



FINANCIAL AND COMPLIANCE AUDIT REPORT

Tennessee State Veterans' Homes Board

For the Year Ended June 30, 2019

Justin P. Wilson
Comptroller of the Treasury



DIVISION OF STATE AUDIT

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JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

October 26, 2020

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State Veterans' Homes Board for the year ended June 30, 2019. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Katherine J. Stickel".

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

20/040

Audit Report
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 2019

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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Tennessee State Veterans' Homes Board

For the Year Ended June 30, 2019

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Finding

Management did not prepare financial statements in a timely manner

The Tennessee State Veterans' Homes Board's management did not prepare financial statements in a timely manner for the year ended June 30, 2019 (page 38).

Observation and Comment

Investigation

An investigation is ongoing for The Tennessee State Veterans' Homes Board. Any findings resulting from the investigation will be included in a separate report (page 40).



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State Veterans' Homes Board as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9, the schedule of changes in net pension liability (asset) and related ratios on page 27, the schedule of Tennessee State Veterans' Homes Board's pension contributions on page 29, the schedule of changes in total OPEB liability and related ratios on page 30, and the notes to the required supplementary information on page 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the board's basic financial statements. The accompanying financial information on pages 32 through 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2020, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
October 16, 2020

TENNESSEE STATE VETERANS' HOMES BOARD

Management's Discussion and Analysis

Tennessee State Veterans' Homes Board provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2019, with comparative information presented for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the independent auditor's report, the board's financial statements, and the notes to the financial statements. The basic financial statements, notes, and this discussion are the responsibility of management.

Financial Highlights

Year Ended June 30, 2019

- ◆ The board's operating revenues increased 3%, or \$1,590,270, from fiscal year 2018 to fiscal year 2019.
- ◆ The board's operating expenses were 3%, or \$1,909,141, more in fiscal year 2019 than in fiscal year 2018.
- ◆ The board's net position increased 7%, or \$4,263,319, from June 30, 2018, to June 30, 2019.

Financial Analysis of the Board

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

The management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the board's financial activities.

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

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

whether the board's financial position has improved or deteriorated as a result of the year's activities.

The statement of cash flows presents the change in the board's cash during the year. This information can assist the user of the report in determining how the board financed its activities and how it met its cash requirements.

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

In addition to the three basic financial statements, the reader should also review the schedule of changes in net pension liability (asset) and related ratios; the schedule of the Tennessee State Veterans' Homes Board's pension contributions; the schedule of changes in total OPEB liability and related ratios; and the notes to required supplementary information to gain an understanding of the funded status of the board's benefits over time. This information provides an indication of the board's ability to meet both current and future benefit payment obligations.

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the board's financial position. A summary of the board's net position at June 30, 2019, and June 30, 2018, is presented below:

Net Position		
	2019	2018
Assets:		
Current assets and other assets	\$27,497,686	\$24,970,984
Capital assets, net	46,922,545	46,824,676
Total assets	74,420,231	71,795,660
Total deferred outflows of resources	3,354,785	2,695,151
Liabilities:		
Long-term debt outstanding	3,763,828	4,255,961
Other liabilities	3,978,927	4,376,715
Total liabilities	7,742,755	8,632,676
Total deferred inflows of resources	866,887	956,080
Net position:		
Net investment in capital assets	43,158,716	42,568,715
Restricted	5,002,772	5,090,318
Unrestricted	21,003,886	17,243,022
Total net position	\$69,165,374	\$64,902,055

2019 to 2018

The board's net position at the end of fiscal year 2019 totaled \$69,165,374. This compares to \$64,902,055 at the end of fiscal year 2018. The unrestricted portion of the board's net position (30%) may be used to meet the board's obligations as they come due. The largest portion of the board's net position (63%) is invested in capital assets (e.g., land, buildings, and equipment), less the related debt. The restricted portion of the board's net position (7%) represents funds that are restricted for capital projects, pensions, and funds required to be restricted according to the Funds Management Guidelines. The Funds Management Guidelines require the board to deposit funds in a debt service fund, repair and replacement fund, and technology fund. The increase in net position is due primarily to an increase in cash as a result of a higher Veteran's Affairs (VA) per diem patient mix and timing of outstanding receivables from the VA at year-end. In addition, the increase in net position was due to an increase in construction for the Cleveland and Memphis projects, as well as increases in deferred outflows of resources related to pensions due to increased contributions to the plan for additional staff.

Statement of Revenues, Expenses, and Changes in Net Position

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

	2019	2018
Change in Net Position		
Operating revenue:		
Resident service revenue	\$59,611,267	\$58,020,997
Total operating revenue	59,611,267	58,020,997
Operating expenses:		
Administrative and general	9,028,369	9,137,231
Nursing services	24,869,534	23,449,204
Central services	2,025,917	1,959,243
Ancillary departments	6,649,141	6,827,125
Dietary	5,066,656	4,763,386
Activities	1,589,202	1,477,199
Social services	766,790	748,537
Environmental services	3,256,229	3,051,638
Plant operations and maintenance	2,985,509	2,894,974
Depreciation	1,888,429	1,908,099
Total operating expenses	58,125,776	56,216,636

Operating income (loss)	1,485,491	1,804,361
Nonoperating revenues and (expenses)	366,984	142,027
Income before other revenues	1,852,475	1,946,388
Other revenues	1,836,330	73,930
Special item	574,514	-
Increase in net position	4,263,319	2,020,318
Net position, July 1	64,902,055	62,810,960
Cumulative effect of a change in accounting principle	-	70,777
Net position, July 1, restated	64,902,055	62,881,737
Net position, June 30	\$69,165,374	\$64,902,055

2019 to 2018

In fiscal year 2019, operating revenues increased \$1,590,270, or 3%, primarily as a result of Clarksville census exceeding budget and an increase in a higher VA per diem patient mix. Operating expenses increased \$1,909,140, or 3%. The increase was primarily a result of bonuses, higher insurance participation, and insurance plan changes that resulted in higher insurance costs for nursing services staff. Other revenues increased \$1,762,400, or 2,384%, because of increased capital appropriations to pay for construction costs for the Cleveland and Memphis projects.

Capital Assets

At June 30, 2018, the board had \$46,922,545 invested in capital assets, net of accumulated depreciation of approximately \$19,736,715. Depreciation charges totaled \$1,888,429 for fiscal year 2019. At June 30, 2018, the board had \$46,824,676 invested in capital assets, net of accumulated depreciation of approximately \$17,848,286. Depreciation charges totaled \$1,908,099 for fiscal year 2018.

At June 30, 2019, outstanding commitments under construction contracts totaled \$164,347 for the building of the Cleveland home and \$2,101,143 for the building of the Memphis home. The outstanding commitments under construction contracts for the parking lot in Murfreesboro totaled \$5,956.

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

Long-Term Debt

The table below summarizes outstanding debt:

	June 30	
	2019	2018
Long-term debt	\$3,763,828	\$4,255,961

2019 to 2018

At June 30, 2019, the board had \$3,763,828 in debt outstanding, a decrease of \$492,133 from 2018. The decrease was due to the principal paid on the debt.

Long-term debt consists of loans from the State of Tennessee. Additional information about the board's long-term debt is presented in Note 8 to the financial statements.

Economic Factors

The Tennessee State Veterans' Homes Board's financial position improved during the current fiscal year. The main reason for the improvement is due to the Cleveland and Memphis facility construction. The current condition of the economy in the state continues to be a concern for board officials. Some of the realities that may potentially become challenges for the board to meet are

- ◆ Facilities require constant maintenance and upkeep.
- ◆ Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- ◆ Veterans' Affairs (VA), Medicare, and Medicaid rates are uncertain.
- ◆ Expansion costs for new homes.

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

Contacting the Board's Financial Management

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

TENNESSEE STATE VETERANS' HOMES BOARD
Statement of Net Position
June 30, 2019

	June 30, 2019
Assets	
Current assets:	
Cash (Note 2)	\$14,876,274.53
Resident accounts receivable, net of allowance for doubtful accounts of \$1,886,660.34 (Note 3)	5,414,706.71
Miscellaneous receivable	61,327.27
Due from primary government (Note 4)	965,078.21
Inventories	271,852.36
Prepaid items	174,551.19
Restricted cash (Notes 2 and 5)	554,204.23
Total current assets	22,317,994.50
Noncurrent assets:	
Restricted cash (Notes 2 and 5)	3,393,617.88
Due from federal government	584,305.39
Net pension asset (Note 9)	1,201,767.88
Capital assets (Note 6):	
Land and improvements	2,466,771.37
Infrastructure	3,725,214.13
Accumulated depreciation - infrastructure	(1,473,338.81)
Buildings and improvements	53,568,679.61
Accumulated depreciation - buildings and improvements	(15,425,679.62)
Furniture and equipment	4,162,331.80
Accumulated depreciation - furniture and equipment	(2,837,696.62)
Construction in progress	2,736,262.87
Total noncurrent assets	52,102,235.88
Total assets	74,420,230.38
Deferred outflows of resources	
Deferred outflows related to pensions (Note 9)	3,354,785.48
Total deferred outflows of resources	3,354,785.48
Liabilities	
Current liabilities:	
Accounts payable and accruals (Note 7)	2,879,593.93
Amounts held in custody for others	104,060.16
Current portion of long-term debt (Note 8)	373,289.70
Compensated absences (Note 8)	577,258.09
Total current liabilities	3,934,201.88
Noncurrent liabilities:	
Long-term debt outstanding, net (Note 8)	3,390,538.52
Compensated absences (Note 8)	418,014.47
Total noncurrent liabilities	3,808,552.99
Total liabilities	7,742,754.87
Deferred inflows of resources	
Deferred inflows related to pensions (Note 9)	886,886.81
Total deferred inflows of resources	886,886.81
Net position	
Net investment in capital assets	43,158,716.51
Restricted for:	
Debt service	407,385.84
Repairs and replacements	2,669,874.82
Technology	723,743.06
Pensions	1,201,767.88
Unrestricted	21,003,886.07
Total net position	\$69,165,374.18

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

TENNESSEE STATE VETERANS' HOMES BOARD
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

	Year Ended June 30, 2019
Operating revenue	
Resident service revenue plus contractual adjustments of \$130,617.32 and less provision for bad debts of \$853,516.44	\$59,611,267.42
Total operating revenue	59,611,267.42
Operating expenses	
Administrative and general	9,028,369.08
Nursing services	24,869,533.97
Central services	2,025,916.99
Ancillary departments	6,649,141.03
Dietary	5,066,655.70
Activities	1,589,201.77
Social services	766,790.34
Environmental services	3,256,229.03
Plant operations and maintenance	2,985,509.59
Depreciation	1,888,429.35
Total operating expenses	58,125,776.85
Operating income	1,485,490.57
Nonoperating revenues (expenses)	
Interest revenue	358,150.10
Miscellaneous revenue	201,420.43
Interest expense	(147,504.12)
Miscellaneous expense	(45,082.08)
Total nonoperating revenues (expenses)	366,984.33
Income before other revenues	1,852,474.90
Capital appropriations	1,836,330.23
Total other revenues	1,836,330.23
Special item	
Special item for other postemployment benefits (Note 13)	574,513.42
Total special item	574,513.42
Increase in net position	4,263,318.55
Net position - beginning of year	64,902,055.63
Net position - end of year	\$69,165,374.18

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

TENNESSEE STATE VETERANS' HOMES BOARD
Statement of Cash Flows
For the Year Ended June 30, 2019

	Year Ended June 30, 2019
Cash flows from operating activities	
Receipts from residents and third party payors	\$57,741,378.87
Resident trust fund receipts	70,760.84
Other miscellaneous receipts	225,613.65
Payments to service providers and vendors	(26,896,679.43)
Payments to employees	(29,424,393.28)
Resident trust fund disbursements	(121,379.52)
Net cash provided by operating activities	1,595,301.13
Cash flows from capital and related financing activities	
Purchase and construction of capital assets	(172,959.07)
Principal paid on loans from the primary government	(492,132.55)
Interest paid on loans from the primary government	(156,907.39)
Net cash used for capital and related financing activities	(821,999.01)
Cash flows from investing activities	
Interest received	358,150.10
Net cash provided by investing activities	358,150.10
Net increase in cash	1,131,452.22
Cash - beginning of year	17,692,644.42
Cash - end of year	\$18,824,096.64
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,485,490.57
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,888,429.35
Miscellaneous receipts	224,411.83
Trustee fees	(9,600.00)
Miscellaneous payments	(107,258.59)
Change in assets, liabilities, and deferrals:	
Resident accounts receivable, net	(1,623,499.90)
Miscellaneous receivable	(472.26)
Due from primary government	(231,556.96)
Inventories	41,339.45
Prepaid items	7,782.54
Net pension asset	391,343.00
Deferred outflows of resources	(680,131.10)
Noncapital accounts payable and accruals	240,058.83
Amounts held in custody for others	(48,944.60)
Compensated absences	(5,363.03)
Total OPEB liability	(40,001.00)
Deferred inflows of resources	63,273.00
Net cash provided by operating activities	\$ 1,595,301.13
Noncash capital activities	
Capital appropriations held by the primary government	\$ 1,813,338.83
Construction costs paid by the primary government	(1,813,338.83)

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, 2019

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. At June 30, 2019, four facilities located in Murfreesboro, Humboldt, Knoxville, and Clarksville were operating. The 13-member board has an executive committee composed of 3 of its members. The executive committee has the authority to employ an executive director to carry out its operations.

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee (the primary government). Although the Tennessee State Veterans' Homes Board is a separate legal entity, *Tennessee Code Annotated* states that the commissioner of Veterans' Affairs and the commissioner of Finance and Administration shall serve on the board, and the remaining members of the board are appointed by the Governor. Its budget is approved by the state; thus, the state may impose its will on the board. In addition, the issuance of bonds must be approved by the State Funding Board. The board is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

Presentation, Measurement Focus, and Basis of Accounting

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

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

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

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

Notes to the Financial Statements (Continued)

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

Cash

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

Inventories

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

Restricted Assets

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

Capital Assets and Depreciation

Capital assets are defined as assets with a useful life of at least two years and with a single-item value of at least \$5,000. Capital assets are recorded at historical cost. Donated capital assets are stated at acquisition value at the date of donation. The board's policy is to capitalize interest incurred during the construction of assets. All capital assets other than land are depreciated using the straight-line method using these asset lives:

Infrastructure	8 to 40 years
Buildings and building improvements	5 to 40 years
Furniture and equipment	2 to 20 years

Compensated Absences

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

Some employees also earn extended disability benefits. This leave is intended to provide continuation of pay for employees in the event of a serious illness or injury and is only authorized for extended leave that begins with a hospitalization or a physician's note. There is no liability for unpaid accumulated extended disability benefits since these benefits (earned approximately one

Notes to the Financial Statements (Continued)

day per month with unlimited accumulation) are generally paid only when an employee who has successfully completed one year of employment is absent due to illness or injury.

Pensions

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

Note 2. Deposits and Investments

At June 30, 2019, the carrying amount of the Tennessee State Veterans' Homes Board's deposits was \$238,691.63, and the bank balance was \$767,148.86.

At June 30, 2019, the board also had \$18,583,105.01 deposited in the Local Government Investment Pool (LGIP) administered by the State Treasurer and \$2,300.00 of petty cash on hand. The LGIP is part of the State Pooled Investment Fund. The fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at www.treasury.tn.gov or by calling (615) 741-2956.

Note 3. Resident Accounts Receivable

Receivables at June 30, 2019, consist of the following:

Receivables from residents and their insurance	\$2,739,986.06
Receivable from Medicare	534,240.81
Receivable from U.S. Department of Veterans Affairs	4,027,140.18
Allowance for doubtful accounts	(1,886,660.34)
<u>Net amount reported as resident accounts receivable</u>	<u>\$5,414,706.71</u>

The net receivable amount of \$5,414,706.71 represents the accounts receivable amount that is expected to be collected within one year.

Notes to the Financial Statements (Continued)

Note 4. Due From (to) Primary Government

	<u>June 30, 2019</u>
Department of Finance and Administration – Medicaid current services	1,189,434.16
Department of Finance and Administration – interest on loans	(52,747.79)
Department of the Treasury – retirement contributions	(171,408.14)
<u>Department of Health – health planning fees</u>	<u>(200.02)</u>
<u>Total due from primary government</u>	<u>\$ 965,078.21</u>

Note 5. Restricted Assets

The balances of the Tennessee State Veterans’ Homes Board’s restricted asset accounts at June 30, 2019, are as follows:

Resident trust fund accounts	\$ 94,070.61
Debt service account	460,133.62
Repair and replacement account	2,669,874.82
<u>Technology account</u>	<u>723,743.06</u>
<u>Total restricted assets</u>	<u>\$3,947,822.11</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land and improvements	\$ 2,466,771.37	\$ -	\$ -	\$ 2,466,771.37
Infrastructure	3,725,214.13	-	-	3,725,214.13
Buildings and improvements	53,508,345.30	60,334.31	-	53,568,679.61
Furniture and equipment	4,030,786.32	131,545.48	-	4,162,331.80
<u>Construction in progress</u>	<u>941,844.74</u>	<u>1,794,418.13</u>	<u>-</u>	<u>2,736,262.87</u>
<u>Total</u>	<u>64,672,961.86</u>	<u>1,986,297.92</u>	<u>-</u>	<u>66,659,259.78</u>

Notes to the Financial Statements (Continued)

Less accumulated depreciation:				
Infrastructure	(1,314,151.79)	(159,187.02)	-	(1,473,338.81)
Buildings and improvements	(14,032,989.09)	(1,392,690.53)	-	(15,425,679.62)
Furniture and equipment	(2,501,144.82)	(336,551.80)	-	(2,837,696.62)
Total	(17,848,285.70)	(1,888,429.35)	-	(19,736,715.05)
Capital assets, net	\$46,824,676.16	\$ 97,868.57	\$ -	\$46,922,544.73

Note 7. Accounts Payable and Accruals

Payables at June 30, 2019, consisted of the following:

Payables to suppliers	\$2,022,124.21
Accruals for salaries and benefits	857,469.72
Amount reported as accounts payable and accruals	\$2,879,593.93

The accounts payable and accrued liabilities represent the amounts due within one year.

Note 8. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt outstanding					
Loans	\$4,255,960.77	\$ -	\$ (492,132.55)	\$ 3,763,828.22	\$ 373,289.70
Compensated absences	1,000,635.59	1,432,645.68	(1,438,008.71)	995,272.56	577,258.09
Total long-term liabilities	\$ 5,256,596.36	\$1,432,645.68	\$(1,930,141.26)	\$ 4,759,100.78	\$ 950,547.79

Long-term debt consists of loans from the State of Tennessee.

Loans Payable

Loans, with interest rates ranging from 0.97% to 5%, were issued by the State Funding Board, through the Division of State Government Finance. The loans are due serially to 2033.

Notes to the Financial Statements (Continued)

Debt-service requirements to maturity of the loans at June 30, 2019, are as follows:

<u>For the Year(s) Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 373,289.70	\$135,287.50	\$ 508,577.20
2021	379,327.61	116,487.24	495,814.85
2022	390,409.22	98,179.90	488,589.12
2023	396,411.11	80,826.91	477,238.02
2024	360,689.55	66,964.88	427,654.43
2025 – 2029	1,440,402.34	169,003.71	1,609,406.05
2030 – 2033	423,298.69	24,544.02	447,842.71
Total	\$3,763,828.22	\$691,294.16	\$4,455,122.38

Note 9. Defined Benefit Pension Plan

Plan Description

The Tennessee State Veterans' Homes Board provides full-time employees, as well as part-time employees hired before July 21, 2017, a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at <https://treasury.tn.gov/tcrs>.

Benefits Provided

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

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change

Notes to the Financial Statements (Continued)

in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	141
Inactive employees entitled to but not yet receiving benefits	286
Active employees	640
Total	1,067

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory. The Tennessee State Veterans' Homes Board makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation once an employee has completed a six-month probationary period. By law, employer contributions are required to be paid. For the year ended June 30, 2019, employer contributions for the Tennessee State Veterans' Homes Board were \$2,240,530.62, which is 9.18% of covered payroll. The employer's actuarially determined contribution (ADC) is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Asset

At June 30, 2019, the Tennessee State Veterans' Homes Board reported an asset of \$1,201,767.88. The Tennessee State Veterans' Homes Board's net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate net pension asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability as of the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation

Notes to the Financial Statements (Continued)

Cost-of-living adjustment 2.25%

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvements in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvements projected six years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from the Tennessee State Veterans' Homes Board will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and

Notes to the Financial Statements (Continued)

as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (Asset) (a) - (b)
Balance at June 30, 2017	\$23,990,078	\$25,583,190	\$(1,593,112)
Changes for the year:			
Service cost	1,898,798	-	1,898,798
Interest	1,858,951	-	1,858,951
Differences between expected and actual experience	342,713	-	342,713
Changes in assumptions	-	-	-
Contributions – employer	-	1,600,537	(1,600,537)
Contributions – employees	-	-	-
Net investment income	-	2,166,960	(2,166,960)
Benefit payments, including refunds of employee contributions	(496,348)	(496,348)	-
Administrative expense	-	(58,380)	58,380
Other	-	1	(1)
Net changes	3,604,114	3,212,770	391,344
Balance at June 30, 2018	\$27,594,192	\$28,795,960	\$(1,201,768)

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

The following presents the net pension liability (asset) of the Tennessee State Veterans' Homes Board calculated using the discount rate of 7.25%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Tennessee State Veterans' Homes Board net pension liability (asset)	\$3,293,217	\$(1,201,768)	\$(4,855,214)

Notes to the Financial Statements (Continued)

Pension Expense

For the year ended June 30, 2019, the Tennessee State Veterans' Homes Board recognized pension expense of \$1,903,238.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2019, the Tennessee State Veterans' Homes Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 761,304	\$715,926
Net difference between projected and actual earnings on pension plan investments	-	150,961
Changes in assumptions	352,950	-
Tennessee State Veterans' Homes Board's contributions subsequent to the measurement date of June 30, 2017	2,240,531	-
Total	\$3,354,785	\$866,887

Deferred outflows of resources, resulting from the Tennessee State Veterans' Homes Board's employer contributions of \$2,240,531 subsequent to the measurement date, will be recognized as an increase to net pension asset in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2020	\$ 277,946
2021	101,786
2022	(248,081)
2023	54,003
2024	61,713
Thereafter	-

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

Payable to the Pension Plan

At June 30, 2019, the Tennessee State Veterans' Homes Board reported a payable of \$171,408.14, for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2019.

Notes to the Financial Statements (Continued)

Note 10. Other Postemployment Benefits

Tennessee State Veterans' Homes Board previously offered other postemployment benefits to its retirees and employees who were hired prior to July 1, 2015, and chose coverage through the closed Local Government OPEB Plan (LGOP) administered by the Tennessee Department of Finance and Administration as disclosed in the prior year's report. During the year, the Tennessee State Veteran's Homes Board elected to discontinue that benefit as discussed in Note 13 and has removed the related liabilities and deferred outflows/inflows of resources from the statement of net position.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ 554,322
Changes for the year:	
Service cost	-
Interest	-
Changes of benefit terms	-
Differences between expected and actual experience	-
Change in assumptions	20,191
Benefit payments	-
Special item	(574,513)
<u>Net changes</u>	<u>\$(554,322)</u>
<u>Balance at June 30, 2018</u>	<u>\$ -</u>

Note 11. Commitments and Contingencies

Extended Disability Benefits

The board records the cost of extended disability benefits when paid. The dollar amount of unused extended disability benefits was \$4,381,437.87 at June 30, 2019.

Construction in Progress

At June 30, 2019, outstanding commitments under construction contracts totaled \$164,347.08 for the building of the Cleveland home and \$2,101,142.99 for the building of the Memphis home. The outstanding commitments under construction contracts for the parking lot in Murfreesboro totaled \$5,955.77.

Notes to the Financial Statements (Continued)

Note 12. Insurance-Related Activities

Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The board participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the board based on a percentage of the board's expected loss costs, which includes both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of claims liabilities and the changes in balances of the claims liabilities for the year ended June 30, 2019, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-cafr.html. Since the board participates in the RMF, it is subject to the liability limitations established by statute. The maximum liability for general liability, automobile liability, and medical malpractice liability is \$300,000 per person and \$1,000,000 per occurrence. Claims are paid through the state's RMF. At June 30, 2019, the RMF held \$186 million in cash designated for payment of claims. At June 30, 2019, the scheduled coverage for the board was \$62,974,900 for buildings and \$4,754,900 for furniture and equipment.

Employee Health Insurance

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

Notes to the Financial Statements (Continued)

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

Note 13. Special item

During the year, the Tennessee State Veterans' Homes Board elected to cease providing other postemployment benefits (OPEB) to active employees and retirees. As a result, a special item totaling \$574,513 was recognized in the statement of revenues, expenses, and changes in net position and all OPEB related liabilities and deferred outflows/inflows of resources were removed from the statement of net position.

Note 14. Subsequent event

Subsequent to year-end, a global outbreak of a novel coronavirus (COVID-19) disrupted business activity in the U.S. as people, businesses, and governments reacted to deal with the health issues posed by the virus. COVID-19 was declared a global pandemic by the World Health Organization in March 2020.

Because of COVID-19, the Tennessee State Veterans' Homes Board suspended visitation at all homes on March 13, 2020, and implemented restrictions on employees and residents with positive COVID-19 symptoms or tests.

As of August 7, 2020, the outbreak is ongoing, and it is not possible to estimate the ultimate outcome of COVID-19 on the TSVHB's operations. The TSVHB has received federal assistance through the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund totaling \$2,719,193; however, these funds are not expected to offset all costs and lost revenue associated with COVID-19. The TSVHB's financial statements could potentially be affected by

- reduced patient revenue due to lower census,
- reduced revenue due to patient mix (fewer residents are coming from hospitals for rehabilitation),
- increased costs for personal protective equipment (PPE),

Notes to the Financial Statements (Continued)

- increased costs for paying employees paid time off or extended disability benefits while they are quarantined and staffing their shifts with other employees,
- increased costs for testing residents and employees weekly for COVID-19, and
- increased costs associated with enhanced and more frequent janitorial services.

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

	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 1,898,798	\$ 1,642,120	\$ 1,394,761	\$ 1,402,455	\$ 1,083,079
Interest	1,858,951	1,685,647	1,457,871	1,345,218	1,102,592
Changes in benefit terms	-	-	-	-	-
Differences between expected and actual experience	342,713	(461,946)	329,980	(900,585)	1,005,030
Changes of assumptions	-	494,128	-	-	-
Benefit payments, including refunds of employee contributions	(496,348)	(406,076)	(379,848)	(294,866)	(255,254)
Net change in total pension liability	3,604,114	2,953,873	2,802,764	1,552,222	2,935,447
Total pension liability – beginning	23,990,078	21,036,205	18,233,441	16,681,219	13,745,772
Total pension liability – ending (a)	\$27,594,192	\$23,990,078	\$21,036,205	\$18,233,441	\$16,681,219
Plan fiduciary net position					
Contributions – employer	\$1,600,537	\$1,263,151	\$ 1,146,935	\$ 1,072,613	\$ 1,240,870
Contributions – employee	-	-	-	-	-
Net investment income	2,166,960	2,563,240	564,602	613,736	2,716,964
Benefit payments, including refunds of employee contributions	(496,348)	(406,076)	(379,848)	(294,866)	(255,254)
Administrative expense	(58,380)	(46,392)	(39,255)	(25,792)	(17,447)
Other	(1)				
Net change in plan fiduciary net position	3,212,770	3,373,923	1,292,434	1,365,691	3,685,133
Plan fiduciary net position – beginning	25,583,190	22,209,267	20,916,833	19,551,142	15,866,009
Plan fiduciary net position – ending (b)	\$28,795,960	\$25,583,190	\$22,209,267	\$20,916,833	\$19,551,142
Net pension asset – ending (a) - (b)	\$ (1,201,768)	\$ (1,593,112)	\$ (1,173,062)	\$ (2,683,392)	\$ (2,869,923)

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

Plan fiduciary net position as a percentage of the total pension liability	104.36%	106.64%	105.58%	114.72%	117.2%
Covered payroll	\$22,897,542	\$19,892,144	\$18,000,510	\$16,891,541	\$16,178,218
Net pension liability (asset) as a percentage of covered payroll	(5.25%)	(8.01%)	(6.52%)	(15.89%)	(17.74%)

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available. To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

See notes to required supplementary information.

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

	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$2,240,531	\$2,240,531	\$ -	\$24,406,655	9.18%
2018	1,600,539	1,600,539	-	22,897,542	6.99%
2017	1,263,151	1,263,151	-	19,892,144	6.35%
2016	1,146,935	1,146,935	-	18,000,510	6.37%
2015	1,072,613	1,072,613	-	16,891,541	6.35%
2014	1,240,870	1,240,870	-	16,178,218	7.67%
2013	1,182,398	1,182,398	-	15,415,880	7.67%
2012	1,538,442	1,538,442	-	15,112,397	10.18%
2011	1,461,293	1,461,293	-	14,354,548	10.18%
2010	1,523,890	1,523,890	-	14,417,124	10.57%
2009	1,382,483	1,382,483	-	13,079,309	10.57%

See notes to required supplementary information.

TENNESSEE STATE VETERANS' HOMES BOARD
Required Supplementary Information
Schedule of Changes in Total OPEB Liability and Related Ratios

	2019	2018
Total OPEB liability		
Service cost	\$ -	\$ 74,271
Interest	-	16,520
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions	20,191	(27,962)
Benefit payments	-	-
Special item	(574,513)	-
Net change in total OPEB liability	(554,322)	62,829
Total OPEB liability – beginning	554,322	491,493
Total OPEB liability – ending	\$ -	\$ 554,322
Covered-employee payroll		\$
	\$ -	14,240,971
Total OPEB liability as a percentage of covered-employee payroll	0.00%	3.89%

There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 related to this OPEB plan.

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available. To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

TENNESSEE STATE VETERANS' HOMES BOARD
Required Supplementary Information
Notes to the Required Supplementary Information

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

Valuation date: Actuarially determined contribution rates for fiscal year 2019 were calculated based on the June 30, 2017, actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20% corridor to market value
Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4%
Investment rate of return	7.25%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost-of-living adjustments	2.25%

TENNESSEE STATE VETERANS' HOMES BOARD
Supplementary Information
Supplementary Schedule of Net Position
June 30, 2019

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Clarksville</u>	<u>Cleveland</u>	<u>Memphis</u>	<u>Executive Office</u>	<u>Totals</u>
Assets								
Current assets:								
Cash	\$ 32,150.29	\$41,886.87	\$ 48,166.33	\$ 18,998.07	\$ -	\$ -	\$14,735,072.97	\$14,876,274.53
Resident accounts receivable, net of allowance for doubtful accounts of \$1,886,660.34	1,161,774.43	2,201,134.66	1,161,297.13	890,500.49	-	-	-	5,414,706.71
Miscellaneous receivables	20,208.54	23,169.57	12,591.83	3,126.05	-	-	2,231.28	61,327.27
Due from primary government	165,984.68	179,904.38	265,689.42	372,031.38	-	-	(18,531.65)	965,078.21
Inventories	52,099.45	85,181.29	44,817.83	89,753.79	-	-	-	271,852.36
Prepaid items	28,014.53	28,618.24	32,577.87	64,716.89	-	-	20,623.66	174,551.19
Restricted cash	155,249.89	298,652.06	6,019.04	94,283.24	-	-	-	554,204.23
Total current assets	1,615,481.81	2,858,547.07	1,571,159.45	1,533,409.91	-	-	14,739,396.26	22,317,994.50
Noncurrent assets:								
Restricted cash	785,050.81	790,662.01	788,099.37	306,062.63	-	-	723,743.06	3,393,617.88
Due from federal government	-	-	-	584,305.39	-	-	-	584,305.39
Net pension asset	420,144.23	346,406.24	411,598.63	(82,111.67)	-	-	105,730.45	1,201,767.88
Capital assets:								
Land and improvements	40,540.00	160,544.00	143,000.00	1,310,650.00	800,000.00	12,037.37	-	2,466,771.37
Infrastructure	207,491.67	595,261.18	1,240,412.69	1,682,048.59	-	-	-	3,725,214.13
Accumulated depreciation - infrastructure	(192,673.02)	(556,221.33)	(430,085.80)	(294,358.66)	-	-	-	(1,473,338.81)
Buildings and improvements	8,930,477.47	10,119,685.46	11,440,002.60	23,078,514.08	-	-	-	53,568,679.61
Accumulated depreciation - buildings and improvements	(4,710,082.81)	(5,097,742.57)	(3,609,141.55)	(2,008,712.69)	-	-	-	(15,425,679.62)
Furniture and equipment	1,436,057.66	1,485,229.93	781,486.67	272,193.47	-	-	187,364.07	4,162,331.80
Accumulated depreciation - furniture and equipment	(977,639.11)	(975,475.82)	(570,751.88)	(181,293.56)	-	-	(132,536.25)	(2,837,696.62)
Construction in progress	17,100.00	31,416.30	-	-	2,187,462.68	500,283.89	-	2,736,262.87
Total noncurrent assets	5,956,466.90	6,899,765.40	10,194,620.73	24,667,297.58	2,987,462.68	512,321.26	884,301.33	52,102,235.88
Total assets	7,571,948.71	9,758,312.47	11,765,780.18	26,200,707.49	2,987,462.68	512,321.26	15,623,697.59	74,420,230.38
Deferred outflows of resources								
Deferred outflows related to pensions	977,429.68	957,730.20	960,436.08	141,449.88	-	-	317,739.64	3,354,785.48
Total deferred outflows of resources	977,429.68	957,730.20	960,436.08	141,449.88	-	-	317,739.64	3,354,785.48

TENNESSEE STATE VETERANS' HOMES BOARD
Supplementary Information
Supplementary Schedule of Net Position (Continued)
June 30, 2019

	<u>Murfreesboro</u>	<u>Humboldt</u>	<u>Knoxville</u>	<u>Clarksville</u>	<u>Cleveland</u>	<u>Memphis</u>	<u>Executive Office</u>	<u>Totals</u>
Liabilities								
Current liabilities:								
Accounts payable and accruals	678,887.91	704,648.94	720,695.72	641,914.80	-	-	133,446.56	2,879,593.93
Amounts held in custody for others	32,771.59	48,427.72	6,118.00	16,742.85	-	-	-	104,060.16
Current portion of long-term debt	80,914.65	200,235.84	-	92,139.21	-	-	-	373,289.70
Compensated absences	116,632.07	120,604.78	169,149.15	74,694.33	-	-	96,177.76	577,258.09
Total current liabilities	909,206.22	1,073,917.28	895,962.87	825,491.19	-	-	229,624.32	3,934,201.88
Noncurrent liabilities:								
Long-term debt outstanding, net	670,853.65	1,521,875.16	-	1,197,809.71	-	-	-	3,390,538.52
Compensated absences	84,457.71	87,334.49	122,487.32	54,088.99	-	-	69,645.96	418,014.47
Total noncurrent liabilities	755,311.36	1,609,209.65	122,487.32	1,251,898.70	-	-	69,645.96	3,808,552.99
Total liabilities	1,664,517.58	2,683,126.93	1,018,450.19	2,077,389.89	-	-	299,270.28	7,742,754.87
Deferred inflows of resources								
Deferred inflows related to pensions	273,950.60	248,231.27	268,975.03	(4,973.27)	-	-	80,703.18	866,886.81
Total deferred inflows of resources	273,950.60	248,231.27	268,975.03	(4,973.27)	-	-	80,703.18	866,886.81
Net position								
Net investment in capital assets	3,999,503.56	4,040,586.15	8,994,922.73	22,569,092.31	2,987,462.68	512,321.26	54,827.82	43,158,716.51
Restricted for:								
Debt service	112,410.12	223,784.88	-	71,190.84	-	-	-	407,385.84
Repairs and replacements	785,050.81	790,662.01	788,099.37	306,062.63	-	-	-	2,669,874.82
Technology	-	-	-	-	-	-	723,743.06	723,743.06
Pensions	420,144.23	346,406.24	411,598.63	-	-	-	23,618.78	1,201,767.88
Unrestricted	1,293,801.49	2,383,245.19	1,244,170.31	1,323,394.97	-	-	14,759,274.11	21,003,886.07
Total net position	\$6,610,910.21	\$7,784,684.47	\$11,438,791.04	\$24,269,740.75	\$2,987,462.68	\$512,321.26	\$15,561,463.77	\$69,165,374.18

TENNESSEE STATE VETERANS' HOMES BOARD
Supplementary Information
Supplementary Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

	Murfreesboro	Humboldt	Knoxville	Clarksville	Cleveland	Memphis	Executive Office	Totals
Operating revenue								
Resident service revenue plus contractual adjustments of \$130,617.32 and less provision for bad debts of \$853,516.44	\$16,513,344.18	\$14,815,208.96	\$15,322,757.58	\$12,959,956.70	\$ -	\$ -	\$ -	\$59,611,267.42
Total operating revenue	16,513,344.18	14,815,208.96	15,322,757.58	12,959,956.70	-	-	-	59,611,267.42
Operating expenses								
Administrative and general	1,615,294.66	1,593,448.55	1,542,140.35	951,457.57	-	-	3,326,027.95	9,028,369.08
Nursing services	6,215,722.97	6,385,180.77	6,488,998.88	5,779,631.35	-	-	-	24,869,533.97
Central services	440,206.78	483,396.39	744,708.00	357,605.82	-	-	-	2,025,916.99
Ancillary departments	1,843,944.93	1,626,181.79	1,520,008.44	1,659,005.87	-	-	-	6,649,141.03
Dietary	1,379,933.16	1,282,481.83	1,352,886.79	1,051,353.92	-	-	-	5,066,655.70
Activities	446,411.80	448,840.46	374,879.61	319,069.90	-	-	-	1,589,201.77
Social services	242,369.82	196,744.12	229,703.23	97,973.17	-	-	-	766,790.34
Environmental services	786,489.02	891,357.06	857,844.52	720,538.43	-	-	-	3,256,229.03
Plant operations and maintenance	798,605.86	701,327.98	707,271.30	778,304.45	-	-	-	2,985,509.59
Depreciation	367,317.76	393,404.51	393,185.71	708,858.24	-	-	25,663.13	1,888,429.35
Total operating expenses	14,136,296.76	14,002,363.46	14,211,626.83	12,423,798.72	-	-	3,351,691.08	58,125,776.85
Operating income (loss)	2,377,047.42	812,845.50	1,111,130.75	536,157.98	-	-	(3,351,691.08)	1,485,490.57
Nonoperating revenues (expenses)								
Interest revenue	20,030.21	22,285.18	17,371.44	6,470.50	-	-	291,992.77	358,150.10
Miscellaneous revenue	88,306.22	33,960.65	64,825.69	14,277.87	-	-	50.00	201,420.43
Interest expense	(32,969.19)	(75,375.76)	-	(39,159.17)	-	-	-	(147,504.12)
Miscellaneous expense	(2,400.00)	(27,559.95)	(2,400.00)	(2,400.00)	-	-	(10,322.13)	(45,082.08)
Total nonoperating revenues (expenses)	72,967.24	(46,689.88)	79,797.13	(20,810.80)	-	-	281,720.64	366,984.33
Income (loss) before other revenues and transfers	2,450,014.66	766,155.62	1,190,927.88	515,347.18	-	-	(3,069,970.44)	1,852,474.90
Capital appropriations	-	-	-	73,328.40	1,292,148.66	470,853.17	-	1,836,330.23
Transfers	(2,682,546.93)	(1,295,817.69)	(1,292,897.71)	(770,936.23)	-	-	6,042,198.56	-
Total other revenues and transfers	(2,682,546.93)	(1,295,817.69)	(1,292,897.71)	(697,607.83)	1,292,148.66	470,853	6,042,198.56	1,836,330.23
Special item								
Special item for other postemployment benefits	177,836.86	159,640.26	163,382.19	42,271.14	-	-	31,382.97	574,513.42
Total special item	177,836.86	159,640.26	163,382.19	42,271.14	-	-	31,382.97	574,513.42
Increase (decrease) in net position	(54,695.41)	(370,021.81)	61,412.36	(139,989.51)	1,292,148.66	470,853.17	3,003,611.09	4,263,318.55
Net position - beginning of year	6,665,605.62	8,154,706.28	11,377,378.68	24,409,730.26	1,695,314.02	41,468.09	12,557,852.68	64,902,055.63
Net position - end of year	\$ 6,610,910.21	\$ 7,784,684.47	\$11,438,791.04	\$24,269,740.75	\$2,987,462.68	\$512,321.26	\$15,561,463.77	\$69,165,374.18

TENNESSEE STATE VETERANS' HOMES BOARD
Supplementary Information
Supplementary Schedule of Cash Flows
For the Year Ended June 30, 2019

	Murfreesboro	Humboldt	Knoxville	Clarksville	Cleveland	Memphis	Executive Office	Totals
Cash flows from operating activities								
Receipts from residents and third party payors	\$16,513,219.61	\$13,489,998.69	\$15,039,917.97	\$12,698,242.60	\$ -	\$ -	\$ -	\$57,741,378.87
Resident trust fund receipts	18,276.85	40,193.19	2,057.72	10,233.08	-	-	-	70,760.84
Other miscellaneous receipts	88,207.41	35,135.24	61,799.44	40,421.56	-	-	50.00	225,613.65
Payments to service providers and vendors	(6,935,819.82)	(6,720,324.53)	(6,674,126.69)	(5,529,384.95)	-	-	(1,037,023.44)	(26,896,679.43)
Payments to employees	(6,884,086.14)	(6,906,303.15)	(7,086,939.81)	(6,241,066.60)	-	-	(2,305,997.58)	(29,424,393.28)
Resident trust fund disbursements	(75,233.66)	(35,699.18)	(4,363.75)	(6,082.93)	-	-	-	(121,379.52)
Net cash provided by (used for) operating activities	2,724,564.25	(96,999.74)	1,338,344.88	972,362.76	-	-	(3,342,971.02)	1,595,301.13
Cash flows from noncapital financing activities								
Transfers	(2,682,546.93)	(1,295,817.69)	(1,292,897.71)	(770,936.23)	-	-	6,042,198.56	-
Net cash provided by (used for) noncapital financing activities	(2,682,546.93)	(1,295,817.69)	(1,292,897.71)	(770,936.23)	-	-	6,042,198.56	-
Cash flows from capital and related financing activities								
Purchase and construction of capital assets	(45,954.00)	(41,413.59)	(85,591.48)	-	-	-	-	(172,959.07)
Principal paid on loans from the primary government	(199,129.39)	(200,863.95)	-	(92,139.21)	-	-	-	(492,132.55)
Interest paid on loans from the primary government	(37,117.34)	(79,479.15)	-	(40,310.90)	-	-	-	(156,907.39)
Net cash used for capital and related financing activities	(282,200.73)	(321,756.69)	(85,591.48)	(132,450.11)	-	-	-	(821,999.01)
Cash flows from investing activities								
Interest received	20,030.21	22,285.18	17,371.44	6,470.50	-	-	291,992.77	358,150.10
Net cash provided by investing activities	20,030.21	22,285.18	17,371.44	6,470.50	-	-	291,992.77	358,150.10
Net increase (decrease) in cash	(220,153.20)	(1,692,288.94)	(22,772.87)	75,446.92	-	-	2,991,220.31	1,131,452.22
Cash - beginning of year	1,192,604.19	2,823,489.88	865,057.61	343,897.02	-	-	12,467,595.72	17,692,644.42
Cash - end of year	\$ 972,450.99	\$ 1,131,200.94	\$ 842,284.74	\$ 419,343.94	\$ -	\$ -	\$ 15,458,816.03	\$18,824,096.64
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:								
Operating income (loss)	\$ 2,377,047.42	\$ 812,845.50	\$ 1,111,130.75	\$ 536,157.98	\$ -	\$ -	\$ (3,351,691.08)	\$ 1,485,490.57
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:								
Depreciation	367,317.76	393,404.51	393,185.71	708,858.24	-	-	25,663.13	1,888,429.35
Miscellaneous receipts	88,306.22	33,960.65	64,825.69	37,269.27	-	-	50.00	224,411.83
Trustee fees	(2,400.00)	(2,400.00)	(2,400.00)	(2,400.00)	-	-	-	(9,600.00)
Miscellaneous payments	(17,811.73)	(46,146.95)	(20,709.87)	(9,179.59)	-	-	(13,410.45)	(107,258.59)
Change in assets, liabilities, and deferrals:								
Resident accounts receivable, net	(16,266.12)	(1,392,004.11)	(178,497.53)	(36,732.14)	-	-	-	(1,623,499.90)
Miscellaneous receivable	(1,455.52)	870.15	113.14	(0.03)	-	-	-	(472.26)
Due from primary government	13,378.96	93,681.95	(112,908.14)	(229,564.48)	-	-	3,854.75	(231,556.96)
Inventories	4,829.32	1,157.47	6,851.96	28,500.70	-	-	-	41,339.45
Prepaid items	1,346.99	313.21	3,623.52	6,945.30	-	-	(4,446.48)	7,782.54
Net pension asset	90,367.68	95,850.24	92,381.97	67,612.16	-	-	45,130.95	391,343.00
Deferred outflows of resources	(156,972.35)	(168,176.12)	(162,807.06)	(114,882.06)	-	-	(77,293.51)	(680,131.10)
Noncapital accounts payable and accruals	18,689.38	58,090.96	147,718.13	(16,847.93)	-	-	32,408.29	240,058.83
Amounts held in custody for others	(55,600.10)	4,798.45	(5,445.42)	7,302.47	-	-	-	(48,944.60)
Compensated absences	7,256.48	6,053.35	(10,230.31)	(8,852.72)	-	-	410.17	(5,363.03)
Total OPEB liability	(30,724.07)	(7,409.00)	(2,074.00)	5,628.00	-	-	(5,421.93)	(40,001.00)
Deferred inflows of resources	37,253.93	18,110.00	13,586.34	(7,452.41)	-	-	1,775.14	63,273.00
Net cash provided by (used for) operating activities	\$ 2,724,564.25	\$ (96,999.74)	\$ 1,338,344.88	\$ 972,362.76	\$ -	\$ -	\$ (3,342,971.02)	\$ 1,595,301.13
Noncash capital activities								
Capital appropriations held by the primary government	\$ -	\$ -	\$ -	\$ 50,337.00	\$ 1,292,148.66	\$ 470,853.17	\$ -	\$ 1,813,338.83
Construction costs paid by the primary government	-	-	-	(50,337.00)	(1,292,148.66)	(470,853.17)	-	(1,813,338.83)



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

**Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the Tennessee State Veterans’ Homes Board, a component unit of the State of Tennessee, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the board’s basic financial statements, and have issued our report thereon dated October 16, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency.

- Management did not prepare financial statements in a timely manner

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

Compliance and Other Matters

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

Tennessee State Veterans' Homes Board's Response to Finding

The board's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. The board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
October 16, 2020

Finding and Recommendation

Management did not prepare financial statements in a timely manner

Condition

The Tennessee State Veterans' Homes Board's (TSVHB) management did not prepare financial statements in a timely manner for the year ended June 30, 2019. The statement of net position; the statement of revenues, expenses, and changes in net position; the management's discussion and analysis; the supplementary schedule of net position; and the supplementary schedule of revenues, expenses, and changes in net position were completed on January 2, 2020. The notes to the financial statements and the remaining required supplementary information were completed on January 22, 2020. The statement of cash flows was completed on May 14, 2020, eleven months after the end of the fiscal year.

Criteria

Government Accounting Standards Board Concepts Statement No. 1, *Objectives of Financial Reporting*, paragraph 62 states,

Financial reporting is the means of communicating financial information to users. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.

Additionally, the Government Finance Officers Association's best practices for *Timely Financial Reporting* states, "Therefore, financial reports should be published as soon as possible after the end of the reporting period."

Cause

Management did not make financial statement preparation a priority until our annual audit, which began six months after the end of the fiscal year.

Effect

Management's delay in preparing the financial statements directly affects how timely the audit report can be released to the public. In addition, providing untimely financial information can negatively impact the decision-making ability of the users of the financial reports.

Recommendation

Management should implement procedures to compile financial statements as soon as possible after the fiscal year-end.

Management's Comment

We concur. TSVHB management does provide financial information throughout the year in different formats. The TSVHB management provides the TSVHB monthly and year-to-date financial executive summary reports bi-monthly. The TSVHB management provides the TSVHB executive committee detailed monthly and year-to-date financial statements bi-monthly. The TSVHB annual report, which includes unaudited financial information, is submitted to the Governor by October 1 of each year. The TSVHB is a component unit of the State of Tennessee. Financial statements are submitted in October of each year, which are included in the *Comprehensive Annual Financial Report* that is issued in December of each year. TSVHB will implement controls to ensure financial statements are provided in a timely manner to the Comptroller's Office.

Observation and Comment

Investigation

An investigation is ongoing for the Tennessee State Veterans' Homes Board. Any findings resulting from the investigation will be included in a separate report.