Tennessee State Veterans' Homes Board

For the Year Ended
June 30, 1998

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STATE OF TENNESSEE
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John G. Morgan
Comptroller

May 30, 2000

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, 1998. 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/km
99/085

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, 1998

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 Are 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 7).

Controls Over Fixed Assets Are Not Adequate*
Annual inventories have not been properly performed, equipment records are inadequate to integrate annual inventory results into the general ledger, and a separate and distinct property officer has not been designated (page 14).

Cash-Receipting Controls Need Improvement
Cash receipting duties are not segregated to provide good internal control. Essentially all receipting duties for the Murfreesboro depository account, the Murfreesboro patient trust account, and the Humboldt patient trust account reside with one individual per account. Receipt books used are not always prenumbered (page 17).

*These findings are 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, 1998

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Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1998

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. The board operates two facilities—one in Murfreesboro and one in Humboldt. 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, when fully staffed, 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.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. 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

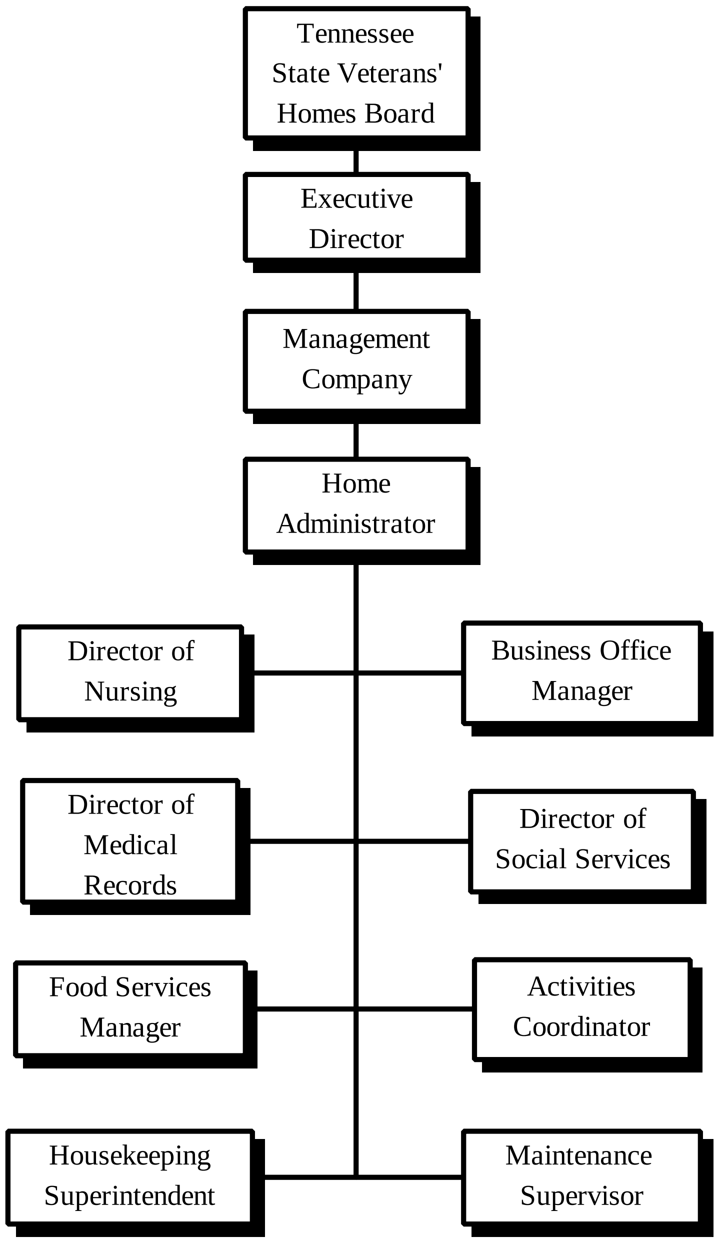
1. to consider the board's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

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.

TENNESSEE STATE VETERANS' HOMES BOARD



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. 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 payments not made in a timely manner.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate accounts receivable practices and equipment accountability. These findings have not been resolved and are 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, 1998, 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. 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.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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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 18, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, 1998, and have issued our report thereon dated June 18, 1999. 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
- Controls over fixed assets are not adequate
- There is not an adequate segregation of duties for cash-receipting

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

Sincerely,

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

AAH/km

FINDINGS AND RECOMMENDATIONS

1. <u>Accounts receivable practices are not adequate</u>

Finding

As noted in the prior audit, the Tennessee State Veterans' Homes Board's accounts receivable balance still 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. The estimate for uncollectible accounts is not based on actual receivables. In addition, the management company has not appropriately written off uncollectible receivable accounts.

The board concurred with the prior finding regarding the reduced rate adjustments for certain Medicaid-eligible veterans and writing off uncollectible accounts. The board's comments indicated that the management company was analyzing all accounts receivable and adjustments would be made or write-off approval requested by June 30, 1999.

The board did not concur with the prior finding regarding Medicaid overpayments. The board indicated that it requested the Governor's review of this issue. As discussed later in this finding, the board has implicitly recognized its liability to the Medicaid program through its actions. In addition, at the board's request, the Commissioner of the Department of Health previously 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.

Background

All residents of a board facility are charged a standard rate for each day that they reside 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 were 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 Veterans Affairs (VA) for each day they reside in a Tennessee Veterans' 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 was $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 (estimated to be $959,522.53 at June 30, 1998), 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 lesser 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. The estimated credit balance at June 30, 1998, was $711,267.11 and $248,255.42 for the Humboldt and Murfreesboro facilities, respectively.

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 we 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, Veterans 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. The total of these overpayments is not material in relation to the financial statements, and an adjustment to the financial statements is not necessary. However, a credit in a resident's account could inappropriately be refunded to a resident or a resident's estate, causing a loss of revenue to the board.

Allowance for doubtful accounts is not based on actual receivables

The management company does not use an analysis of actual accounts receivable when establishing the amount to be included in the allowance for doubtful accounts. The allowance is a set amount per month based on an estimate by the management company at the end of the fiscal year. An analysis of the accounts receivable is, however, performed monthly at the facility but never used by the management company to adjust the financial reports. An audit adjustment was made increasing the management company's allowance by $277,880.58 to better reflect the estimate of bad debts.

Uncollectible accounts have still not been written off

The management company has still 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.

Conclusion

Without promptly refunding Medicaid overpayments recorded as payments on behalf of the residents and without properly reducing certain Medicaid rate adjustments to the residents' accounts, the residents' subsidiary accounts have an inappropriate negative, or "credit," balance incorrectly reflecting that refunds are due to those residents. 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. Decision making may also be affected if the allowance for doubtful accounts is not based on actual year-end accounts receivable balances. Although the amount is not material in relation to the financial statements and an 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. Collections may further be inhibited if timely billings are not performed.

Because the board has contracted with a management company, ServiceMaster Diversified Health Services, L.P., since November 1, 1994, 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 immediately 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. Adjustments should also be made to the allowance account to reflect an estimate of bad debts based on aged accounts receivable listings. 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. 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. Sufficient staff should also be maintained to ensure timely billings.

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. We concur. A considerable amount of time has been spent in training and supervising the facilities' Business Office staff on the proper methods of the handling of overpayments. Although these procedures have been in place at the facilities, a written policy had not been established. A written policy and procedure will be presented to the Business Office Managers and a signed copy will be placed in the facilities' records. In addition, the policy and procedure will be reviewed with the facilities' Business Office Manager, Business Office Coordinator, and Administrator so that all are aware of their responsibility.

b. We do not concur. The Board has requested in writing that the Governor review this issue. We have not received a response.

c. We concur. The accounts receivable at both facilities were reviewed in 1999 on an account-by-account basis. The bad debt reserve was adjusted at this time based on that amount. The documentation and preparation of individual bad debts have been completed at the Murfreesboro facility and given to the Executive Director, Mr. Rod Wolfe, for review by the Board. The bad debts at the Humboldt facility are nearly completed and will be given to Mr. Wolfe. The Business Office Coordinator and two other staff members at D.H.S. assisted the facility in the completion of this task. In addition, the staff at the business offices of both facilities has been increased in order to improve the collection of accounts receivable. A part-time position was established in December 1998 and that position became full-time approximately July 1999. Both facilities have encountered turnover in this position, which left gaps of time without additional help for the Business Office Manager. This has since been resolved.

d. We concur. During the last several monthly Board meetings, it has been the practice of the Tennessee State Veterans' Homes Board to have the Management Company briefed on accounts receivable practices. The Board is satisfied that sufficient attention is being directed towards resolving these issues.

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 programs, as discussed in the finding, 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." The board requested that the Governor reverse the Department of Health's position on February 5, 1999. The Governor has not yet chosen to respond to the board's request. 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. <u>Controls over fixed assets are not adequate</u>

Finding

Controls over fixed assets are weak. Annual inventories have not been properly performed, fixed asset records are inadequate, and a separate and distinct property officer has not been designated. A finding was included in the prior year audit indicating that the board needed to strengthen its accountability for equipment. The board responded:

> 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.

The board is currently working to ensure that annual fixed asset inventories are being performed, which when accomplished will alleviate some of the accountability issues noted. However, policies established should also include requirements regarding recordkeeping, reporting of donated assets, and designation of a property officer to provide accountability.

Annual inventories have not been properly performed

A June 17, 1998, memo from the board's Acting Executive Director to the facilities' administrators stated that a "Physical inventory of all supplies, equipment and furnishings must be compiled as of June 30, 1998." Evidence of the equipment portion of this inventory could not be located at the management company, and only partial inventories were located at the facilities. At the Murfreesboro facility, a physical inventory was only performed in housekeeping, and the results were not used to verify the amounts included in the financial statements. At the Humboldt facility, records of an inventory were reviewed, but it could not be verified which year the inventory took place. According to one employee, an inventory took place in one of the prior two years, but the information was not used to update records or to retag items that did not have tags attached.

Tennessee State Veterans' Homes Board policy entitled "Property, Furniture & Equipment" states,

> An inventory of property, furniture and equipment will be conducted annually. Any differences noted between book records and the physical inspection will be investigated to determine the variance. Any material difference noted will immediately be brought to the administrator's attention.

An annual inventory should have identified several donated assets which had not been reported to the management company, and therefore, were not included in the financial statements. A bus worth $44,592 was donated in 1996; a sidewalk, fence, and canopy worth $17,521 were paid for by the foundation in 1998; and an ice cream machine worth $1,500 was donated in 1997. None of these items were included by the management company on the balance sheet at June 30, 1998. An audit adjustment was made to the financial statements to reflect both the assets and the related depreciation.

An annual inventory may have also identified lost, stolen, or surplused items. Until a complete inventory is performed, it is not possible to determine the number of lost or stolen items. Regarding surplused items, the management company was not aware of any items that had been surplused or disposed of in the past two years; however, according to board personnel, some items had been surplused in that time period.

Fixed assets records are inadequate

Even if the inventories had been completed, the current system would not allow for reconciliation between the physical inventory records which would be produced at the facility and the fixed asset records produced at the management company.

The inventory count sheets viewed only included the description, location, and tag number. Descriptions were fairly vague (i.e., bed, wheelchair, chair), locations indicated where the item happened to be that particular day, and tag numbers were included if the tag was not missing. A listing of items with missing tags was reviewed, and the listing included more than 100 items that, according to facility personnel, had not yet been retagged even though it had been at least 11 months since the completion of the inventory.

The fixed asset records maintained at the management company include a description, asset number, cost, acquisition date, and depreciation. The description is vague, and the asset number is a randomly assigned number that is not the same as the tag number. The only shared attribute between the inventory count sheets and the fixed asset records is the description. Because of the generic nature of the descriptions, reconciling the two listings would include a great deal of guesswork.

Testwork was performed to observe several equipment items listed on the fixed asset records. Because of the problems noted, it was impossible to positively identify any of the items that were sought. Items with similar descriptions were located for the most part, but for 4 of 40 items tested, a similar item could not be located. These items represented equipment costing $4,475.01 of the $119,734.25 tested.

A property officer has not been designated

Accountability would be improved through designation of a property officer. The facility administrators are currently considered to be the property officers, by default. This is not an appropriate segregation of duties, since administrators are also involved in the purchasing process.

As noted previously, the Humboldt physical inventory that was performed did not result in any changes to the records, nor were the tags that were missing replaced. During equipment observation at Murfreesboro, it was also noted that several items had missing tags. Additionally, the storage spaces were viewed and were full of unused equipment which had not been sold or surplused. A property officer would normally be responsible for these duties.

Conclusion

Without conducting an annual inventory, the misstatement of fixed assets, specifically furniture and equipment, because of loss or theft could go unnoticed. Also, known losses and additions or donations may not be reported to the management company, precluding necessary adjustments to the furniture and equipment account. Inadequate recordkeeping does not allow for the appropriate use of the information acquired during the annual physical inventory and could also result in misstatements. Specific equipment items cannot be easily located when needed if recordkeeping is not sufficient. A lack of segregation of duties between the employees responsible for purchasing and the property officer could result in misuse of board assets. Finally, the absence of a designated property officer at each facility allows the equipment problems mentioned above to continue without a clear accountability.

Recommendation

The management company should require the physical inventory on property, furniture, and equipment to be submitted before the preparation of the June 30 financial statements, and it should not close the year end books until the inventory is complete. The results of the physical inventory should be compared to the depreciation schedules to identify items which are not on both lists. When such reconciling items are identified, the management company should require an explanation and the appropriate paperwork from the administrator, and the controller should post the proper journal entries to reconcile the ledger to the physical inventory. Procedures should be established to promptly communicate to the management company any additions, deletions, and relocations that have occurred, including donated items. A new form of recordkeeping should be established which would allow positive identification of each asset included on the inventory records to each asset included in the financial records. The facility records should include the tag number, description, location, serial number (if applicable), and possibly the asset number to tie facility records to the records of the management company. A separate property officer, without purchasing responsibilities, should be designated and held accountable for keeping equipment records current, keeping the items tagged, and ensuring that the annual inventory is performed.

Management's Comment

We concur. It is the intent of the Management Company to properly conduct annual inventories. This inventory will be completed by June 30, 2000. The year ending financial reports will not be prepared until the inventory is complete. To the extent possible, the results of the inventory will be compared to the depreciation schedules in order to identify items missing from one schedule to another. Missing items, whether from the depreciation schedules or the physical inventory list, will become reconciling items. The controller will post the necessary journal entries to reconcile the ledger to the physical inventory. A procedure has been established to require all property, furniture and equipment, whether purchased or donated, to be recorded upon receipt. Once the record has been established for all applicable property, the records will be maintained to reflect the relocation or disposal of any recorded property. The financial records will be revised to the extent possible to allow positive identification of assets, if not individually, then at least by general class or category. A policy and procedure has been established, to include in the Property and Equipment Log the required information for all acquisitions. Tag number, location, description and other available information, will be listed on existing property, furniture and equipment. When possible an asset number will be included to tie to accounting records. A property officer will be designated, without independent purchasing responsibilities. This person will be responsible for keeping records current, maintaining the tag/numbering system, and ensuring that the annual inventory is performed properly and in a timely manner.

3. Cash-receipting controls need improvement

Finding

The Tennessee State Veterans' Homes Board facilities do not have adequate controls over cash receipting procedures. The facilities receive responsible party payments and patient trust fund additions by mail and in person. Medicare and Medicaid payments are also received by mail. Veterans Affairs payments are received by direct deposit into the depository bank accounts.

Duties for responsible party payments are not adequately segregated at Murfreesboro. The receptionist opens the mail, receives money, writes receipts, prepares the deposit, and prepares the cash transmittal. It is from the cash transmittal form that the management company posts the responsible party receipts into the accounting records. No one verifies the sequence of the receipts, and no one compares the receipt books to the deposit or the information that has been posted to the cash transmittal form.

Additional segregation problems exist over patient trust fund account receipts at both the Murfreesboro and Humboldt facilities. The payroll clerks make the deposit, reconcile the bank statement, and post the patient trust information to the resident's account. No one reconciles the receipt book to the actual deposit or to the posting of the resident's account. The receipts issued during the fiscal year were prenumbered. However, since the end of the fiscal year, receipt numbers are merely handwritten by the receptionist.

Good internal control requires duties to be adequately segregated. Segregation of duties is essential in detection and aids in prevention of possible errors and misappropriation of funds. The use of prenumbered receipts helps to ensure accountability for all receipts.

Recommendation

Management should ensure that all cash receipting duties are adequately segregated, the issuance of receipts is properly accounted for, and prenumbered cash receipts are issued.

Management's Comment

We concur. The facilities have segregated cash receipting responsibilities as follows: The Business Office Manager prepares the deposit and the Payroll Clerk then takes the deposit to the bank. The deposit receipts are put into the deposit book and stapled to the cash transmittal and the cash transmittal with deposit receipts is sent to the Management Company.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report

June 18, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, 1998, and June 30, 1997, 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 audit.

We conducted our audit 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 audit provides 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, 1998, and June 30, 1997, 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, during the year ended June 30, 1997, 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 Funding Progress and the Year 2000 Disclosures are not a required part of the basic financial statements but are 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 do not express an opinion on it. In addition, we do not provide assurance that the Tennessee State Veterans' Homes Board is or will become year 2000 compliant, that the board's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the board does business are or will become year 2000 compliant.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary financial statements, on pages 38 through 42, are presented for purposes of additional analysis and are not a required part of the basic 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 18, 1999, 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/km

Exhibit A

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998	June 30, 1997
ASSETS		
Current assets:		
Cash (Note 2)	$ 868,036.70	$ 469,750.38
Investment (Note 2)	25,076.78	25,000.00
Resident accounts receivable:		
Private	1,592,650.45	914,761.11
U.S. Department of Veterans Affairs	397,956.67	454,546.12
Primary Government (Note 3)	-	108,964.70
Allowance for doubtful accounts	(517,264.49)	(118,908.78)
Medicare cost settlement receivable	707,674.56	511,697.36
Medicaid cost settlement receivable	26,209.00	36,487.00
Inventories	58,041.07	44,812.94
Prepaid items	21,070.77	7,934.99
Total current assets	3,179,451.51	2,455,045.82
Restricted assets (Note 4):		
Cash (Note 2)	1,275,397.53	1,227,422.23
Total restricted assets	1,275,397.53	1,227,422.23
Other assets:		
Deposit with management company	10,000.00	10,000.00
Unamortized bond issuance costs	130,382.27	136,699.19
Unamortized preopening expenses	86,430.94	119,886.94
Total other assets	226,813.21	266,586.13
Fixed assets:		
Land	194,244.00	194,244.00
Buildings and improvements	10,801,398.55	10,783,877.55
Accumulated depreciation - buildings and improvements	(1,165,191.74)	(882,845.80)
Furniture and equipment	1,501,608.66	1,403,540.59
Accumulated depreciation - furniture and equipment	(598,350.17)	(461,537.09)
Construction in progress	64,007.16	-
Total fixed assets	10,797,716.46	11,037,279.25
Total assets	$ 15,479,378.71	$ 14,986,333.43

Exhibit A (Cont.)

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998	June 30, 1997
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable and accruals	$ 1,283,243.51	$ 1,228,542.17
Due to primary government (Note 3)	508,618.91	327,886.62
Due to U.S. Department of Veterans Affairs	-	5,072.48
Amounts advanced by management company	97,636.22	2,491.72
Medicaid cost settlement payable	344.00	344.00
Amounts held in custody for others	96,382.95	85,601.34
Medicaid current financing	75,356.80	76,186.44
Advance from primary government (Note 6)	10,000.00	10,000.00
Total current liabilities	2,071,582.39	1,736,124.77
Current liabilities payable from restricted assets:		
Bonds payable (Note 5)	150,000.00	120,000.00
Total current liabilities payable from restricted assets	150,000.00	120,000.00
Noncurrent liabilities:		
Bonds payable, net of unamortized discount (Note 5)	5,037,284.36	5,184,754.40
Advance from primary government (Note 6)	180,000.00	190,000.00
Total noncurrent liabilities	5,217,284.36	5,374,754.40
Total liabilities	7,438,866.75	7,230,879.17
Equity:		
Contributed capital (Note 7)	9,208,718.84	9,158,930.40
Retained earnings:		
Reserved for foundation	60,661.40	69,271.79
Unreserved	(1,228,868.28)	(1,472,747.93)
Total retained earnings	(1,168,206.88)	(1,403,476.14)
Total equity	8,040,511.96	7,755,454.26
Total liabilities and equity	$ 15,479,378.71	$ 14,986,333.43

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

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	For the Year Ended June 30, 1998	For the Year Ended June 30, 1997
Operating revenue		
Resident service revenue less contractual adjustments of $2,258,249.92 for 1998 and $1,752,110.04 for 1997	$ 9,706,714.43	$ 8,333,448.98
Total operating revenue	9,706,714.43	8,333,448.98
Operating expenses:		
Administrative and general	1,716,137.66	1,679,524.33
Nursing services	2,911,597.34	2,693,024.82
Central services	303,926.39	264,078.85
Ancillary departments	1,515,843.24	1,208,170.49
Dietary	757,210.90	652,115.66
Activities	110,039.29	89,830.34
Social services	85,720.29	91,748.03
Housekeeping services	312,985.99	254,764.98
Laundry and linens	153,867.92	125,545.73
Plant operations and maintenance	459,459.78	415,364.60
Depreciation	419,159.02	405,873.60
Amortization of preopening expenses	33,456.00	33,146.00
Bad debt expense	392,630.58	90,000.00
Other operating expenses	1,021.00	2,462.50
Total operating expenses	9,173,055.40	8,005,649.93
Operating income	533,659.03	327,799.05
Nonoperating revenues (expenses):		
Interest revenue	68,621.63	55,833.88
Miscellaneous revenue	36,073.78	29,838.45
Interest expense	(367,567.35)	(379,423.03)
Amortization of bond issuance costs	(6,316.92)	(6,316.92)
Cable television expense	(10,081.81)	(10,238.61)
Equipment expense	-	(1,500.00)
Land improvement expense	(10,970.00)	-
Building improvement expense	(6,551.00)	-
Miscellaneous expense	(1,598.10)	(1,826.40)
Total nonoperating revenues (expenses)	(298,389.77)	(313,632.63)
Net income	235,269.26	14,166.42
Other changes in equity:		
Contributed capital (Note 7)	49,788.44	5,589.00
Net increase in equity	285,057.70	19,755.42
Equity, July 1	7,755,454.26	7,735,698.84
Equity, June 30	$ 8,040,511.96	$ 7,755,454.26

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, 1998, AND JUNE 30, 1997

	For the Year Ended June 30, 1998	For the Year Ended June 30, 1997
Cash flows from operating activities:		
Operating income	$ 533,659.03	$ 327,799.05
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and Amortization	452,615.02	439,019.60
Miscellaneous nonoperating revenues	18,476.00	28,338.45
Miscellaneous nonoperating expenses	(29,200.91)	(13,565.01)
Changes in assets and liabilities		
(Increase) in resident accounts receivable - private	(677,889.34)	(198,910.07)
(Increase) decrease in resident accounts receivable - U.S. Department of Veterans Affairs	56,589.45	(65,537.20)
Decrease in resident accounts receivable - primary government	108,964.70	14,207.64
Increase (decrease) in allowance for doubtful accounts	398,355.71	(109,040.47)
(Increase) in Medicare cost settlement receivable	(195,977.20)	(172,004.48)
(Increase) decrease in Medicaid cost settlement receivable	10,278.00	(6,753.24)
Decrease in due from U.S. Department of Veterans Affairs	-	411,432.52
(Increase) decrease in inventories	(13,228.13)	3,571.12
(Increase) decrease in prepaid items	(13,135.78)	1,035.25
Increase in accounts payable and accruals	56,585.05	526,523.32
Increase (decrease) in due to primary government	180,732.29	(400,493.17)
Increase (decrease) in due to U.S. Department of Veterans Affairs	(5,072.48)	5,072.48
Increase (decrease) in amounts advanced by management company	95,144.50	(70,642.05)
Increase in Medicaid cost settlement payable	-	344.00
Increase (decrease) in amounts held in custody for others	10,781.61	(3,263.61)
Increase (decrease) in Medicaid current financing	(829.64)	76,186.44
Total adjustments	453,188.85	465,521.52
Net cash provided by operating activities	986,847.88	793,320.57
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	5,196.44	5,589.00
Purchase of fixed assets	(117,483.23)	(48,728.90)
Principal paid on bonds	(120,000.00)	(115,000.00)
Interest paid on bonds	(366,921.10)	(373,447.03)
Principal paid on advance from state	(10,000.00)	-
Net cash used by capital and capital-related financing activities	(609,207.89)	(531,586.93)

Exhibit C (Cont.)

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	For the Year Ended June 30, 1998	For the Year Ended June 30, 1997
Cash flows from investing activities:		
Interest received	68,621.63	55,833.88
Net cash provided by investing activities	68,621.63	55,833.88
Net increase in cash	446,261.62	311,287.23
Cash, July 1	1,697,172.61	1,385,885.38
Cash, June 30	$ 2,143,434.23	$ 1,697,172.61
Noncash investing, capital, and financing activities:		
Increase in value of investment	$ 76.78	$ -
Donated equipment and improvements	62,113.00	1,500.00
Total noncash investing, capital, and financing activities	$ 62,189.78	$ 1,500.00

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, 1998, and June 30, 1997

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, 1998, two facilities, located in Murfreesboro and Humboldt, were operating. 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.

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 replacement cost.

F. Restricted Assets

Certain assets of the Tennessee State Veterans' Homes Board are classified as restricted assets because their use is restricted by applicable 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, 1998, the carrying amount of the board's deposits was $511,548.65, and the bank balance was $543,168.12. 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, 1998, the carrying amount and the bank balance of the Tennessee Veterans Home Foundation, Inc.'s deposits was $60,661.40, including a $25,076.78 long-term certificate of deposit. At June 30, 1997, the carrying amount and the bank balance was $69,271.79, including a $25,000 long-term certificate of deposit. The entire bank balance was insured.

At June 30, 1998, and June 30, 1997, the board had deposits in the State of Tennessee Local Government Investment Pool administered by the State Treasurer of $1,594,250.96 and $998,270.21, respectively.

At June 30, 1998, and June 30, 1997, petty cash on hand was $2,050.00.

NOTE 3. DUE FROM/TO PRIMARY GOVERNMENT

June 30, 1998	
Due To:	
Department of Health–Medicaid current services less void adjustments	$185,202.99
Department of Health–Medicaid overpayments occurring before 1994	$282,062.42
Department of Health–bed tax	26,000.00
Department of the Treasury–retirement contributions	9,590.63
Department of Employment Security–unemployment taxes	$ 5,762.87
Total due to primary government	$508,618.91

June 30, 1997	
Due From:	
Department of Health–Medicaid current services less void adjustments	$108,964.70
Total due from primary government	$108,964.70
Due To:	
Department of Health–Medicaid overpayments occurring before 1994	$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

The amount Due to (from) Primary Government, Department of Health–Medicaid current services less void adjustments, includes both the receivable for amounts collectible from Medicaid for current services, and a payable to Medicaid for void adjustments that may be related to previous services. At June 30, 1998, the receivable from Medicaid is $774,319.54, and the estimated payable to Medicaid for void adjustments is $959,522.53.

The amount Due to Primary Government, Department of Health–Medicaid overpayments occurring before 1994 consists of $282,062.42 payable for Medicaid overpayments made prior to the implementation of the void adjustment process.

NOTE 4. RESTRICTED ASSETS

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

	June 30, 1998	June 30, 1997
Cash in depository account	$43,146.57	$ 229,152.02
Revenue bond revenue account	183,232.11	193,599.06
Revenue bond debt service account	400,790.23	181,442.53
Revenue bond debt service reserve account	513,228.62	513,228.62
Revenue bond repair and replacement account	135,000.00	110,000.00
	$1,275,397.53	$1,227,422.23

NOTE 5. BONDS PAYABLE

Bonds payable consisted of the following:

	June , 30 1998	June 30, 1997
Revenue bonds, Series 1989, 6.3% to 7.5%, due from 1997 to final maturity in 2014 (net of unamortized discount of $32,102.85 for 1998 and $34,162.89 for 1997)	$2,072,897.15	$2,140,837.11
Revenue bonds, Series 1994, 4.75% to 6.75% due from 1997 to final maturity in 2021 (net of unamortized discount of $10,612.79 for 1998 and $11,082.81 for 1997)	3,114,387.21	3,163,917.29
Total bonds payable	$5,187,284.36	$5,304,754.40

Debt-service requirements to maturity of the bonds payable at June 30, 1998, are as follows:

For the Year(s) Ended June 30	Principal	Interest	Total
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	170,000.00	319,187.50	489,187.50
2004-2021	4,430,000.00	2,902,207.50	7,332,207.50
	$5,230,000.00	$4,601,455.00	$9,831,455.00

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. The board paid its first $10,000 annual payment in June 1998.

NOTE 7. CONTRIBUTED CAPITAL

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

During the year ended June 30, 1998, the grant contribution from the U.S. Department of Veterans Affairs for the Humboldt facility was $5,196.44. Prior to July 1, 1997, the grant contribution from the U.S. Department of Veterans Affairs was $4,868,097.32. In addition, the board received $870,162.70 in appropriations and a $44,592 vehicle 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 $5,948,592.46.

All capital contributed for the Murfreesboro facility was received prior to July 1, 1994. The total grant contribution from the U.S. Department of Veterans Affairs was $3,226,426.38. In addition, the U.S. Department of Veterans Affairs 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 year ended June 30, 1997, 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. 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 statutes 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.

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 $176,998 for the year ended June 30, 1998. 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 $176,998.00 for the year ended June 30, 1998, equaled 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 25 years.

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1998	$176,998.00	100%	-
June 30, 1997	$153,008.03	100%	-

Information is shown only for the years available. The additional year will be shown as it becomes 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 $10,033,200 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 $200.16 for single coverage under Blue Cross and $176.11 for single coverage and $439.71 for family coverage under Prudential. The board's obligation under the plan is limited to $150.12 for Blue Cross coverage and $138.08 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 of Funding Progress

(Expressed in thousands)

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	$645	$645	$0	100.00%	$1,845	0.00%

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, which established contribution rates effective July 1, 1998. 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), (c) projected 4.5% annual increase in the Social Security wage base, and (d) projected post-retirement increases of 3.0% annually. The actuarial assumptions set out 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. The amortization period for the June 30, 1997, valuation is 23 years.

Year 2000 Disclosures

The Year 2000 Issue (Y2K) arises because most computer software programs allocate two digits to the data field for year with the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and the computer software, and could affect both the ability to enter data into the computer programs and the ability of such programs to correctly process data.

Diversified Health Services (DHS) has initiated a program to address Y2K issues as they affect the company's information technology (IT) systems, electronic data interfaces, and its non-IT hardware. DHS has assessed the impact of Y2K on its computer systems and other electronic equipment. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment includes systems and devices other than traditional computer information systems that may utilize embedded chips in their operations.

DHS has determined that certain computer systems are mission-critical. Mission-critical computer systems are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent DHS from fulfilling its mission. DHS is subjecting those systems to the following stages of work to address Y2K issues.

Awareness stage	Establishing a budget and project plan for dealing with the Y2K issue.
Assessment stage	Identifying the systems and components for which Y2K compliance work is needed.
Remediation stage	Making changes to systems and equipment.
Validation/testing stage	Validating and testing the changes that were made during the remediation stage.

DHS has identified four mission-critical computer application systems: General Ledger, Accounts Payable, Payroll, and Accounts Receivable. The General Ledger and Accounts Payable application systems are being replaced by a software system that is being purchased with the software company's representation that it is Y2K compliant. The Payroll application system is a program that is in the remediation stage. Validation and testing is complete on the Accounts Receivable application.

The supporting computer systems at the homes are advertised by the manufacturer as Y2K compliant. The medical equipment considered mission-critical was surveyed, and all equipment is advertised by the manufacturer as Y2K compliant.

DHS expects to complete the remaining stages of work by December 1999. However, completion of these stages will not guarantee that systems and equipment will be Y2K compliant.

DHS's Y2K initiatives did not result in the commitment of significant financial resources for the Tennessee Veterans' Homes Board as of the end of the reporting period. DHS is not aware of any circumstances or costs to achieve Y2K compliance that will have a negative impact on the operations or financial status of the Tennessee Veterans' Homes Board.

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30,1997

	June 30, 1998				June 30, 1997			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
ASSETS								
Current assets:								
Cash	$ 735,743.77	$ 96,708.31	$ 35,584.62	$ 868,036.70	$ 306,743.10	$ 118,735.49	$ 44,271.79	$ 469,750.38
Investment	-	-	25,076.78	25,076.78	-	-	25,000.00	25,000.00
Resident accounts receivable:								
Private	709,389.46	883,260.99	-	1,592,650.45	455,078.76	459,682.35	-	914,761.11
U.S. Department of Veterans Affairs	122,679.99	275,276.68	-	397,956.67	269,278.24	185,267.88	-	454,546.12
Primary Government	15,720.71	-	-	15,720.71	1,709.73	107,254.97	-	108,964.70
Allowance for doubtful accounts	(396,141.95)	(121,122.54)	-	(517,264.49)	(109,108.78)	(9,800.00)	-	(118,908.78)
Amounts advanced to management company	-	-	-	-	17.62	-	-	17.62
Medicare cost settlement receivable	625,177.56	82,497.00	-	707,674.56	457,701.36	53,996.00	-	511,697.36
Medicaid cost settlement receivable	26,209.00	-	-	26,209.00	36,487.00	-	-	36,487.00
Due from Murfreesboro facility	-	279,759.66	-	279,759.66	-	-	-	-
Due from Humboldt facility	-	-	-	-	2,624.72	-	-	2,624.72
Inventories	26,360.13	31,680.94	-	58,041.07	23,404.43	21,408.51	-	44,812.94
Prepaid items	17,199.04	3,871.73	-	21,070.77	4,384.99	3,550.00	-	7,934.99
Total current assets	1,882,337.71	1,531,932.77	60,661.40	3,474,931.88	1,448,321.17	940,095.20	69,271.79	2,457,688.16
Restricted assets:								
Cash	711,410.56	563,986.97	-	1,275,397.53	681,486.51	545,935.72	-	1,227,422.23
Total restricted assets	711,410.56	563,986.97	-	1,275,397.53	681,486.51	545,935.72	-	1,227,422.23
Other assets:								
Deposit with management company	10,000.00	-	-	10,000.00	10,000.00	-	-	10,000.00
Unamortized bond issuance costs	27,331.28	103,050.99	-	130,382.27	29,085.08	107,614.11	-	136,699.19
Unamortized preopening expenses	-	86,430.94	-	86,430.94	-	119,886.94	-	119,886.94
Total other assets	37,331.28	189,481.93	-	226,813.21	39,085.08	227,501.05	-	266,586.13
Fixed assets:								
Land	33,700.00	160,544.00	-	194,244.00	33,700.00	160,544.00	-	194,244.00
Buildings and improvements	3,949,588.55	6,851,810.00	-	10,801,398.55	3,938,618.55	6,845,259.00	-	10,783,877.55
Accumulated depreciation - buildings and improvements	(739,348.49)	(425,843.25)	-	(1,165,191.74)	(633,384.24)	(249,461.56)	-	(882,845.80)
Furniture and equipment	731,876.22	769,732.44	-	1,501,608.66	681,224.29	722,316.30	-	1,403,540.59
Accumulated depreciation - furniture and equipment	(425,138.42)	(173,211.75)	-	(598,350.17)	(369,734.75)	(91,802.34)	-	(461,537.09)
Construction in progress	-	64,007.16	-	64,007.16	-	-	-	-
Total fixed assets	3,550,677.86	7,247,038.60	-	10,797,716.46	3,650,423.85	7,386,855.40	-	11,037,279.25
Total assets	$ 6,181,757.41	$ 9,532,440.27	$ 60,661.40	$ 15,774,859.08	$ 5,819,316.61	$ 9,100,387.37	$ 69,271.79	$ 14,988,975.77

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS (Cont.)
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998				June 30, 1997			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
LIABILITIES AND EQUITY								
Liabilities:								
Current liabilities:								
Accounts payable and accruals	$ 605,765.52	$ 677,477.99	$ -	$ 1,283,243.51	$ 543,061.77	$ 685,480.40	$ -	$ 1,228,542.17
Due to primary government	284,819.71	239,519.91	-	524,339.62	319,516.63	8,369.99	-	327,886.62
Due to U.S. Department of Veterans Affairs	-	-	-	-	-	5,072.48	-	5,072.48
Amounts advanced by management company	46,191.15	51,445.07	-	97,636.22	-	2,509.34	-	2,509.34
Medicaid cost settlement payable	-	344.00	-	344.00	-	344.00	-	344.00
Amounts held in custody for others	53,420.01	42,962.94	-	96,382.95	65,737.54	19,863.80	-	85,601.34
Medicaid current financing	30,808.79	44,548.01	-	75,356.80	46,232.13	29,954.31	-	76,186.44
Due to Humboldt facility	279,759.66	-	-	279,759.66	-	-	-	-
Due to Murfreesboro facility	-	-	-	-	-	2,624.72	-	2,624.72
Advance from primary government	10,000.00	-	-	10,000.00	10,000.00	-	-	10,000.00
Total current liabilities	1,310,764.84	1,056,297.92	-	2,367,062.76	984,548.07	754,219.04	-	1,738,767.11
Current liabilities payable from restricted assets:								
Bonds payable	75,000.00	75,000.00	-	150,000.00	70,000.00	50,000.00	-	120,000.00
Total current liabilities payable from restricted assets	75,000.00	75,000.00	-	150,000.00	70,000.00	50,000.00	-	120,000.00
Noncurrent liabilities:								
Bonds payable, net of unamortized discount	1,997,897.15	3,039,387.21	-	5,037,284.36	2,070,837.11	3,113,917.29	-	5,184,754.40
Advance from primary government	180,000.00	-	-	180,000.00	190,000.00	-	-	190,000.00
Total noncurrent liabilities	2,177,897.15	3,039,387.21	-	5,217,284.36	2,260,837.11	3,113,917.29	-	5,374,754.40
Total liabilities	3,563,661.99	4,170,685.13	-	7,734,347.12	3,315,385.18	3,918,136.33	-	7,233,521.51
Equity:								
Contributed capital	3,260,126.38	5,948,592.46	-	9,208,718.84	3,260,126.38	5,898,804.02	-	9,158,930.40
Retained earnings:								
Reserved for foundation	-	-	60,661.40	60,661.40	-	-	69,271.79	69,271.79
Unreserved	(642,030.96)	(586,837.32)	-	(1,228,868.28)	(756,194.95)	(716,552.98)	-	(1,472,747.93)
Total retained earnings	(642,030.96)	(586,837.32)	60,661.40	(1,168,206.88)	(756,194.95)	(716,552.98)	69,271.79	(1,403,476.14)
Total equity	2,618,095.42	5,361,755.14	60,661.40	8,040,511.96	2,503,931.43	5,182,251.04	69,271.79	7,755,454.26
Total liabilities and equity	$ 6,181,757.41	$ 9,532,440.27	$ 60,661.40	$ 15,774,859.08	$ 5,819,316.61	$ 9,100,387.37	$ 69,271.79	$ 14,988,975.77

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	For the Year Ended June 30, 1998				For the Year Ended June 30, 1997			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Operating revenue:								
Resident service revenue less contractual adjustments of $2,258,249.92 for 1998 and $1,752,110.04 for 1997	$ 5,173,644.49	$ 4,533,069.94	$ -	$ 9,706,714.43	$ 4,946,966.48	$ 3,386,482.50	$ -	$ 8,333,448.98
Total operating revenue	5,173,644.49	4,533,069.94	-	9,706,714.43	4,946,966.48	3,386,482.50	-	8,333,448.98
Operating expenses:								
Administrative and general	895,770.73	820,366.93	-	1,716,137.66	915,704.86	763,819.47	-	1,679,524.33
Nursing services	1,562,579.39	1,349,017.95	-	2,911,597.34	1,573,262.02	1,119,762.80	-	2,693,024.82
Central services	142,160.15	161,766.24	-	303,926.39	152,561.50	111,517.35	-	264,078.85
Ancillary departments	869,692.14	646,151.10	-	1,515,843.24	771,249.09	436,921.40	-	1,208,170.49
Dietary	417,630.75	339,580.15	-	757,210.90	392,632.78	259,482.88	-	652,115.66
Activities	59,029.46	51,009.83	-	110,039.29	52,926.54	36,903.80	-	89,830.34
Social services	41,784.14	43,936.15	-	85,720.29	44,138.76	47,609.27	-	91,748.03
Housekeeping services	168,210.24	144,775.75	-	312,985.99	154,175.99	100,588.99	-	254,764.98
Laundry and linens	82,893.36	70,974.56	-	153,867.92	76,495.09	49,050.64	-	125,545.73
Plant operations and maintenance	259,835.85	199,623.93	-	459,459.78	245,454.08	169,910.52	-	415,364.60
Depreciation	161,367.92	257,791.10	-	419,159.02	164,980.81	240,892.79	-	405,873.60
Amortization of preopening expenses	-	33,456.00	-	33,456.00	-	33,146.00	-	33,146.00
Bad debt expense	281,308.04	111,322.54	-	392,630.58	84,000.00	6,000.00	-	90,000.00
Other operating expenses	782.00	239.00	-	1,021.00	2,334.50	128.00	-	2,462.50
Total operating expenses	4,943,044.17	4,230,011.23	-	9,173,055.40	4,629,916.02	3,375,733.91	-	8,005,649.93
Operating income	230,600.32	303,058.71	-	533,659.03	317,050.46	10,748.59	-	327,799.05
Nonoperating revenues (expenses):								
Interest revenue	35,963.77	30,620.12	2,037.74	68,621.63	30,259.29	23,994.62	1,579.97	55,833.88
Miscellaneous revenue	10,970.00	6,551.00	18,552.78	36,073.78	-	1,621.80	28,216.65	29,838.45
Interest expense	(161,616.30)	(205,951.05)	-	(367,567.35)	(165,794.22)	(213,628.81)	-	(379,423.03)
Amortization of bond issuance costs	(1,753.80)	(4,563.12)	-	(6,316.92)	(1,753.80)	(4,563.12)	-	(6,316.92)
Cable television expense	-	-	(10,081.81)	(10,081.81)	-	-	(10,238.61)	(10,238.61)
Equipment expense	-	-	-	-	-	-	(1,500.00)	(1,500.00)
Land improvements expense	-	-	(10,970.00)	(10,970.00)	-	-	-	-
Building improvements expense	-	-	(6,551.00)	(6,551.00)	-	-	-	-
Miscellaneous expense	-	-	(1,598.10)	(1,598.10)	-	-	(1,826.40)	(1,826.40)
Total nonoperating revenues (expenses)	(116,436.33)	(173,343.05)	(8,610.39)	(298,389.77)	(137,288.73)	(192,575.51)	16,231.61	(313,632.63)
Net income (loss)	114,163.99	129,715.66	(8,610.39)	235,269.26	179,761.73	(181,826.92)	16,231.61	14,166.42
Other changes in equity:								
Contributed capital	-	49,788.44	-	49,788.44	-	5,589.00	-	5,589.00
Net increase (decrease) in equity	114,163.99	179,504.10	(8,610.39)	285,057.70	179,761.73	(176,237.92)	16,231.61	19,755.42
Equity, July 1	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
Equity, June 30	$ 2,618,095.42	$ 5,361,755.14	$ 60,661.40	$ 8,040,511.96	$ 2,503,931.43	$ 5,182,251.04	$ 69,271.79	$ 7,755,454.26

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	For the Year Ended June 30, 1998				For the Year Ended June 30, 1997			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Cash flows from operating activities:								
Operating income	$ 230,600.32	$ 303,058.71	$ -	$ 533,659.03	$ 317,050.46	$ 10,748.59	$ -	$ 327,799.05
Adjustments to reconcile operating income to net cash provided (used) by operating activities:								
Depreciation and amortization	161,367.92	291,247.10	-	452,615.02	164,980.81	274,038.79	-	439,019.60
Miscellaneous nonoperating revenues	-	-	18,476.00	18,476.00	-	121.80	28,216.65	28,338.45
Miscellaneous nonoperating expenses	-	-	(29,200.91)	(29,200.91)	-	-	(13,565.01)	(13,565.01)
Changes in assets and liabilities:								
(Increase) decrease in resident accounts receivable - private	(254,310.70)	(423,578.64)	-	(677,889.34)	169,454.47	(368,364.54)	-	(198,910.07)
(Increase) decrease in resident accounts receivable - U.S. Department of Veterans Affairs	146,598.25	(90,008.80)	-	56,589.45	(31,147.84)	(34,389.36)	-	(65,537.20)
(Increase) decrease in resident accounts receivable - primary government	(14,010.98)	107,254.97	-	93,243.99	68,860.82	(54,653.18)	-	14,207.64
Increase (decrease) in allowance for doubtful accounts	287,033.17	111,322.54	-	398,355.71	(115,040.47)	6,000.00	-	(109,040.47)
(Increase) decrease in amounts advanced to management company	17.62	-	-	17.62	(17.62)	-	-	(17.62)
(Increase) decrease in Medicare cost settlement receivable	(167,476.20)	(28,501.00)	-	(195,977.20)	(180,882.48)	8,878.00	-	(172,004.48)
(Increase) decrease in Medicaid cost settlement receivable	10,278.00	-	-	10,278.00	(6,753.24)	-	-	(6,753.24)
Decrease in due from U.S. Department of Veterans Affairs	-	-	-	-	-	411,432.52	-	411,432.52
(Increase) decrease in due from Humboldt/Murfreesboro	2,624.72	(279,759.66)	-	(277,134.94)	(2,624.72)	-	-	(2,624.72)
(Increase) decrease in inventories	(2,955.70)	(10,272.43)	-	(13,228.13)	6,008.57	(2,437.45)	-	3,571.12
(Increase) decrease in prepaid items	(12,814.05)	(321.73)	-	(13,135.78)	3,016.17	(1,980.92)	-	1,035.25
Increase (decrease) in accounts payable and accruals	63,962.49	(7,377.44)	-	56,585.05	110,965.04	415,558.28	-	526,523.32
Increase (decrease) in due to primary government	(34,696.92)	231,149.92	-	196,453.00	(326.35)	(400,166.82)	-	(400,493.17)
Increase (decrease) in due to U.S. Department of Veterans Affairs	-	(5,072.48)	-	(5,072.48)	-	5,072.48	-	5,072.48
Increase (decrease) in amounts advanced by management company	46,191.15	48,935.73	-	95,126.88	(37,201.78)	(33,422.65)	-	(70,624.43)
Increase in Medicaid cost settlement payable	-	-	-	-	-	344.00	-	344.00
Increase (decrease) in amounts held in custody for others	(12,317.53)	23,099.14	-	10,781.61	(11,895.46)	8,631.85	-	(3,263.61)
Increase (decrease) in Medicaid current financing	(15,423.34)	14,593.70	-	(829.64)	46,232.13	29,954.31	-	76,186.44
Increase (decrease) in due to Humboldt/Murfreesboro	279,759.66	(2,624.72)	-	277,134.94	-	2,624.72	-	2,624.72
Total adjustments	483,827.56	(19,913.80)	(10,724.91)	453,188.85	183,628.05	267,241.83	14,651.64	465,521.52
Net cash provided by operating activities	714,427.88	283,144.91	(10,724.91)	986,847.88	500,678.51	277,990.42	14,651.64	793,320.57
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)

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS (Cont.
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

	For the Year Ended June 30, 1998				For the Year Ended June 30, 1997			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Cash flows from capital and capital-related financing activities:								
Contributed capital	-	5,196.44	-	5,196.44	-	5,589.00	-	5,589.00
Purchase of fixed assets	(50,651.93)	(66,831.30)	-	(117,483.23)	(48,728.90)	-	-	(48,728.90)
Principal paid on bonds	(70,000.00)	(50,000.00)	-	(120,000.00)	(65,000.00)	(50,000.00)	-	(115,000.00)
Interest paid on bonds	(160,815.00)	(206,106.10)	-	(366,921.10)	(165,235.00)	(208,212.03)	-	(373,447.03)
Principal paid on advance from state	(10,000.00)	-	-	(10,000.00)	-		-	-
Net cash used by capital and capital-related financing activities	(291,466.93)	(317,740.96)	-	(609,207.89)	(278,963.90)	(252,623.03)	-	(531,586.93)
Cash flows from investing activities								
Interest received	35,963.77	30,620.12	2,037.74	68,621.63	30,259.29	23,994.62	1,579.97	55,833.88
Net cash provided by investing activities	35,963.77	30,620.12	2,037.74	68,621.63	30,259.29	23,994.62	1,579.97	55,833.88
Net increase (decrease) in cash	458,924.72	(3,975.93)	(8,687.17)	446,261.62	251,633.05	43,422.57	16,231.61	311,287.23
Cash, July 1	988,229.61	664,671.21	44,271.79	1,697,172.61	736,596.56	621,248.64	28,040.18	1,385,885.38
Cash, June 30	$ 1,447,154.33	$ 660,695.28	$ 35,584.62	$ 2,143,434.23	$ 988,229.61	$ 664,671.21	$ 44,271.79	$ 1,697,172.61
Noncash investing, capital, and financing activities								
Increase in value of investment	$ -	$ -	$ 76.78	$ 76.78	$ -	$ -	$ -	$ -
Donated equipment and improvements	10,970.00	51,143.00	-	62,113.00	-	1,500.00	-	1,500.00
Total noncash investing, capital, and financing activities	$ 10,970.00	$ 51,143.00	$ 76.78	$ 62,189.78	$ -	$ 1,500.00	$ -	$ 1,500.00