 per day. The resident's account would typically be charged the standard rate of $92 and if the resident was eligible for Medicaid assistance, the account would then be reduced by $12 to equal the Medicaid rate. If the Medicaid eligible resident has a calculated patient liability amount of $10, this amount would be collected from the resident and the Medicaid program would pay the difference of $70.

In addition, veterans are eligible for reimbursement from the U. S. Department of Veteran's Affairs (VA) for each day they reside in a Tennessee Veteran's Home facility. This per diem amount is used to offset the veteran's costs before any other resources are applied. The per diem is revenue to the facility, not income to the veteran, and therefore is appropriately *not* considered in calculating a veteran's financial eligibility for Medicaid assistance and is *not* a contribution toward the calculated patient liability amount.

Medicaid overpayments are not refunded promptly

In the example above, if the VA per diem amount were $40, the resident's receivable account would be overcollected by $40 as shown below.

Activity in Receivable Account	Total	Cumulative Total
Standard rate	$92	$92
less the adjustment to reduce the standard rate to the Medicaid rate of $80	12	80
less the patient liability payment	10	70
less the Medicaid assistance payment	70	0
less the VA per diem payment	40	(40)
is equal to a credit balance (or overcollection) in the receivable account	($40)	($40)

If a veteran is eligible for Medicaid assistance, the Medicaid assistance payment to the facility must be reduced by the VA per diem amount. (Medicaid is considered the payer of last resort.) The Tennessee State Veterans' Homes Board has not promptly reduced the veteran's Medicaid assistance payment and refunded the current overpayments to Medicaid, and has not repaid $282,062.42 due to the Medicaid program for overpayments occurring before 1994.

Tennessee Code Annotated directs the Department of Health to establish rules and regulations governing Medicaid assistance. The Department of Health has developed rules that incorporate the Medicare rules. Section 4055.80 of the Medicare and Medicaid Guide, states

> Per diem amounts paid by the VA to state veterans' homes on behalf of those patients who are otherwise eligible for care in a VA facility may be credited towards any deductible, coinsurance, or noncovered amounts required to be paid by the patient. However, if a state veterans' home collects amounts from the VA in excess of the applicable deductible and coinsurance, the Medicare payment should be reduced to the extent of the excess.

After an audit finding reported by the Comptroller's Office in the June 30, 1992, audit report, the Department of Health established a mechanism for the board to refund the excess Medicaid assistance payments received by filing a "void adjustment" after both the VA per diem and Medicaid assistance payments are collected. Although the mechanism is cumbersome, (a separate void adjustment must be filed on every veteran for every month that Medicaid assistance payments are received), it appears to accomplish the objective of returning the excess funds to the Medicaid program.

The Murfreesboro facility began processing void adjustments to return overpayments to the Medicaid program in 1993. However, the void adjustment process is not completed promptly. Currently, it may take many months before the transaction is completed. According to Section 1200-13-1-.04, subsection (3), Rules of the Tennessee Department of Health, "Providers receiving third party payments following Medicaid payment shall notify and refund Medicaid within 60 days of receipt of the third party payment. The refund to Medicaid shall be the lessor of the third party or Medicaid payment."

When the Humboldt facility opened in February 1996, it was tentatively instructed by the Department of Health not to implement the void adjustment process at that time. Subsequently, the facility received a letter from the commissioner of the Department of Health dated October 14, 1997, stating

> . . . the procedures currently in place at the Murfreesboro facility should now be used by the Humboldt facility each month in order to minimize an outstanding liability in the future. All documentation for residents at the Humboldt facility since its opening should now be sent to the TennCare Bureau along with the corresponding payments.

The facility did not comply with this instruction until February 1998. At that time, the Executive Director instructed the facility to begin a monthly repayment process by submitting the current month's void adjustments and two to three of the oldest months' void adjustments. This procedure was to continue until the entire amount was repaid. The facility prepared the specified void adjustments in February but subsequently failed to systematically follow up with additional void adjustments. When the VA per diem and the Medicaid assistance payments have both been received and the void adjustments have not been processed, the veteran's receivable account has been overcollected and therefore has a negative or "credit" balance.

Before the implementation of the void adjustment process, the Department of Health did not have an established mechanism for the board to return excess Medicaid funds. On December 25, 1992, and April 16, 1993, $178,856.42, and $23,109.57, respectively, were withheld from Medicaid payments to the board. These amounts were deductions from the total amount due to the board, and were not attributed to specific residents. Evidently, these amounts were withheld based on communication between the Department of Health and the board's executive director at that time. The amount due to the Medicaid program attributable to the dates of service between the opening of the Murfreesboro facility in 1991 and the inception of the void adjustment process in 1993, net of the two repayments mentioned above, is $282,062.42. This amount is recorded on the board's financial statements as a payable to the Department of Health, and the auditors have indicated to management in the past several audits that repayment to the department should be addressed.

Although the board has implicitly recognized its liability to the Medicaid program through its actions beginning with the two repayments mentioned above, the board has questioned whether these monies are actually due back to the Medicaid program. A meeting was held with Department of Health staff, Veteran's Affairs staff, Comptroller's staff, and representatives from the Tennessee State Veterans' Homes board. Concerns were heard from the board members, and the Department of Health staff agreed to research the possibility of regulations that might eliminate the balance due to the Medicaid program.

After researching the issues raised by the board, the commissioner of the Department of Health responded to the board on October 14, 1997. The commissioner cited Section 4055.80 of the Medicare and Medicaid Guide as quoted above and requested "payment of the $282,062.42, which has been determined due and payable to the TennCare [Medicaid] program." This repayment has not yet been made.

Certain Medicaid rate adjustments have not been properly reduced

Although most Medicaid eligible veterans have a minimal patient liability amount, some have a more substantial patient liability amount. When the VA per diem amount is combined with a more substantial patient liability amount, the total may exceed the Medicaid rate. If the Medicaid rate is exceeded, the Medicaid program is appropriately not billed. Furthermore, when the Medicaid rate is exceeded, the resident's accounts receivable balance becomes negative, effectively reflecting an overpayment in the resident's account, when there is no overpayment due to the resident.

In the example cited previously, if the Medicaid eligible veteran has a patient liability amount of $48 instead of $10, the activity in his receivable account is as follows:

Activity in Receivable Account	Total	Cumulative Total
Standard rate	$92	$92
less the adjustment to reduce the standard rate to the Medicaid rate of $80	12	80
less the patient liability payment	48	32
less the VA per diem payment	40	(8)
(the Medicaid program is not billed for an assistance payment)	0	0
is equal to a credit balance (or overcollection) in the receivable account	($8)	($8)

The VA per diem amount is a fixed amount for all veterans. The patient liability amount is established in the Medicaid eligibility process, and represents an amount that the patient can reasonably be expected to pay. Therefore, the only amount that can be reduced to prevent the "overpayment" is the adjustment that reduces the standard rate to the Medicaid rate. The adjustment should equal the difference between the standard rate, the patient liability amount, and the VA per diem amount, leaving the resident's account with a zero balance. In the example above the adjustment should be reduced to $4 instead of $12. Because this calculation could be different for each veteran resident with a more substantial patient liability amount, the management company's accounts receivable system cannot automatically perform the calculation and make the reduction to the adjustment amount. The management company has not made the necessary manual adjustments to correct these overpayments.

Uncollectible accounts have not been written-off

The management company has not sufficiently analyzed and adjusted the board's accounts receivable subsidiary records for uncollectible accounts. Accounts with old outstanding balances that appear to be uncollectible have not been submitted to the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury for write-off approval. Furthermore, not all of the uncollectible accounts previously approved for write-off were deleted from the board's general ledger after the approval was obtained.

Conclusion

The failure to promptly refund Medicaid overpayments recorded as payments on behalf of the residents and the failure to properly reduce certain Medicaid rate adjustments to the residents' accounts results in an inappropriate negative, or "credit" balance in the resident's subsidiary account. As the credit balances grow in number and amount, and old, outstanding receivable balances are not evaluated and written-off if uncollectible, the total accounts receivable balance becomes more distorted and financial decision making or monitoring may be affected. Although the amount is not material in relation to the financial statements and adjustment to the financial statements is not necessary, credit balances are included in total accounts receivable, causing the receivable balance on the board's financial statements to appear to be lower than the amount the board actually must attempt to collect.

Because the board has contracted with a management company, ServiceMaster Diversified Health Services, L.P., to manage and supervise the day-to-day operations of the facilities, the resolution of these discrepancies will be the management company's responsibility. Resolution will include dedicating time and attention for review and analysis of the previous activity in the residents' subsidiary accounts. Because of the unique nature of the operations and funding structure within a veterans' facility, a standardized computer accounting system may not be able to accommodate all types of accounts receivable transactions. Additional effort may be necessary to manually process certain accounts receivable transactions.

Recommendation

The management company should carefully evaluate the accounts receivable practices. Any necessary policies and procedures should be developed, documented, and implemented. The policies and procedures should be adequate to ensure that void adjustments are routinely processed to refund overpayments of Medicaid assistance within 60 days of receiving the VA per diem. The policies and procedures should also establish adequate accounting practices to prevent the recording of "overpayments" of accounts receivable from excessive Medicaid rate adjustments for veteran residents with substantial patient liability amounts. The management company should carefully supervise operations to ensure compliance with the policies and procedures.

The Tennessee State Veterans' Homes Board should immediately direct the management company to refund the $282,062.42 due to the Medicaid program for overpayments occurring before the void adjustment process began. In addition, the management company should ensure that outstanding void adjustments for overpayments are processed immediately to refund any VA per diem payments that were received more than 60 days ago.

The management company should analyze the previous activity in all subsidiary accounts and make appropriate adjustments. Accounts that are deemed uncollectible should be submitted to the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury for approval for write-off. All uncollectible accounts approved for write-off should be deleted from the board's general ledger. If additional manual processing of certain transactions is required, the management company should ensure that sufficient staff is available and adequately trained to perform these functions.

The Tennessee State Veterans' Homes Board should take appropriate measures to monitor the actions of the management company, determine whether sufficient attention has been directed toward resolving these discrepancies, and take appropriate action if these conditions do not improve.

Management's Comment

A. Processing void adjustments related to the VA per diem

The Board does not concur that the subsidy amounts should be refunded to the Medicaid program. The Board has requested, in writing, that the Governor review this issue. At this time, a response has not been received from the Governor's office.

B. Certain Medicaid rate adjustments have not been properly reduced

We concur that there are some accounts that fall into this category. This situation, however, occurs very infrequently. When the VA per diem plus the patient liability exceeds the Medicaid per diem, manual Accounts Receivable adjustments are required. The Management Company is preparing a complete analysis of the Accounts Receivables subsidiary ledger to determine how many accounts need this type adjustment. Necessary adjustments will be completed by June 30, 1999.

C. Uncollectible accounts have not been written-off

We concur that there are uncollectible accounts on the aging that have not been submitted for bad debt write-off. A complete analysis of the Accounts Receivable aging will be completed by June 30, 1999. Accounts deemed uncollectible will be identified and submitted for write-off approval. Once approval is granted these accounts will be deleted from the general ledger.

A plan of action for timely Accounts Receivable review will be developed by June 30, 1999. This plan will include an analysis of existing facility staff and a plan for ongoing Business Office training as required.

We request that the procedure for obtaining approval to write off accounts be documented in writing, so that the Board and the Management Company have clear understanding of the process.

Auditor's Comment

Although the board does not concur that the Medicaid overpayments resulting from the VA per diem payments should be refunded to the Medicaid program, the board has implicitly recognized this liability since December 25, 1992, when the first funds were withheld from a Medicaid payment to the board. The board has continued to recognize this liability by routinely processing void adjustments.

It appears that the only amount truly in contention is the $282,062.42 due to the Medicaid program for the overpayments occurring before the void adjustments process began. At the board's request, the commissioner of the Department of Health researched the issues raised by the board and responded to the board on October 14, 1997, that the $282,062.42 was "due and payable to the TennCare [Medicaid] program." If the Governor chooses to release the board from this obligation, the state will still be responsible for refunding the federal percentage to the U.S. Department of Health and Human Services.

2. Accountability for equipment needs improvement

Finding

The board needs to strengthen its accountability for equipment. The following deficiencies were noted during the audit:

- Three of 16 items tested at the Murfreesboro facility (18.75%) could not be located.
- Three of 15 items tested at the Humboldt facility (20%) and four of 16 items tested at the Murfreesboro facility (25%) did not have property tags. Also, one of the 15 Humboldt items tested (6.67%) had a property tag number that did not match the number on the equipment listing.

The board's policy is to capitalize assets with a useful life of at least two years and a value of at least $500, and that these depreciable assets are to be assigned an identification number.

Unreported changes in the equipment's location and failure to tag equipment could result in theft or loss.

Recommendation

Because the board has contracted with a management company, ServiceMaster Diversified Health Services, L.P., to manage and supervise the day-to-day operations of the facilities, the resolution of these discrepancies will be the management company's responsibility. The management company should ensure that the property and equipment log is expanded to include the equipment's location and a policy established for employees to report all location changes. The management company should also insure that the annual inventory includes inspection of tag numbers and verification that the tag number agrees with the equipment listing.

Management's Comment

We concur. A policy has been established and approved by the Board for performing an annual inventory. This was reviewed with a representative of State Audit.

3. **<u>Payments were not made in a timely manner</u>**

Finding

As noted in the prior audit, invoices to the Tennessee State Veterans' Homes Board were not paid in a timely manner. Review of the Humboldt facility's "Accounts Payable Open Item Report" at June 30, 1997, revealed that 41 of the 78 open accounts included amounts that remained unpaid 45 days after the invoice date. Review of the same report for the Murfreesboro facility revealed that 3 of the 87 open accounts included amounts that remained unpaid 45 days after the invoice date. Also, it was noted that payables throughout the fiscal year were paid late. Fifty-nine of 125 Humboldt payments tested had been open from 47 to 297 days, and forty-seven of 191 Murfreesboro payments tested had been open from 46 to 560 days. Interest expense of $5,936.44 was incurred due to late payments of the Tennessee Bed Tax.

During the audit period, the board stopped paying the Humboldt facility's management fees timely. Furthermore, Medicaid overpayments were not refunded promptly as discussed in Finding 1.

Section B (2) of the contract between the board and the management company, ServiceMaster Diversified Health Services, L.P., indicates that the management company is responsible for "Supervising the finances of the Homes to assure that all debts, liabilities, and other obligations of the facilities are paid within forty-five (45) days of the receipt subject to availability of funds." If invoices are not paid timely, the board could lose purchase discounts, relations with vendors and contractors could deteriorate, and late fees could be assessed. If Medicaid overpayments are not refunded promptly, the Medicaid liability could increase to a level where repayment is difficult.

Recommendation

Based on the board's contract with the management company, it is the management company's responsibility to ensure that invoices are paid within 45 days of receipt. Also, the management company should ensure that outstanding void adjustments for Medicaid overpayments are processed immediately to promptly refund any VA per diem payments that were received more than 60 days ago as discussed in Finding 1.

Management's Comment

We concur that Section B (2) of our contact requires payments to be made within forty-five days of receipt subject to the availability of funds. Payments occurring outside the 45-day time frame result primarily from the following factors:

- The timing of cash receipts may require that trade payables, including bed tax, be deferred to allow payment of payroll and the related taxes. These situations have proven rare, and temporary, but are a part of the nursing home business.

- Invoice payment terms may grant deferred arrangements beyond the 45-day requirement.

- Follow-up procedures to determine that an invoice presented for payment is valid may delay payment of an invoice.

Thus, the Management Company is aware of its obligation to pay vendors on a timely basis. We will continue to manage the Homes' finances by dealing with the factors above, and others, in providing timely payment to vendors.

Independent Auditor's Report

June 5, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the board. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 1997, and June 30, 1996, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 8 to the financial statements, the board implemented GASB statement 27, "Accounting for Pensions by State and Local Government Employers," in conformity with generally accepted accounting principles.

The Schedule of Pension Funding Progress for the board is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 1998, on our consideration of the board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms

Exhibit A

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996
ASSETS		
Current assets:		
Cash (Note 2)	$ 469,750.38	$ 319,034.25
Investment (Note 2)	25,000.00	25,000.00
Resident accounts receivable:		
Private	914,761.11	715,851.04
U.S. Department of Veterans Affairs	454,546.12	389,008.92
Primary Government (Note 3)	108,964.70	123,172.34
Allowance for doubtful accounts	(118,908.78)	(227,949.25)
Medicare cost settlement receivable	511,697.36	339,692.88
Medicaid cost settlement receivable	36,487.00	29,733.76
Due from U.S. Department of Veteran's Affairs	-	411,432.52
Inventories	44,812.94	48,384.06
Prepaid items	7,934.99	8,970.24
Total current assets	2,455,045.82	2,182,330.76
Restricted assets (Note 4):		
Cash (Note 2)	1,227,422.23	1,066,851.13
Total restricted assets	1,227,422.23	1,066,851.13
Other assets:		
Deposit with management company	10,000.00	10,000.00
Unamortized bond issuance costs	136,699.19	143,016.11
Unamortized preopening expenses	119,886.94	153,032.94
Total other assets	266,586.13	306,049.05
Fixed assets:		
Land	194,244.00	194,244.00
Buildings and improvements	10,783,877.55	10,783,877.55
Accumulated depreciation - buildings and improvements	(882,845.80)	(600,783.59)
Furniture and equipment	1,403,540.59	1,353,308.69
Accumulated depreciation - furniture and equipment	(461,537.09)	(337,725.70)
Total fixed assets	11,037,279.25	11,392,920.95
Total assets	$ 14,986,333.43	$ 14,948,151.89

Exhibit A (Cont.)

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable and accruals	$ 1,228,542.17	$ 704,850.10
Due to primary government (Note 3)	327,886.62	728,379.79
Due to U.S. Department of Veteran's Affairs	5,072.48	-
Amounts advanced by management company	2,491.72	73,133.77
Medicaid cost settlement payable	344.00	-
Amounts held in custody for others	85,601.34	88,864.95
Medicaid current financing	76,186.44	-
Advance from primary government (Note 6)	10,000.00	-
Total current liabilities	1,736,124.77	1,595,228.61
Current liabilities payable from restricted assets:		
Bonds payable (Note 5)	120,000.00	115,000.00
Total current liabilities payable from restricted assets	120,000.00	115,000.00
Noncurrent liabilities:		
Bonds payable, net of unamortized discount (Note 5)	5,184,754.40	5,302,224.44
Advance from primary government (Note 6)	190,000.00	200,000.00
Total noncurrent liabilities	5,374,754.40	5,502,224.44
Total liabilities	7,230,879.17	7,212,453.05
Equity:		
Contributed capital (Note 7)	9,158,930.40	9,153,341.40
Retained earnings:		
Reserved for foundation	69,271.79	53,040.18
Unreserved	(1,472,747.93)	(1,470,682.74)
Total retained earnings	(1,403,476.14)	(1,417,642.56)
Total equity	7,755,454.26	7,735,698.84
Total liabilities and equity	$ 14,986,333.43	$ 14,948,151.89

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

Exhibit B

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

	For the Year Ended June 30, 1997	For the Year Ended June 30, 1996
Operating revenue:		
Resident service revenue less contractual adjustments of $1,752,110.04 for 1997 and $1,168,945.04 for 1996	$ 8,333,448.98	$ 5,136,999.64
Total operating revenue	8,333,448.98	5,136,999.64
Operating expenses:		
Administrative and general	1,679,524.33	1,119,648.56
Nursing services	2,693,024.82	1,854,721.93
Central services	264,078.85	194,028.23
Ancillary departments	1,208,170.49	708,914.51
Dietary	652,115.66	444,560.18
Activities	89,830.34	53,833.15
Social services	91,748.03	46,794.29
Housekeeping services	254,764.98	203,507.56
Laundry and linens	125,545.73	100,554.59
Plant operations and maintenance	415,364.60	288,384.50
Depreciation	405,873.60	261,767.81
Amortization of preopening expenses	33,146.00	54,343.47
Bad debt expense	90,000.00	65,683.84
Other operating expenses	2,462.50	2,956.10
Total operating expenses	8,005,649.93	5,399,698.72
Operating income (loss)	327,799.05	(262,699.08)
Nonoperating revenues (expenses):		
Interest revenue	55,833.88	68,230.73
Miscellaneous revenue	29,838.45	15,994.57
Interest expense	(379,423.03)	(255,748.99)
Loss on disposal of fixed assets	-	(6,563.87)
Amortization of bond issuance costs	(6,316.92)	(3,576.50)
Cable television expense	(10,238.61)	(4,054.94)
Equipment expense	(1,500.00)	-
Miscellaneous expense	(1,826.40)	(39.80)
Total nonoperating revenues (expenses)	(313,632.63)	(185,758.80)
Net income (loss)	14,166.42	(448,457.88)
Other changes in equity:		
Contributed capital (Note 7)	5,589.00	2,902,555.52
Net increase in equity	19,755.42	2,454,097.64
Equity, July 1	7,735,698.84	5,281,601.20
Equity, June 30	$ 7,755,454.26	$ 7,735,698.84

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

Exhibit C

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

	For the Year Ended June 30, 1997	For the Year Ended June 30, 1996
Cash flows from operating activities:		
Operating income (loss)	$ 327,799.05	$ (262,699.08)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	439,019.60	316,111.28
Miscellaneous nonoperating revenues	28,338.45	15,994.57
Miscellaneous nonoperating expenses	(13,565.01)	(4,094.74)
Changes in assets and liabilities:		
(Increase) decrease in resident accounts receivable - private	(198,910.07)	114,710.53
(Increase) in resident accounts receivable - U.S. Department of Veterans Affairs	(65,537.20)	(159,422.25)
Decrease in resident accounts receivable - primary government	14,207.64	102,259.66
(Decrease) in allowance for doubtful accounts	(109,040.47)	(259,806.50)
(Increase) in Medicare cost settlement receivable	(172,004.48)	(339,692.88)
(Increase) in Medicaid cost settlement receivable	(6,753.24)	(26,900.00)
Decrease in due from U.S. Department of Veteran's Affairs	411,432.52	949,111.48
(Increase) decrease in inventories	3,571.12	(33,912.92)
(Increase) decrease in prepaid items	1,035.25	(2,042.34)
Increase in accounts payable and accruals	526,523.32	189,466.82
(Decrease) in due to primary government	(400,493.17)	(70,672.22)
Increase in due to U.S. Department of Veteran's Affairs	5,072.48	-
Increase (decrease) in amounts advanced by management company	(70,642.05)	73,133.77
(Decrease) in Medicare cost settlement payable	-	(35,630.72)
Increase in Medicaid cost settlement payable	344.00	-
Increase (decrease) in amounts held in custody for others	(3,263.61)	23,065.81
Increase (decrease) in Medicaid current financing	76,186.44	(35,272.26)
Total adjustments	465,521.52	816,407.09
Net cash provided by operating activities	793,320.57	553,708.01
Cash flows from noncapital financing activities:		
Interest paid	(6,280.29)	-
Net cash used by noncapital financing activities	(6,280.29)	-
Cash flows from capital and capital-related financing activities:		
Contributed capital	5,589.00	2,902,555.52
Purchase of fixed assets	(48,728.90)	(3,262,880.56)
Principal paid on bonds	(115,000.00)	(60,000.00)
Interest paid on bonds	(373,447.03)	(377,467.50)
Preopening expenses paid	-	(167,282.94)
Net cash used by capital and capital-related financing activities	(531,586.93)	(965,075.48)

Exhibit C (Cont.)

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

	For the Year Ended June 30, 1997	For the Year Ended June 30, 1996
Cash flows from investing activities:		
Interest received	55,833.88	68,230.73
Net cash provided by investing activities	55,833.88	68,230.73
Net increase (decrease) in cash	311,287.23	(343,136.74)
Cash, July 1	1,385,885.38	1,729,022.12
Cash, June 30	$ 1,697,172.61	$ 1,385,885.38
Noncash investing, capital, and financing activities:		
Loss on disposal of fixed assets	$ -	$ (6,563.87)
Donated equipment	1,500.00	-
Total noncash investing, capital, and financing activities	$ 1,500.00	$ (6,563.87)

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

Tennessee State Veterans' Homes Board
Notes to the Financial Statements
June 30, 1997, and June 30, 1996

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. At June 30, 1997, two facilities, located in Murfreesboro and Humboldt, were operating. Construction of the facility in Humboldt was completed and the facility opened February 7, 1996. The ten-member board has appointed an executive director and contracted with a management company to carry out its operations.

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee (the primary government). Although it is a separate legal entity, the board is appointed by the Governor, and its budget is approved by the state. In addition, the issuance of bonds must be approved by the State Funding Board. The board is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

The Tennessee Veterans Home Foundation, Inc., was established by the Tennessee State Veterans' Homes Board to receive donations for the benefit of the facilities' residents. Because the board was developed solely to benefit the residents of Tennessee State Veterans' Homes, the foundation is included in the board's financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee State Veterans' Homes Board follows applicable GASB pronouncements, as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain amounts presented for the preceding year have been reclassified for comparative purposes.

C. Measurement Focus and Basis of Accounting

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

D. Investment

The investment is a certificate of deposit which is stated at cost.

E. Inventories

Inventories of medical, dietary, and housekeeping supplies are determined by physical count and are valued at cost using the first-in/first-out method.

F. Restricted Assets

Certain assets of the Tennessee State Veterans' Homes Board are classified as restricted assets because their use is restricted by applicable bond covenants.

G. Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of unamortized bond discount.

H. Fixed Assets and Depreciation

Fixed assets are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. Donated fixed assets are stated at fair value at the date of donation. The board's policy is to capitalize interest expense incurred during the construction of assets.

NOTE 2. DEPOSITS

The board's bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1997, the carrying amount of the board's deposits was $652,580.61, and the bank balance was $584,819.00. At June 30, 1996, the carrying amount of the board's deposits was $430,988.86, and the bank balance was $438,371.01.

At June 30, 1997, and June 30, 1996, the carrying amount and the bank balance of the Tennessee Veterans Home Foundation, Inc.'s deposits were $69,271.79 and $53,040.18, respectively. These amounts include a $25,000.00 long-term certificate of deposit. The entire bank balance was insured.

At June 30, 1997, and June 30, 1996, the board had deposits in the State of Tennessee Local Government Investment Pool administered by the State Treasurer of $998,270.21 and $924,806.34, respectively.

At June 30, 1997, and June 30, 1996, petty cash on hand was $2,050.00.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1997

Due From:	
Department of Health–Medicaid	$108,964.70
Total due from primary government	$108,964.70
Due To:	
Department of Health–Medicaid	$282,062.42
Department of Health–bed tax	26,000.00
Department of the Treasury–retirement contributions	14,714.48
Department of Employment Security–unemployment taxes	5,094.36
Department of Finance and Administration–Capital Projects	15.36
Total due to primary government	$ 327,886.62

	June 30, 1996
Due From:	
Department of Health–Medicaid	$ 123,172.34
Total due from primary government	$ 123,172.34
Due To:	
Department of Health–Medicaid	$ 282,062.42
Department of Health–bed tax	26,000.00
Department of the Treasury–retirement contributions	22,269.56
Department of Employment Security–unemployment taxes	4,946.17
Department of Finance and Administration–Capital Projects	393,101.64
Total due to primary government	$ 728,379.79

NOTE 4. RESTRICTED ASSETS

The balances of the board's restricted asset accounts are as follows:

	June 30, 1997	June 30, 1996
Cash in depository account	$229,152.02	$ 142,044.79
Revenue bond revenue account	193,599.06	241,899.99
Revenue bond debt service account	181,442.53	109,677.73
Revenue bond debt service reserve account	513,228.62	513,228.62
Revenue bond repair and replacement account	110,000.00	60,000.00
	$1,227,422.23	$1,066,851.13

NOTE 5. BONDS PAYABLE

Bonds payable consisted of the following:

	June 30, 1997	June 30, 1996
Revenue bonds, Series 1989, 6.3% to 7.5%, due from 1997 to final maturity in 2014 (net of unamortized discount of $34,162.89 for 1997 and $36,222.93 for 1996)	$2,140,837.11	$2,203,777.03
Revenue bonds, Series 1994, 4.75% to 6.75% due from 1997 to final maturity in 2021 (net of unamortized discount of $11,082.81 for 1997 and $11,552.63 for 1996)	3,163,917.29	3,213,447.37
Total bonds payable	$5,304,754.40	$5,417,224.40

Debt-service requirements to maturity of the bonds payable at June 30, 1997, are as follows:

For the Year(s) Ended June 30	Principal	Interest	Total
1998	$ 120,000.00	$ 366,652.50	$ 486,652.50
1999	150,000.00	359,322.50	509,322.50
2000	155,000.00	350,172.50	505,172.50
2001	160,000.00	340,442.50	500,442.50
2002	165,000.00	330,122.50	495,122.50
2003-2021	4,600,000.00	3,221,395.00	7,821,395.00
	$5,350,000.00	$4,968,107.50	$10,318,107.50

NOTE 6. ADVANCE FROM PRIMARY GOVERNMENT

The board received a $200,000 advance from the primary government to be repaid from excess revenues from the operations of the Murfreesboro facility. No interest is accrued. As of June 30, 1997, and June 30, 1996, excess revenues from operations at the Murfreesboro facility were $179,761.73, and $74,491.19, respectively. The board has developed a plan to repay the primary government $10,000.00 per year beginning June 1998.

NOTE 7. CONTRIBUTED CAPITAL

Contributed capital represents equity acquired through capital grants and capital contributions. The U.S. Department of Veteran's Affairs has provided grant assistance for constructing and equipping the Humboldt and Murfreesboro facilities.

During the year ended June 30, 1997, the grant contribution from the U.S. Department of Veteran's Affairs for the Humboldt facility was $5,589.00. Prior to July 1, 1996, the grant contribution from the U.S. Department of Veteran's Affairs was $4,862,508.32 In addition, the board received $870,162.70 in appropriations from the State of Tennessee, and the City of Humboldt donated land valued at $160,544.00. Total contributed capital for the Humboldt facility is $5,898,804.02.

All capital contributed for the Murfreesboro facility was received prior to July 1, 1994. The total grant contribution from the U.S. Department of Veteran's Affairs was $3,226,426.38. In addition, the U.S. Department of Veterans Affair's donated land valued at $33,700.00 for the Murfreesboro facility. Total contributed capital for the Murfreesboro facility is $3,260,126.38.

NOTE 8. DEFINED BENEFIT PENSION PLAN

During the June 30, 1997, fiscal year, the board implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for the plan.

A. Plan Description

After successful completion of a six-month probationary period, all employees of the Tennessee State Veterans' Homes Board are enrolled in the Tennessee Consolidated Retirement System (TCRS), an agent multiple-employer plan. The TCRS acts as a common investment and administrative agent for political subdivisions in the state. The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits as well as annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated.* State statute are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the Political Subdivision Pension Plan**.** That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling 615-741-8202, ext. 139.

B. Funding Policy

As authorized by the board of directors, the board pays the total pension contribution for its employees. The board is required to contribute an actuarially determined rate; the current rate is 8.27% of annual covered payroll. The board contributed $153,008.03 (8.29% of current covered payroll) for the fiscal year ended June 30, 1997. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the board are established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

The board's annual pension cost of $153,008.03 for fiscal year 1997 exceeded the board's required contribution.

The required contribution was determined as part of the June 30, 1995, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 7% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's initial benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Amortized book value is used for fixed-income securities. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 1995, was 18 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1997	$ 153,008.03	100 %	-

Information is shown only for the year available. Additional years will be shown as they become available.

NOTE 9. RISK MANAGEMENT

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

A. The board carries surety bond coverage for risks of employee dishonesty. Settled claims resulting from this risk have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. The building and contents are insured by the State of Tennessee. The board has a $5,000 deductible per occurrence, with policy limits of $9,961,500 for the buildings and $1,242,400 for the contents.

   The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the State of Tennessee general fund to provide for any property losses other than the commercial insurance coverage.

C. The board participates in the State of Tennessee's Claims Award Fund. The Claims Award Fund is an internal service fund in which the state has set aside assets for claim settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.

D. 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. To this fund, premiums of participating units are deposited 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 either Blue Cross and Blue Shield of Tennessee or Prudential Insurance. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Monthly insurance premiums are $190.63 for single coverage and $475.97 for family coverage under Blue Cross and $163.40 for single coverage and $407.97 for family coverage under Prudential. The board's obligation under the plan is limited to $142.98 for Blue Cross coverage and $122.55 for Prudential coverage. The employees are responsible for the remainder of the premium. 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.

Schedule 1

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/97	$644,965	$644,965	-	100%	$1,844,991.66	-

Information is shown only for the year available. Additional years will be shown as they become available.

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, which established subsequent contribution rates. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's initial benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period.

Exhibit D

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997				June 30, 1996			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
ASSETS								
Current assets:								
Cash	$ 306,743.10	$ 118,735.49	$ 44,271.79	$ 469,750.38	$ 207,737.19	$ 83,256.88	$ 28,040.18	$ 319,034.25
Investment	-	-	25,000.00	25,000.00	-	-	25,000.00	25,000.00
Resident accounts receivable:								
Private	455,078.76	459,682.35	-	914,761.11	624,533.23	91,317.81	-	715,851.04
U.S. Department of Veterans Affairs	269,278.24	185,267.88	-	454,546.12	238,130.40	150,878.52	-	389,008.92
Primary Government	1,709.73	107,254.97	-	108,964.70	70,570.55	52,601.79	-	123,172.34
Allowance for doubtful accounts	(109,108.78)	(9,800.00)	-	(118,908.78)	(224,149.25)	(3,800.00)	-	(227,949.25)
Amounts advanced to management company	17.62	-	-	17.62	-	-	-	-
Medicare cost settlement receivable	457,701.36	53,996.00	-	511,697.36	276,818.88	62,874.00	-	339,692.88
Medicaid cost settlement receivable	36,487.00	-	-	36,487.00	29,733.76	-	-	29,733.76
Due from U.S. Department of Veteran's Affairs	-	-	-	-	-	411,432.52	-	411,432.52
Due from Humboldt facility	2,624.72	-	-	2,624.72	-	-	-	-
Inventories	23,404.43	21,408.51	-	44,812.94	29,413.00	18,971.06	-	48,384.06
Prepaid items	4,384.99	3,550.00	-	7,934.99	7,401.16	1,569.08	-	8,970.24
Total current assets	1,448,321.17	940,095.20	69,271.79	2,457,688.16	1,260,188.92	869,101.66	53,040.18	2,182,330.76
Restricted assets:								
Cash	681,486.51	545,935.72	-	1,227,422.23	528,859.37	537,991.76	-	1,066,851.13
Total restricted assets	681,486.51	545,935.72	-	1,227,422.23	528,859.37	537,991.76	-	1,066,851.13
Other assets:								
Deposit with management company	10,000.00	-	-	10,000.00	10,000.00	-	-	10,000.00
Unamortized bond issuance costs	29,085.08	107,614.11	-	136,699.19	30,838.88	112,177.23	-	143,016.11
Unamortized preopening expenses	-	119,886.94	-	119,886.94	-	153,032.94	-	153,032.94
Total other assets	39,085.08	227,501.05	-	266,586.13	40,838.88	265,210.17	-	306,049.05
Fixed assets:								
Land	33,700.00	160,544.00	-	194,244.00	33,700.00	160,544.00	-	194,244.00
Buildings and improvements	3,938,618.55	6,845,259.00	-	10,783,877.55	3,938,618.55	6,845,259.00	-	10,783,877.55
Accumulated depreciation - buildings and improvements	(633,384.24)	(249,461.56)	-	(882,845.80)	(527,412.57)	(73,371.02)	-	(600,783.59)
Furniture and equipment	681,224.29	722,316.30	-	1,403,540.59	632,495.39	720,813.30	-	1,353,308.69
Accumulated depreciation - furniture and equipment	(369,734.75)	(91,802.34)	-	(461,537.09)	(310,725.61)	(27,000.09)	-	(337,725.70)
Total fixed assets	3,650,423.85	7,386,855.40	-	11,037,279.25	3,766,675.76	7,626,245.19	-	11,392,920.95
Total assets	$ 5,819,316.61	$ 9,100,387.37	$ 69,271.79	$ 14,988,975.77	$ 5,596,562.93	$ 9,298,548.78	$ 53,040.18	$ 14,948,151.89

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997				June 30, 1996			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
LIABILITIES AND EQUITY								
Liabilities:								
Current liabilities:								
Accounts payable and accruals	$ 543,061.77	$ 685,480.40	$ -	$ 1,228,542.17	$ 433,938.40	$ 270,911.70	$ -	$ 704,850.10
Due to primary government	319,516.63	8,369.99	-	327,886.62	319,842.98	408,536.81	-	728,379.79
Due to U.S. Department of Veteran's Affairs	-	5,072.48	-	5,072.48	-	-	-	-
Amounts advanced by management company	-	2,509.34	-	2,509.34	37,201.78	35,931.99	-	73,133.77
Medicaid cost settlement payable	-	344.00	-	344.00	-	-	-	-
Amounts held in custody for others	65,737.54	19,863.80	-	85,601.34	77,633.00	11,231.95	-	88,864.95
Medicaid current financing	46,232.13	29,954.31	-	76,186.44	-	-	-	-
Due to Murfreesboro facility	-	2,624.72	-	2,624.72	-	-	-	-
Advance from primary government	10,000.00	-	-	10,000.00	-	-	-	-
Total current liabilities	984,548.07	754,219.04	-	1,738,767.11	868,616.16	726,612.45	-	1,595,228.61
Current liabilities payable from restricted assets:								
Bonds payable	70,000.00	50,000.00	-	120,000.00	65,000.00	50,000.00	-	115,000.00
Total current liabilites payable from restricted assets	70,000.00	50,000.00	-	120,000.00	65,000.00	50,000.00	-	115,000.00
Noncurrent liabilities:								
Bonds payable, net of unamortized discount	2,070,837.11	3,113,917.29	-	5,184,754.40	2,138,777.07	3,163,447.37	-	5,302,224.44
Advance from primary government	190,000.00	-	-	190,000.00	200,000.00	-	-	200,000.00
Total noncurrent liabilities	2,260,837.11	3,113,917.29	-	5,374,754.40	2,338,777.07	3,163,447.37	-	5,502,224.44
Total liabilities	3,315,385.18	3,918,136.33	-	7,233,521.51	3,272,393.23	3,940,059.82	-	7,212,453.05
Equity:								
Contributed capital	3,260,126.38	5,898,804.02	-	9,158,930.40	3,260,126.38	5,893,215.02	-	9,153,341.40
Retained earnings:								
Reserved for foundation	-	-	69,271.79	69,271.79	-	-	53,040.18	53,040.18
Unreserved	(756,194.95)	(716,552.98)	-	(1,472,747.93)	(935,956.68)	(534,726.06)	-	(1,470,682.74)
Total retained earnings	(756,194.95)	(716,552.98)	69,271.79	(1,403,476.14)	(935,956.68)	(534,726.06)	53,040.18	(1,417,642.56)
Total equity	2,503,931.43	5,182,251.04	69,271.79	7,755,454.26	2,324,169.70	5,358,488.96	53,040.18	7,735,698.84
Total liabilities and equity	$ 5,819,316.61	$ 9,100,387.37	$ 69,271.79	$ 14,988,975.77	$ 5,596,562.93	$ 9,298,548.78	$ 53,040.18	$ 14,948,151.89

Exhibit E

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

	For the Year Ended June 30, 1997				For the Year Ended June 30, 1996			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Operating revenue:								
Resident service revenue less contractual adjustments of $1,752,110.04 for 1997 and $1,168,945.04 for 1996	$ 4,946,966.48	$ 3,386,482.50	$ -	$ 8,333,448.98	$ 4,567,634.98	$ 569,364.66	$ -	$ 5,136,999.64
Total operating revenue	4,946,966.48	3,386,482.50	-	8,333,448.98	4,567,634.98	569,364.66	-	5,136,999.64
Operating expenses:								
Administrative and general	915,704.86	763,819.47	-	1,679,524.33	841,449.55	278,199.01	-	1,119,648.56
Nursing services	1,573,262.02	1,119,762.80	-	2,693,024.82	1,530,817.57	323,904.36	-	1,854,721.93
Central services	152,561.50	111,517.35	-	264,078.85	150,424.08	43,604.15	-	194,028.23
Ancillary departments	771,249.09	436,921.40	-	1,208,170.49	660,653.36	48,261.15	-	708,914.51
Dietary	392,632.78	259,482.88	-	652,115.66	371,580.43	72,979.75	-	444,560.18
Activities	52,926.54	36,903.80	-	89,830.34	41,710.84	12,122.31	-	53,833.15
Social services	44,138.76	47,609.27	-	91,748.03	28,626.86	18,167.43	-	46,794.29
Housekeeping services	154,175.99	100,588.99	-	254,764.98	159,904.31	43,603.25	-	203,507.56
Laundry and linens	76,495.09	49,050.64	-	125,545.73	79,775.34	20,779.25	-	100,554.59
Plant operations and maintenance	245,454.08	169,910.52	-	415,364.60	221,305.92	67,078.58	-	288,384.50
Depreciation	164,980.81	240,892.79	-	405,873.60	165,286.38	96,481.43	-	261,767.81
Amortization of preopening expenses	-	33,146.00	-	33,146.00	40,093.47	14,250.00	-	54,343.47
Bad debt expense	84,000.00	6,000.00	-	90,000.00	61,883.84	3,800.00	-	65,683.84
Other operating expenses	2,334.50	128.00	-	2,462.50	2,689.10	267.00	-	2,956.10
Total operating expenses	4,629,916.02	3,375,733.91	-	8,005,649.93	4,356,201.05	1,043,497.67	-	5,399,698.72
Operating income (loss)	317,050.46	10,748.59	-	327,799.05	211,433.93	(474,133.01)	-	(262,699.08)
Nonoperating revenues (expenses):								
Interest revenue	30,259.29	23,994.62	1,579.97	55,833.88	40,998.92	25,325.50	1,906.31	68,230.73
Miscellaneous revenue	-	1,621.80	28,216.65	29,838.45	2,029.15	-	13,965.42	15,994.57
Interest expense	(165,794.22)	(213,628.81)	-	(379,423.03)	(171,653.14)	(84,095.85)	-	(255,748.99)
Loss on disposal of fixed assets	-	-	-	-	(6,563.87)	-	-	(6,563.87)
Amortization of bond issuance costs	(1,753.80)	(4,563.12)	-	(6,316.92)	(1,753.80)	(1,822.70)	-	(3,576.50)
Cable television expense	-	-	(10,238.61)	(10,238.61)	-	-	(4,054.94)	(4,054.94)
Equipment expense	-	-	(1,500.00)	(1,500.00)	-	-	-	-
Miscellaneous expense	-	-	(1,826.40)	(1,826.40)	-	-	(39.80)	(39.80)
Total nonoperating revenues (expenses)	(137,288.73)	(192,575.51)	16,231.61	(313,632.63)	(136,942.74)	(60,593.05)	11,776.99	(185,758.80)
Net income (loss)	179,761.73	(181,826.92)	16,231.61	14,166.42	74,491.19	(534,726.06)	11,776.99	(448,457.88)
Other changes in equity:								
Contributed capital	-	5,589.00	-	5,589.00	-	2,902,555.52	-	2,902,555.52
Net increase (decrease) in equity	179,761.73	(176,237.92)	16,231.61	19,755.42	74,491.19	2,367,829.46	11,776.99	2,454,097.64
Equity, July 1	2,324,169.70	5,358,488.96	53,040.18	7,735,698.84	2,249,678.51	2,990,659.50	41,263.19	5,281,601.20
Equity, June 30	$ 2,503,931.43	$ 5,182,251.04	$ 69,271.79	$ 7,755,454.26	$ 2,324,169.70	$ 5,358,488.96	$ 53,040.18	$ 7,735,698.84

Exhibit F

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

	For the Year Ended June 30, 1997				For the Year Ended June 30, 1996			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Cash flows from operating activities:								
Operating income (loss)	$ 317,050.46	$ 10,748.59	$ -	$ 327,799.05	$ 211,433.93	$ (474,133.01)	$ -	$ (262,699.08)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:								
Depreciation and amortization	164,980.81	274,038.79	-	439,019.60	205,379.85	110,731.43	-	316,111.28
Miscellaneous nonoperating revenues	-	121.80	28,216.65	28,338.45	2,029.15	-	13,965.42	15,994.57
Miscellaneous nonoperating expenses	-	-	(13,565.01)	(13,565.01)	-	-	(4,094.74)	(4,094.74)
Changes in assets and liabilities:								
(Increase) decrease in resident accounts receivable - private	169,454.47	(368,364.54)	-	(198,910.07)	206,028.34	(91,317.81)	-	114,710.53
(Increase) in resident accounts receivable - U.S. Department of Veteran's Affairs	(31,147.84)	(34,389.36)	-	(65,537.20)	(8,543.73)	(150,878.52)	-	(159,422.25)
(Increase) decrease in resident accounts receivable - primary government	68,860.82	(54,653.18)	-	14,207.64	154,861.45	(52,601.79)	-	102,259.66
Increase (decrease) in allowance for doubtful accounts	(115,040.47)	6,000.00	-	(109,040.47)	(263,606.50)	3,800.00	-	(259,806.50)
(Increase) in amounts advanced to management company	(17.62)	-	-	(17.62)	-	-	-	-
(Increase) decrease in Medicare cost settlement receivable	(180,882.48)	8,878.00	-	(172,004.48)	(276,818.88)	(62,874.00)	-	(339,692.88)
(Increase) in Medicaid cost settlement receivable	(6,753.24)	-	-	(6,753.24)	(26,900.00)	-	-	(26,900.00)
Decrease in due from U.S. Department of Veterans Affairs	-	411,432.52	-	411,432.52	-	949,111.48	-	949,111.48
(Increase) in due from Humboldt	(2,624.72)	-	-	(2,624.72)	-	-	-	-
(Increase) decrease in inventories	6,008.57	(2,437.45)	-	3,571.12	(14,941.86)	(18,971.06)	-	(33,912.92)
(Increase) decrease in prepaid items	3,016.17	(1,980.92)	-	1,035.25	(473.26)	(1,569.08)	-	(2,042.34)
Increase in accounts payable and accruals	110,965.04	415,558.28	-	526,523.32	5,310.33	184,156.49	-	189,466.82
(Decrease) in due to primary government	(326.35)	(400,166.82)	-	(400,493.17)	(30,783.59)	(39,888.63)	-	(70,672.22)
Increase in due to U.S. Department of Veteran's Affairs	-	5,072.48	-	5,072.48	-	-	-	-
Increase (decrease) in amounts advanced by management company	(37,201.78)	(33,422.65)	-	(70,624.43)	37,201.78	35,931.99	-	73,133.77
(Decrease) in Medicare cost settlement payable	-	-	-	-	(35,630.72)	-	-	(35,630.72)
Increase in Medicaid cost settlement payable	-	344.00	-	344.00	-	-	-	-
Increase (decrease) in amounts held in custody for others	(11,895.46)	8,631.85	-	(3,263.61)	11,833.86	11,231.95	-	23,065.81
Increase (decrease) in Medicaid current financing	46,232.13	29,954.31	-	76,186.44	(35,272.26)	-	-	(35,272.26)
Increase in due to Murfreesboro	-	2,624.72	-	2,624.72	-	-	-	-
Total adjustments	183,628.05	267,241.83	14,651.64	465,521.52	(70,326.04)	876,862.45	9,870.68	816,407.09
Net cash provided by operating activities	500,678.51	277,990.42	14,651.64	793,320.57	141,107.89	402,729.44	9,870.68	553,708.01
Cash flows from noncapital financing activities:								
Interest paid	(340.85)	(5,939.44)	-	(6,280.29)	-	-	-	-
Net cash used by noncapital financing activities:	(340.85)	(5,939.44)	-	(6,280.29)	-	-	-	-