# VETERANS' LAND BOARD OF THE STATE OF TEXAS
# DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM
# BOND-FINANCED HOMES
# AUDITED ANNUAL FINANCIAL REPORT

## AUGUST 31, 2011

# AUDITED ANNUAL FINANCIAL REPORT

# VETERANS' LAND BOARD OF THE STATE OF TEXAS

# DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM

# BOND-FINANCED HOMES

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TEXAS GENERAL LAND OFFICE
ESTABLISHED 1836

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# INDEPENDENT AUDITOR'S REPORT

To the Veterans' Land Board of the State of Texas
Austin, Texas

We have audited the accompanying statements of net assets of the David A. Gloier Texas State Veterans Home Program (the "Bond-Financed Homes") as administered by the Veterans' Land Board (the "Board"), an agency of the State of Texas, as of August 31, 2011, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1, the accompanying financial statements were prepared to present net assets, revenues, expenses and changes in net assets and cash flows pursuant to the requirements of the Continuing Disclosure Agreement between the Veterans' Land Board of the State of Texas and The Bank of New York Trust Company, N.A. (the "Trustee"), related only to the Bond-Financed Homes referred to as the Project in the Trust Indenture between the Board and the Trustee as the four (4) veterans homes re-financed with the proceeds of the Veterans' Land Board of the State of Texas Veterans Homes Revenue Refunding Bonds, Series 2002, and as such, are not intended to be a complete presentation of the David A. Gloier Texas State Veterans Home Program's assets, liabilities, revenues, and expenses.

In our opinion, the financial statements referred to above present fairly, in all material respects, the changes in net assets of the Bond Financed Homes as administered by the Board as of August 31, 2011, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, pursuant to the requirements of the Continuing Disclosure Agreement referred to in Note 1, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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, who 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.

This report is intended solely for the information and use of the Board and the Trustee and is not intended to be and should not be used by anyone other than these specified parties or such other parties that may be included in a limited distribution by either the Board or the Trustee.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
December 20, 2011

AUDITED ANNUAL FINANCIAL REPORT

VETERANS' LAND BOARD OF THE STATE OF TEXAS

DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM

BOND-FINANCED HOMES

# MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED AUGUST 31, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)

## *INTRODUCTION*

This section of the Annual Financial Report of the Bond-Financed Homes in the David A. Gloier Texas State Veterans Home Program Report (Annual Financial Report) presents our discussion and analysis of the Bond-Financed Homes' financial performance during the fiscal years ended on August 31, 2011, August 31, 2010, and August 31, 2009. This MD & A should be read in conjunction with the financial statements and accompanying notes to the financial statements. In particular, Note 1 discusses in detail the limited scope of this Annual Financial Report. Two prior fiscal years information is shown as needed for comparative purposes.

The Program is administered by the Veterans' Land Board (Board), which is an agency of the state of Texas.

In 1997, the 75th Texas Legislature amended Chapter 164, Natural Resources Code, authorizing the Board to issue revenue bonds in connection with the construction and operation of veterans homes. A veterans home is defined in Chapter 164 as "a life care facility, retirement home, retirement village, home for the aging, or other facility that furnishes shelter, food, medical attention, nursing services, medical services, social activities, or other personal services or attention to veterans."

Subsequent to the passage of the legislation, the Board began an intensive site selection process and ultimately approved the construction of four new Bond-Financed Homes located in Temple, Floresville, Big Spring, and Bonham, Texas. In 1998 and 2000, revenue bonds were issued to provide the required 35 percent state matching funds necessary to participate in the United States Department of Veterans Affairs (USDVA) State Veterans Homes Construction Grant Program for the construction of the Bond-Financed Homes. In Fiscal Year 2002, the Board issued the Series 2002 Refunding Bonds to replace all previously issued veterans homes revenue bonds.

Construction on the Temple and Floresville sites began in 1998, and both Bond-Financed Homes began admitting residents in December 2000. The Bond-Financed Homes in Big Spring and Bonham began construction in 2000 and began admissions in March and June 2001, respectively. All four of the facilities continue to accept new residents. As of August 31, 2011, August 31, 2010, and August 31, 2009, the occupancy levels in the four facilities were as shown in ***Table 1*** and ***Table 2*** on page 4 and 5.

In 2003, the Tex. Const. Art. III, Section 49-b was amended to provide for the use of receipts and assets of Veterans' Land Fund and Veterans' Housing Assistance Funds I and II not needed for the purposes of the funds to pay debt service on any revenue bonds issued by the Board and to plan and design, construct, acquire, own, operate, maintain, enlarge, improve, furnish, or equip veterans homes.

Table 1

**OCCUPANCY AT AUGUST 31, 2011**
**With Comparative Totals for August 31, 2010**

| | | | August 31, 2011 | | August 31, 2010 | |
|---|---|---|---|---|---|---|
| **Facility** | **Location** | **Total Number of Beds in Home** | **Number of Residents*** | **Percentage of Beds Occupied** | **Number of Residents*** | **Percentage of Beds Occupied** |
| William R. Courtney Texas State Veterans Home | Temple | 160 | 156 | 97.50 | 156 | 97.50 |
| Frank M. Tejeda Texas State Veterans Home | Floresville | 160 | 156 | 97.50 | 153 | 95.63 |
| Lamun-Lusk-Sanchez Texas State Veterans Home | Big Spring | 160 | 152 | 95.00 | 153 | 95.63 |
| Clyde W. Cosper Texas State Veterans Home | Bonham | 160 | 155 | 96.88 | 157 | 98.13 |
| **Totals** | | **640** | **619** | 96.72 | **619** | 96.72 |

* Includes paid resident bedholds.

Table 2

**OCCUPANCY AT AUGUST 31, 2010**
**With Comparative Totals for August 31, 2009**

| Facility | Location | Total Number of Beds in Home | August 31, 2010 Number of Residents* | August 31, 2010 Percentage of Beds Occupied | August 31, 2009 Number of Residents* | August 31, 2009 Percentage of Beds Occupied |
|---|---|---|---|---|---|---|
| William R. Courtney Texas State Veterans Home | Temple | 160 | 156 | 97.50 | 159 | 99.38 |
| Frank M. Tejeda Texas State Veterans Home | Floresville | 160 | 153 | 95.63 | 155 | 96.88 |
| Lamun-Lusk-Sanchez Texas State Veterans Home | Big Spring | 160 | 153 | 95.63 | 159 | 99.38 |
| Clyde W. Cosper Texas State Veterans Home | Bonham | 160 | 157 | 98.13 | 157 | 98.13 |
| **Totals** | | 640 | 619 | 96.72 | 630 | 98.44 |

* Includes paid resident bedholds.

The Bond-Financed Homes provide long-term care for qualified veterans, their spouses, and certain Gold Star parents of deceased veterans. The Board is under contract with Care Inns of Texas, Ltd. for the management and operation of the Bond-Financed Homes located in Temple, Floresville, and Bonham, and with Senior Dimensions, Inc. for the management and operations of the Bond-Financed Home located in Big Spring. The USDVA pays a daily per diem amount to the Board for each day's stay in a home by a qualified veteran. This daily amount is applied as a credit to the daily room rate charged to each veteran resident.

Effective May 29, 2009, the Veterans Benefits, Health Care, and Information Technology Act, (Pub.L. 109-461) modified the rate paid by the United States Department of Veterans Affairs (VA) to veterans with service-connected disabilities for care in State Veterans Homes. 38 U.S.C. § 1745. The new statute states that the VA will pay a new VA Per Diem rate that is different from the regular VA Per Diem rate when a veteran has a service-connected disability rated at 70% or more and is in need of nursing home care.

## *OVERVIEW OF THE FINANCIAL STATEMENTS*

The Bond-Financed Homes are self-supporting and follow proprietary fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements offer short-term and long-term financial information about the activities and operations of the Bond-Financed Homes.

### FINANCIAL STATEMENTS

The statement of net assets (page 10) presents the financial position of the Bond-Financed Homes at the end of the applicable fiscal year. The statement includes assets and liabilities of the Bond-Financed Homes. Net assets are the difference between total assets and liabilities and are an indicator of the current fiscal condition of the Bond-Financed Homes.

The statement of revenues, expenses, and changes in net assets (page 11) distinguishes operating from nonoperating revenues and expenses. The change in net assets measures the difference between current year revenues and expenses. Over time, increases and decreases in net assets can indicate whether the Bond-Financed Homes' financial position is improving or deteriorating.

The statement of cash flows (page 12) is concerned solely with flows of cash. A reconciliation of the difference between cash flows from operating activities and operating income on the statement of revenues, expenses, and changes in net assets is presented at the end of the statement of cash flows.

### NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is integral to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 13 of this report.

## *FINANCIAL ANALYSIS OF THE TEXAS STATE VETERANS HOME PROGRAM*

NET ASSETS

The Bond-Financed Homes' net assets totaled $4,730,147.63 at the end of the fiscal year 2011, compared to $6,395,493.32 at the end of the fiscal year 2010, and to $6,768,344.50 at the end of the fiscal year 2009. In Fiscal Year 2011, a portion of net assets (29.04%) reflects its investment in capital assets, including land, buildings, and furniture and equipment, less any outstanding debt used to acquire those assets. The Bond-Financed Homes use these assets to provide skilled nursing care to veterans; consequently, these assets are not available for future spending. The remaining portion of net assets (70.96%) represents resources that are subject to restrictions by revenue bond covenants on how they may be used. A summary of assets, liabilities, and net assets at August 31, 2011, August 31, 2010, and August 31, 2009, is shown in ***Table 3*** and ***Table 4*** on page 7.

CHANGES IN NET ASSETS

The Bond-Financed Homes experienced a current year operating gain of $239,645.24, compared to the gain of $1,539,860.23 for the Fiscal Year 2010 and to a gain of $445,204.80 for Fiscal Year 2009. Included in the gain for Fiscal Year 2011 is a non-cash depreciation expense of $1,832,159.64 and a provision for bad debt of $387,656.17. This compares to a non-cash depreciation expense of $1,830,640.65 and a provision for bad debt of $26,304.07 for Fiscal Year 2010, and, to a non-cash depreciation expense of $1,828,088.79 and a provision for bad debt of ($40,372.52) for Fiscal Year 2009.

Effective September 2007, the Bond-Financed Homes began funding related administrative expenses through monthly transfers to the Veterans' Administrative Fund 0522, totaling $537,087.13 during Fiscal Year 2011, $577,296.00 during Fiscal Year 2010 and $517,968.00 during Fiscal Year 2009.

A summary of the statement of revenues, expenses, and changes in net assets at August 31, 2011, August 31, 2010, and August 31, 2009 is shown in ***Table 5*** and ***Table 6*** on page 8.

## *CAPITAL AND DEBT ADMINISTRATION*

CAPITAL ASSETS

The Bond-Financed Homes' investment in capital assets as of August 31, 2011 amounts to $43,032,974.44, net of accumulated depreciation of $19,439,326.09, leaving a book value of $23,593,648.35. Depreciation charges for the year totaled $1,832,159.64. This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

This compares to capital assets as of August 31, 2010, of $43,081,057.44, net of accumulated depreciation of $17,655,249.45 and a book value of $25,425,807.99, and, to capital assets as of August 31, 2009, of $43,081,365.24, net of accumulated depreciation of $15,836,516.60 and a book value of $27,244,848.64. Depreciation charges for Fiscal Year 2010 totaled $1,830,640.65, and, depreciation charges for Fiscal Year 2009 totaled $1,828,088.79. Additional information on capital assets can be found in Note 2 on pages 17 through 19 of this report.

DEBT ADMINISTRATION

The Bond-Financed Homes' long-term debt balance at August 31, 2011 was $22,220,000.00, consisting of current and noncurrent balances of $425,000.00 and $21,795,000.00, respectively. This compares to a total balance of $22,620,000.00 at the end of August 31, 2010, consisting of current and noncurrent balances of $400,000.00 and $22,220,000.00, respectively, and, to a total balance of $22,995,000.00 at August 31, 2009, consisting of current and noncurrent balances of $375,000.00 and $22,620,000.00, respectively.

## *REQUESTS FOR INFORMATION*

This financial report is designed to provide a general overview of the finances for the Bond-Financed Homes in the David A. Gloier Texas State Veterans Home Program of the Veterans' Land Board of the state of Texas. Questions concerning any of the information provided in the report or requests for additional information should be addressed to: Texas General Land Office and Veterans' Land Board, Financial Reporting, 1700 North Congress Avenue, Room 700, Austin, Texas, 78701.

Table 3

**NET ASSETS AT AUGUST 31, 2011**
**With Comparative Totals for August 31, 2010**

| | As of 08-31-2011 | As of 08-31-2010 | Amount of Increase (Decrease) | Percentage of Change |
|---|---|---|---|---|
| | $ | $ | $ | |
| Current Assets | 8,768,819.74 | 8,754,397.01 | 14,422.73 | 0.16 |
| Non-Current Assets | 28,153,085.35 | 29,715,178.99 | (1,562,093.64) | (5.26) |
| **Total Assets** | **36,921,905.09** | **38,469,576.00** | **(1,547,670.91)** | **(4.02)** |
| Current Liabilities | 5,837,320.46 | 5,564,711.68 | 272,608.78 | 4.90 |
| Non-Current Liabilities | 26,354,437.00 | 26,509,371.00 | (154,934.00) | (0.58) |
| **Total Liabilities** | **32,191,757.46** | **32,074,082.68** | **117,674.78** | **0.37** |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,373,648.35 | 2,805,807.99 | (1,432,159.64) | (51.04) |
| Restricted for the Texas State Veterans Home Program | 3,356,499.28 | 3,589,685.33 | (233,186.05) | (6.50) |
| **Total Net Assets** | **4,730,147.63** | **6,395,493.32** | **(1,665,345.69)** | **(26.04)** |

Table 4

**NET ASSETS AT AUGUST 31, 2010**
**With Comparative Totals for August 31, 2009**

| | As of 08-31-2010 | As of 08-31-2009 | Amount of Increase (Decrease) | Percentage of Change |
|---|---|---|---|---|
| | $ | $ | $ | |
| Current Assets | 8,754,397.01 | 9,955,592.09 | (1,201,195.08) | (12.07) |
| Non-Current Assets | 29,715,178.99 | 27,244,848.64 | 2,470,330.35 | 9.07 |
| **Total Assets** | **38,469,576.00** | **37,200,440.73** | **1,269,135.27** | **3.41** |
| Current Liabilities | 5,564,711.68 | 7,812,096.23 | (2,247,384.55) | (28.77) |
| Non-Current Liabilities | 26,509,371.00 | 22,620,000.00 | 3,889,371.00 | 17.19 |
| **Total Liabilities** | **32,074,082.68** | **30,432,096.23** | **1,641,986.45** | **5.40** |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,805,807.99 | 4,249,848.64 | (1,444,040.65) | (33.98) |
| Restricted for the Texas State Veterans Home Program | 3,589,685.33 | 2,518,495.86 | 1,071,189.47 | 42.53 |
| **Total Net Assets** | **6,395,493.32** | **6,768,344.50** | **(372,851.18)** | **(5.51)** |

Table 5

**CHANGES IN NET ASSETS AT AUGUST 31, 2011**
**With Comparative Totals for August 31, 2010**

| | For the Year-Ended | | Amount of | Percentage of |
|---|---|---|---|---|
| | 08-31-2011 | 08-31-2010 | Change | Change |
| | $ | $ | $ | |
| Operating Revenues | 38,882,525.98 | 37,245,691.08 | 1,636,834.90 | 4.39 |
| Operating Expenses | (38,642,880.74) | (35,705,830.85) | (2,937,049.89) | 8.23 |
| **Operating Income** | **239,645.24** | **1,539,860.23** | **(1,300,214.99)** | (84.44) |
| Non-Operating Revenues | 58,865.98 | 99,818.96 | (40,952.98) | (41.03) |
| Non-Operating Expenses | (1,426,769.78) | (1,435,234.37) | 8,464.59 | (0.59) |
| **Non-Operating Loss** | **(1,367,903.80)** | **(1,335,415.41)** | **(32,488.39)** | 2.43 |
| Transfers In/Out | (537,087.13) | (577,296.00) | 40,208.87 | (6.97) |
| **Transfers** | **(537,087.13)** | **(577,296.00)** | **40,208.87** | (6.97) |
| **Changes in Net Assets** | **(1,665,345.69)** | **(372,851.18)** | **(1,292,494.51)** | 346.65 |

Table 6

**CHANGES IN NET ASSETS AT AUGUST 31, 2010**
**With Comparative Totals for August 31, 2009**

| | For the Year-Ended | | Amount of | Percentage of |
|---|---|---|---|---|
| | 08-31-2010 | 08-31-2009 | Change | Change |
| | $ | $ | $ | |
| Operating Revenues | 37,245,691.08 | 37,370,438.85 | (124,747.77) | (0.33) |
| Operating Expenses | (35,705,830.85) | (36,925,234.05) | 1,219,403.20 | (3.30) |
| **Operating Income** | **1,539,860.23** | **445,204.80** | **1,094,655.43** | 245.88 |
| Non-Operating Revenues | 99,818.96 | 113,667.76 | (13,848.80) | (12.18) |
| Non-Operating Expenses | (1,435,234.37) | (1,457,239.59) | 22,005.22 | (1.51) |
| **Non-Operating Loss** | **(1,335,415.41)** | **(1,343,571.83)** | **8,156.42** | (0.61) |
| Transfers Out | (577,296.00) | (517,968.00) | (59,328.00) | 11.45 |
| **Transfers** | **(577,296.00)** | **(517,968.00)** | **(59,328.00)** | 11.45 |
| **Changes in Net Assets** | **(372,851.18)** | **(1,416,335.03)** | **1,043,483.85** | (73.67) |

AUDITED ANNUAL FINANCIAL REPORT

VETERANS' LAND BOARD OF THE STATE OF TEXAS

DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM

BOND-FINANCED HOMES

# FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2011

# STATEMENT OF NET ASSETS
# DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM
# BOND-FINANCED HOMES

**August 31, 2011**

**(With Comparative Totals for August 31, 2010 and August 31, 2009)**

| | TOTALS | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| ***ASSETS*** | $ | $ | $ |
| Current Assets (Note 1): | | | |
| Cash and Cash Equivalents (Note 4): | | | |
| Cash in State Treasury | 3,284,703.77 | 3,731,937.69 | 4,708,332.06 |
| Cash Equivalents | 3,689.76 | 6,314.89 | 4,180.60 |
| Total Cash and Cash Equivalents | 3,288,393.53 | 3,738,252.58 | 4,712,512.66 |
| Investments - Securities at Market Value (Note 4) | 694,909.65 | 707,504.40 | 718,352.90 |
| Receivables: | | | |
| Federal Receivables | 3,260,393.15 | 2,508,612.62 | 2,823,496.33 |
| Interest Receivables | 3,900.34 | 5,016.89 | 5,959.24 |
| Accounts Receivable | 2,611,342.97 | 2,498,727.44 | 2,372,421.97 |
| Allowance for Doubtful Accounts | (1,091,373.09) | (703,716.92) | (677,412.85) |
| Due from Other Funds | 1,253.19 | 0.00 | 261.84 |
| Total Current Assets | 8,768,819.74 | 8,754,397.01 | 9,955,592.09 |
| Non-Current Assets: | | | |
| Deferred Outflow of Resources | 4,559,437.00 | 4,289,371.00 | 0.00 |
| Capital Assets (Note 2): | | | |
| Depreciable Capital Assets: | | | |
| Vehicles, Boats, and Aircraft | 46,501.14 | 46,501.14 | 46,501.14 |
| Less Accumulated Depreciation | (43,732.82) | (37,089.86) | (30,446.90) |
| Furniture and Equipment | 120,740.81 | 168,823.81 | 288,196.61 |
| Less Accumulated Depreciation | (75,149.66) | (111,596.86) | (232,452.85) |
| Buildings | 42,005,667.49 | 42,005,667.49 | 42,005,667.49 |
| Less Accumulated Depreciation | (19,201,378.61) | (17,387,497.73) | (15,573,616.85) |
| Non-Depreciable Capital Assets: | | | |
| Land | 741,000.00 | 741,000.00 | 741,000.00 |
| Amortizable Intangible Assets: | | | |
| Computer Software | 119,065.00 | 119,065.00 | 0.00 |
| Less Accumulated Amortization | (119,065.00) | (119,065.00) | 0.00 |
| Total Non-Current Assets | 28,153,085.35 | 29,715,178.99 | 27,244,848.64 |
| ***TOTAL ASSETS*** | 36,921,905.09 | 38,469,576.00 | 37,200,440.73 |
| ***LIABILITIES*** | | | |
| Current Liabilities: | | | |
| Payables: | | | |
| Vouchers and Accounts Payable (Note 1) | 5,294,108.89 | 5,045,899.76 | 7,316,331.18 |
| Debt Service Interest Payable | 115,729.17 | 117,812.50 | 119,765.63 |
| Due to Other Funds | 2,482.40 | 999.42 | 999.42 |
| Revenue Bonds Payable (Note 6) | 425,000.00 | 400,000.00 | 375,000.00 |
| Total Current Liabilities | 5,837,320.46 | 5,564,711.68 | 7,812,096.23 |
| Non-Current Liabilities: | | | |
| Revenue Bonds Payable (Note 6) | 21,795,000.00 | 22,220,000.00 | 22,620,000.00 |
| Hedging Derivative Instruments | 4,559,437.00 | 4,289,371.00 | 0.00 |
| Total Non-Current Liabilities | 26,354,437.00 | 26,509,371.00 | 22,620,000.00 |
| ***TOTAL LIABILITIES*** | 32,191,757.46 | 32,074,082.68 | 30,432,096.23 |
| ***NET ASSETS*** | | | |
| Invested in Capital Assets, Net of Related Debt | 1,373,648.35 | 2,805,807.99 | 4,249,848.64 |
| Restricted for the Texas State Veterans Home Program | 3,356,499.28 | 3,589,685.33 | 2,518,495.86 |
| ***NET ASSETS, AUGUST 31, 2011*** | $ 4,730,147.63 | $ 6,395,493.32 | $ 6,768,344.50 |

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

# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
# DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM
# BOND-FINANCED HOMES

**For the Year Ended August 31, 2011**

**(With Comparative Totals for the Year Ended August 31, 2010 and August 31, 2009)**

| | TOTALS | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| ***OPERATING REVENUES*** | $ | $ | $ |
| Charges for Services: | | | |
| Veterans Administration Per Diem | 18,100,942.26 | 16,541,339.83 | 14,247,724.85 |
| Resident Payments | 11,904,343.78 | 12,564,869.06 | 14,010,369.32 |
| Medicare Reimbursements | 4,603,162.68 | 3,662,167.40 | 4,526,109.62 |
| Medicaid Revenues | 4,021,251.80 | 4,234,886.85 | 4,361,452.14 |
| Other Assistance Payments | 238,708.30 | 228,575.93 | 215,718.78 |
| Third Party Reimbursements | 7,429.33 | 6,098.56 | 8,681.50 |
| Miscellaneous Income | 6,687.83 | 7,753.45 | 382.64 |
| ***TOTAL OPERATING REVENUES*** | 38,882,525.98 | 37,245,691.08 | 37,370,438.85 |
| ***OPERATING EXPENSES*** | | | |
| Professional Fees and Services | 34,306,925.95 | 32,235,244.94 | 33,296,955.65 |
| Travel | 36.50 | (12.96) | 2,011.12 |
| Materials and Supplies | 1,992,664.94 | 1,480,564.50 | 1,021,666.85 |
| Repairs and Maintenance | 500,736.12 | 149,703.72 | 749,681.21 |
| Printing and Reproduction | 0.00 | 0.00 | 12,580.43 |
| Depreciation and Amortization | 1,832,159.64 | 1,830,640.65 | 1,828,088.79 |
| Other Operating Expenses | 10,357.59 | 9,690.00 | 14,250.00 |
| ***TOTAL OPERATING EXPENSES*** | 38,642,880.74 | 35,705,830.85 | 36,925,234.05 |
| ***OPERATING INCOME*** | 239,645.24 | 1,539,860.23 | 445,204.80 |
| ***NONOPERATING REVENUES/(EXPENSES)*** | | | |
| Federal Revenues | 192.19 | 295.42 | 0.00 |
| Gifts/Pledges/Donations | 6,840.00 | 26,347.83 | 2,558.34 |
| Investment Income | 50,799.57 | 71,153.69 | 109,135.27 |
| Net Increase in Fair Value of Investments | 1,034.22 | 2,022.02 | 1,974.15 |
| Other Benefit Payments | (5,195.11) | 0.00 | 0.00 |
| Interest Expense | (1,411,666.67) | (1,435,234.37) | (1,457,239.59) |
| Claims and Judgements | (9,908.00) | 0.00 | 0.00 |
| ***TOTAL NONOPERATING REVENUES/(EXPENSES)*** | (1,367,903.80) | (1,335,415.41) | (1,343,571.83) |
| ***INCOME/(LOSS) BEFORE OTHER REVENUES, (EXPENSES), GAINS/(LOSSES) AND TRANSFERS*** | (1,128,258.56) | 204,444.82 | (898,367.03) |
| ***OTHER REVENUES, (EXPENSES), GAINS/(LOSSES) AND TRANSFERS*** | | | |
| Transfers In | 81,692.88 | 0.00 | 0.00 |
| Transfers Out | (618,780.01) | (577,296.00) | (517,968.00) |
| ***TOTAL OTHER REVENUES, (EXPENSES), GAINS/(LOSSES) AND TRANSFERS*** | (537,087.13) | (577,296.00) | (517,968.00) |
| ***CHANGE IN NET ASSETS*** | (1,665,345.69) | (372,851.18) | (1,416,335.03) |
| ***NET ASSETS, AUGUST 31, 2010*** | 6,395,493.32 | 6,768,344.50 | 8,184,679.53 |
| ***NET ASSETS, AUGUST 31, 2011*** | $ 4,730,147.63 | $ 6,395,493.32 | $ 6,768,344.50 |

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

# STATEMENT OF CASH FLOWS
# DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM
# BOND-FINANCED HOMES

**For the Year Ended August 31, 2011**
**(With Comparative Totals for the Year Ended August 31, 2010 and August 31, 2009)**

| | TOTALS | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| *INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (Note 1)* | $ | $ | $ |
| *OPERATING ACTIVITIES* | | | |
| Receipts from Residents | 12,358,112.97 | 12,674,276.03 | 13,728,645.07 |
| Receipts from Veterans Administration | 17,359,164.90 | 17,263,075.83 | 13,936,754.67 |
| Receipts from Medicare | 4,598,984.89 | 3,597,198.00 | 4,531,950.88 |
| Receipts from Medicaid | 4,067,604.82 | 4,189,697.24 | 4,420,906.59 |
| Receipts from Gifts/Pledges/Donations | 6,840.00 | 26,347.83 | 2,558.34 |
| Other Operating Cash Receipts | 338,785.10 | 231,492.24 | 238,090.05 |
| Payments to Suppliers of Goods and Services | (36,881,615.96) | (36,648,830.31) | (32,894,034.69) |
| Other Operating Payments | (36.50) | (3,000.00) | 0.00 |
| *NET CASH PROVIDED BY OPERATING ACTIVITIES* | 1,847,840.22 | 1,330,256.86 | 3,964,870.91 |
| *NONCAPITAL FINANCING ACTIVITIES* | | | |
| Transfers from Other Funds | 81,692.88 | 0.00 | 0.00 |
| Transfers to Other Funds | (619,779.43) | (577,296.00) | (517,346.48) |
| *NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES* | (538,086.55) | (577,296.00) | (517,346.48) |
| *CAPITAL AND RELATED FINANCING ACTIVITIES* | | | |
| Payments for Additions to Capital Assets | (11,600.00) | 0.00 | (48,142.20) |
| Payments for Debt Service Principal | (400,000.00) | (375,000.00) | (350,000.00) |
| Payments for Debt Service Interest | (1,413,750.00) | (1,437,187.50) | (1,459,062.50) |
| *NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES* | (1,825,350.00) | (1,812,187.50) | (1,857,204.70) |
| *INVESTING ACTIVITIES* | | | |
| Receipts from Interest and Investment Income | 52,108.31 | 72,096.04 | 113,448.93 |
| Proceeds from Sale of Investments | 1,813,998.17 | 1,813,000.00 | 17,887,585.00 |
| Payments to Acquire Investments | (1,800,369.20) | (1,800,129.48) | (18,600,015.18) |
| *NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES* | 65,737.28 | 84,966.56 | (598,981.25) |
| *INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS* | (449,859.05) | (974,260.08) | 991,338.48 |
| *CASH AND CASH EQUIVALENTS, AUGUST 31, 2010* | 3,738,252.58 | 4,712,512.66 | 3,721,174.18 |
| *CASH AND CASH EQUIVALENTS, August 31, 2011* | $ 3,288,393.53 | $ 3,738,252.58 | $ 4,712,512.66 |
| *RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES* | | | |
| *OPERATING INCOME* | 239,645.24 | 1,539,860.23 | 445,204.80 |
| *ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES* | | | |
| Depreciation and Amortization | 1,832,159.64 | 1,830,640.65 | 1,828,088.79 |
| Classification Differences - Other | (8,263.11) | 26,347.83 | 2,558.34 |
| Increase in Receivables | (864,396.06) | 188,578.24 | (756,077.56) |
| Increase (Decrease) in Allowance for Doubtful Accounts | 387,656.17 | 26,304.07 | (40,372.52) |
| (Increase) Decrease in Other Assets | (1,253.19) | 557.26 | (261.84) |
| Increase (Decrease) in Payables | 259,809.13 | (2,282,031.42) | 2,485,730.90 |
| Increase (Decrease) in Other Liabilities | 2,482.40 | 0.00 | 0.00 |
| *TOTAL ADJUSTMENTS* | 1,608,194.98 | (209,603.37) | 3,519,666.11 |
| *NET CASH PROVIDED BY OPERATING ACTIVITIES* | $ 1,847,840.22 | $ 1,330,256.86 | $ 3,964,870.91 |
| *NON-CASH INVESTING ACTIVITIES* | | | |
| Unrealized Gain on Investments | 1,034.22 | 2,022.02 | 1,974.15 |
| *TOTAL NON-CASH TRANSACTIONS* | $ 1,034.22 | $ 2,022.02 | $ 1,974.15 |

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

AUDITED ANNUAL FINANCIAL REPORT

VETERANS' LAND BOARD OF THE STATE OF TEXAS

DAVID A. GLOIER TEXAS STATE VETERANS HOME PROGRAM

BOND-FINANCED HOMES

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2011

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## *REPORTING ENTITY*

The Veterans' Land Board (the Board) is an agency of the state of Texas.

Tex. Const. Art III, §49-b created the Board in 1946 to provide loans to veterans for the purchase of land in the state of Texas. In 1983, §49-b was amended to include assistance to veterans buying homes in Texas. In 1997, Tex. Nat. Res. Code Ann., §164 was amended to include the construction and operation of veterans nursing homes. In 2001, Tex. Nat. Res. Code Ann., §164 was again amended to provide for Texas State Veterans Cemeteries. In 2003, the Tex. Const. Art. III, Section 49-b was amended to provide for the use of receipts and assets of the Veterans' Land Fund and Veterans' Housing Assistance Funds I and II not needed for the purposes of the funds to pay debt service on any revenue bonds issued by the Board and to plan and design, construct, acquire, own, operate, maintain, enlarge, improve, furnish, or equip veterans homes.

The commissioner of the Texas General Land Office, serving as chairman, along with two citizens appointed by the governor, comprise the membership of this Board. Citizen members are appointed to four-year terms, with one term expiring every even-numbered year. Citizen members were eligible to receive actual travel expenses while in the performance of their official duties during Fiscal Year 2011. The citizen members serving on this Board at August 31, 2011 were:

| Member | City | Term Expires |
|---|---|---|
| Alan K. Sandersen | Missouri City | 12-29-2014 |
| Alan L. Johnson | Harlingen | 12-29-2012 |

The David A. Gloier Texas State Veterans Home Program (the Program) is administered by the Board and provides long-term skilled nursing care to eligible Texas veterans through the ownership and operation of veterans homes (the Homes) located in Temple, Floresville, Big Spring, Bonham, McAllen, El Paso, and Amarillo, Texas. A new home is under construction in Tyler, Texas is nearing completion and is scheduled to open in November 2011. Also, a new home in Richmond, Texas is currently in the planning stages.

A portion of the costs related to the construction of the homes located in Temple, Floresville, Big Spring, and Bonham (collectively, the Bond-Financed Homes) was funded with the proceeds of the Veterans' Land Board of the State of Texas Veterans Home Revenue Bonds (Temple and Floresville Projects), Series 1998 (Series 1998 Bonds) and the Veterans' Land Board of the State of Texas Veterans Home Revenue Bonds, Series 2000 (Series 2000 Bonds) (which refinanced the Series 1998 Bonds and also provided new money for a portion of the construction of the Big Spring and Bonham Homes). The Series 1998 and Series 2000 Bonds were subsequently refunded by the Veterans' Land Board of the State of Texas Veterans Homes Revenue Refunding Bonds, Series 2002 (Series 2002 Refunding Bonds).

This Audited Annual Financial Report of the Bond-Financed Homes in the David A. Gloier Texas State Veterans Home Program (Annual Financial Report) is required under the terms of a Continuing Disclosure Agreement (the Agreement) between the Board and The Bank of New York Mellon Trust Company, N.A. (the Trustee), trustee for the Series 2002 Refunding Bonds. Per the terms of the Agreement, the Audited Annual Financial report applies only to the "Project," which is defined in the Trust Indenture related to the Series 2002 Refunding Bonds as the four veterans homes financed and refinanced with the Series 2000 Bonds. Therefore, the information contained in this Audited Annual Financial Report applies only to the Bond-Financed Homes.

The accompanying financial statements present the operations of the Bond-Financed Homes, whose revenue streams are pledged to the Series 2002 Refunding Bonds. There are additional assets related to the Bond-Financed Homes that are maintained in other state funds including a collateral account that provides additional security to investors in the Series 2002 Refunding Bonds.

The Homes in McAllen, El Paso, Amarillo, Tyler, and Richmond, were or will be financed through sources unrelated to the issuance of revenue bonds and are thus not a part of this Audited Annual Financial Report.

Approximately 65% of the construction costs of the Bond-Financed Homes were obtained through construction grants from the United States Department of Veterans Affairs (USDVA). The grants do not have to be repaid unless a Bond-Financed Home receiving a grant ceases to operate as a veterans home within 20 years from the date of the grant. In such an event, the Board would owe to the USDVA an amount based approximately on the undepreciated basis of the Bond-Financed Home at that time.

## *OPERATIONS*

The Bond-Financed Homes are operated by other organizations under agreements with the Board. The operations generally provide that the Board owns the revenue streams of the Bond-Financed Homes and is subject to the business risks associated therewith (such as risk of collection of accounts receivable, demands for repayment by various payors including Medicare, Medicaid and other programs, as well as other risks).

The operators are paid a fixed monthly fee during the term of their agreements, as well as a variable amount based on daily occupancy.

Additionally, the operators may retain certain per diems in excess of a floor amount.

All of the initial agreements with the operators were for three-year terms; however, the existing agreements have various terms ranging from one to five years.

## *BASIS OF PRESENTATION*

The accompanying financial statements of the Bond-Financed Homes have been prepared in conformity with U.S. Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements were prepared to present net assets, revenues, expenses, and changes in net assets, and cash flows pursuant to the requirements of the Agreement. As such, the accompanying Statement of Revenues, Expenses, and Changes in Net Assets excludes certain management and oversight expenses considered to be non-operating in nature. In addition to, and as further discussed in Note 2, the accompanying Statement of Net Assets excludes certain capitalized costs and related accumulated depreciation related to the buildings. Accordingly, the accompanying financial statements are not intended to be a complete presentation of the Program's assets, liabilities, revenues, and expenses.

GASB Statement No. 20 requires that governments' proprietary activities apply all applicable GASB pronouncements, as well as the following issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statement and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. The Board has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

## *INCOME TAXES*

The Board is an agency of the state of Texas; therefore, it is exempt from federal income tax pursuant to Section 115 of the Internal Revenue Code. Additionally, pursuant to Section 6033(a)(2) it is not required to file an information return Form 990.

## *RISK MANAGEMENT*

The Texas General Land Office assumes substantially all risks associated with tort and liability claims due to the performance of its duties. The agency has purchased the following insurance policies: Commercial Crime Policy and Public Employee Dishonesty Coverage and Volunteer Insurance Coverage pursuant to the Statewide Volunteer Insurance Program.

The Commercial Crime Policy and Public Employee Dishonesty Insurance covers losses associated with negligent and criminal conduct by an employee through the normal course of business. The policy covers up to $1,000,000.00 per employee, per occurrence, with a $50,000.00 deductible for employee theft and up to $1,000,000.00 per employee, per occurrence, with a $50,000.00 deductible for computer fraud.

The Volunteer Insurance Policy covers losses associated with volunteer liability of up to $1,000,000.00 per occurrence and $3,000,000.00 annual aggregate; accident medical coverage of up to $50,000.00 for medical expenses in excess of a volunteer's personal health care coverage; and accidental death and dismemberment of up to $2,500.00. This coverage is for all designated, recorded volunteers except those participating in court referred or work release programs.

## *FUND STRUCTURE*

The financial activities of the Bond-Financed Homes are reported as a proprietary fund type. Proprietary funds are used to account for any activity when a fee is charged to external users for goods and services. Activities must be reported as proprietary funds if any one of the following criteria are met:

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.

2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges.

3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

## *BASIS OF ACCOUNTING*

The basis of accounting determines when revenues and expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

*Operating Revenues and Expenses.* The financial statements for proprietary funds are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds distinguish operating from nonoperating items. Operating revenues result from exchange transactions associated with providing health care services. Operating expenses are all expenses incurred to provide health care services, other than financing costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*Net Resident Service Revenue.* The Bond-Financed Homes have agreements with third-party payors that (among other things) may provide for payments at amounts different from the established rates used by the operators. Payment arrangements include prospectively determined rates per discharge, fee schedules and other payment arrangements. Net resident service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, and may include estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments (if any) are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*Contributions.* From time to time, the Bond-Financed Homes receive contributions from individuals and private organizations. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues.

*Use of Estimates.* The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## *NEW ACCOUNTING PRONOUNCEMENTS*

During the fiscal year ended August 31, 2011, there were no new accounting pronouncements to be implemented.

## *ASSETS*

*Cash and Cash Equivalents* includes cash in the State Treasury and short-term highly liquid investments with an original maturity of three months or less. Deposits with the State Treasury are available upon demand and are, therefore, presented as cash. Cash equivalents represent investments in a money market mutual fund held by the Trustee.

*Investments* represent investments in U.S. Government Agency Obligations held by the Trustee.

*Receivables* consist of interest, federal, and accounts receivables. Interest receivable is the amount earned on deposits from the State Treasury but unpaid. Federal and accounts receivable includes amounts due from all sources on behalf of the residents.

*Allowance for Doubtful Accounts* is management's best estimate of the amount of receivables for which there is not reasonable assurance of collection considering all relevant factors. The allowance provides for a valuation of receivables at the net realizable value.

*Capital Assets* are capitalized at cost or, if not purchased, at estimated fair value on the date of acquisition if the asset's individual cost or estimated fair value is greater than $5,000.00 and estimated useful life is greater than one year. Interest cost incurred on borrowed funds (if any) during the period of construction of capital assets (if any) is capitalized as a component of the cost of acquiring those assets.

*Intangible Assets* are defined as assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Intangible assets are classified as capital assets and reported on the statement of net assets only if they are identifiable. Purchases of land use rights considered to have a limited useful life are capitalized if the cost meets or exceeds $100,000.00 if they do not fall under GASB 52 and reported at fair value. Purchased software is capitalized if the aggregate purchase exceeds $100,000.00. Internally generated computer software is capitalized if it meets the $1 million threshold. Other intangible capital assets include patents, trademarks and copyrights. Purchases of other intangible assets are capitalized if the cost meets or exceeds $100,000.00. Intangible assets are amortized over the estimated useful life of the asset using the straight-line method.

### *LIABILITIES*

*Accounts Payable* represents the liability for the value of services provided by the operators and receipt of pharmacy goods for which payment is pending.

*Revenue Bonds Payable* includes current interest and capital appreciation bonds. The outstanding principal amount of current interest bonds is accounted for as a liability. Bonds payable are recorded at par. Capital appreciation bonds pay no interest until maturity. The annual accretion, or increase in the amount of the liability arising from accrued and unpaid interest on the bonds, has been recognized in the financial statements and is reflected in bonds payable. Bonds payable are reported separately as either current or noncurrent on the Statement of Net Assets. Bond issuance costs incurred in the process of issuing bonds and premium and discounts on bonds are considered immaterial and expensed.

### *NET ASSETS*

*Net Assets* represents the residual assets after liabilities are deducted. These net assets are reported in the following categories:

*Invested in Capital Assets, Net of Related Debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted for the Texas State Veterans Home Program* results when constraints placed on net asset use are either externally imposed by creditors, grantors, and the like, or imposed by law through constitutional provisions or enabling legislation.

### *INTERFUND TRANSACTIONS AND BALANCES*

*Interfund Transfers* represents the flow of assets without the equivalent flow of assets in return or a requirement for repayment. Interfund transfers are reported as Transfers In by the recipient fund and as Transfers Out by the disbursing fund, which are included as Other Financing Sources or Uses in Governmental Funds and after Non-Operating Revenues and Expenses in Proprietary Funds.

### *BUDGET AND BUDGETARY ACCOUNTING*

Appropriations for the Bond-Financed Homes are not included in the General Appropriations Act passed by the Legislature. Therefore, no budgetary comparison statement is required to be presented.

## NOTE 2: CAPITAL ASSETS

In compliance with Governmental Accounting Standards Board (GASB) Statement 34, depreciable capital assets are reported along with accumulated depreciation. The Bond-Financed Homes report land (non-depreciable) of $741,000.00, buildings of $42,005,667.49 less accumulated depreciation of

Table 1

**CHANGES IN CAPITAL ASSETS**
**Bond-Financed Homes**
**August 31, 2011**

| | Balance 08-31-2010 $ | Adjustments $ | Reclassification $ | Additions $ | Deletions $ | Balance 08-31-2011 $ |
|---|---|---|---|---|---|---|
| *Non-depreciable Assets* | | | | | | |
| Land and Land Improvements | 741,000.00 | | | | | 741,000.00 |
| **Total Non-depreciable Assets** | **741,000.00** | **0.00** | **0.00** | **0.00** | **0.00** | **741,000.00** |
| *Depreciable Assets* | | | | | | |
| Buildings and Building Improvements | 42,005,667.49 | | | | | 42,005,667.49 |
| Furniture and Equipment | 168,823.81 | | | | (48,083.00) | 120,740.81 |
| Vehicles | 46,501.14 | | | | | 46,501.14 |
| **Total Depreciable Assets at Historical Costs** | **42,220,992.44** | **0.00** | **0.00** | **0.00** | **(48,083.00)** | **42,172,909.44** |
| *Less Accumulated Depreciation for* | | | | | | |
| Buildings and Building Improvements | (17,387,497.73) | | | (1,813,880.88) | | (19,201,378.61) |
| Furniture and Equipment | (111,596.86) | | | (11,635.80) | 48,083.00 | (75,149.66) |
| Vehicles | (37,089.86) | | | (6,642.96) | | (43,732.82) |
| **Total Accumulated Depreciation** | **(17,536,184.45)** | **0.00** | **0.00** | **(1,832,159.64)** | **48,083.00** | **(19,320,261.09)** |
| **Depreciable Assets, net** | **24,684,807.99** | **0.00** | **0.00** | **(1,832,159.64)** | **0.00** | **22,852,648.35** |
| *Amortizable Assets - Intangibles* | | | | | | |
| Intangible Computer Software | 119,065.00 | | | | | 119,065.00 |
| **Total Amortizable Assets - Intangibles at Historical Cost** | **119,065.00** | **0.00** | **0.00** | **0.00** | **0.00** | **119,065.00** |
| *Less Accumulated Amortization for* | | | | | | |
| Intangible Computer Software | (119,065.00) | | | | | (119,065.00) |
| **Total Accumulated Amortization** | **(119,065.00)** | **0.00** | **0.00** | **0.00** | **0.00** | **(119,065.00)** |
| **Amortizable Assets, Net** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Capital Assets, Net** | **25,425,807.99** | **0.00** | **0.00** | **(1,832,159.64)** | **0.00** | **23,593,648.35** |

$19,201,378.61, furniture and equipment of $120,740.81 less accumulated depreciation of $75,149.66, vehicles of $46,501.14 less accumulated depreciation of $43,732.82, and intangible computer software of $119,065.00 less accumulated amortization of $119,065.00.

The provision for depreciation has been calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings and Building Improvements | 22 years |
| Furniture and Equipment | 3-5 years |
| Vehicles | 7 years |

The cost of buildings includes interest expense incurred from the date of issuance of the debt to finance construction until the completion of the buildings. Not included in the cost of the buildings is an additional $5,000,000.00 less accumulated depreciation of $2,285,034.80 spent from general revenue on the construction of the buildings. This was an appropriation of general revenue by the Legislature to begin the construction project and, therefore, is not reported as part of the revenue bond activity in this report.

Changes in capital assets at August 31, 2011, August 31, 2010, and August 31, 2009, are presented in ***Table 1*** above, ***Table 2***, and ***Table 3***, on page 19, respectively.

Table 2

**CHANGES IN CAPITAL ASSETS**
**Bond-Financed Homes**
**August 31, 2010**

| | Balance 08-31-2009 | Adjustments | Reclassification | Additions | Deletions | Balance 08-31-2010 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| *Non-depreciable Assets* | | | | | | |
| Land and Land Improvements | 741,000.00 | | | | | 741,000.00 |
| **Total Non-depreciable Assets** | **741,000.00** | **0.00** | **0.00** | **0.00** | **0.00** | **741,000.00** |
| *Depreciable Assets* | | | | | | |
| Buildings and Building Improvements | 42,005,667.49 | | | | | 42,005,667.49 |
| Furniture and Equipment | 288,196.61 | (119,065.00) | | 11,600.00 | (11,907.80) | 168,823.81 |
| Vehicles | 46,501.14 | | | | | 46,501.14 |
| **Total Depreciable Assets at Historical Costs** | **42,340,365.24** | **(119,065.00)** | **0.00** | **11,600.00** | **(11,907.80)** | **42,220,992.44** |
| *Less Accumulated Depreciation for* | | | | | | |
| Buildings and Building Improvements | (15,573,616.85) | | | (1,813,880.88) | | (17,387,497.73) |
| Furniture and Equipment | (232,452.85) | 119,065.00 | | (10,116.81) | 11,907.80 | (111,596.86) |
| Vehicles | (30,446.90) | | | (6,642.96) | | (37,089.86) |
| **Total Accumulated Depreciation** | **(15,836,516.60)** | **119,065.00** | **0.00** | **(1,830,640.65)** | **11,907.80** | **(17,536,184.45)** |
| **Depreciable Assets, net** | **26,503,848.64** | **0.00** | **0.00** | **(1,819,040.65)** | **0.00** | **24,684,807.99** |
| *Amortizable Asets - Intangibles* | | | | | | |
| Intangible computer software | | 119,065.00 | | | | 119,065.00 |
| **Total Amortizable Assets - Intangibles at Historical Cost** | **0.00** | **119,065.00** | **0.00** | **0.00** | **0.00** | **119,065.00** |
| *Less Accumulated Amortization for* | | | | | | |
| Intangible computer software | | (119,065.00) | | | | (119,065.00) |
| **Total Accumulated Amortization** | **0.00** | **(119,065.00)** | **0.00** | **0.00** | **0.00** | **(119,065.00)** |
| **Amortizable Assets, net** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Capital Assets, net** | **27,244,848.64** | **0.00** | **0.00** | **(1,819,040.65)** | **0.00** | **25,425,807.99** |

Table 3

**CHANGES IN CAPITAL ASSETS**
**Bond-Financed Homes**
**August 31, 2009**

| | Balance 08-31-2008 | Adjustments | Reclassification | Additions | Deletions | Balance 08-31-2009 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| *Non-depreciable Assets* | | | | | | |
| Land and Land Improvements | 741,000.00 | | | | | 741,000.00 |
| **Total Non-depreciable Assets** | **741,000.00** | **0.00** | **0.00** | **0.00** | **0.00** | **741,000.00** |
| *Depreciable Assets* | | | | | | |
| Buildings and Building Improvements | 42,005,667.49 | | | | | 42,005,667.49 |
| Furniture and Equipment | 248,563.29 | | | 48,142.20 | (8,508.88) | 288,196.61 |
| Vehicles | 46,501.14 | | | | | 46,501.14 |
| **Total Depreciable Assets at Historical Costs** | **42,300,731.92** | **0.00** | **0.00** | **48,142.20** | **(8,508.88)** | **42,340,365.24** |
| *Less Accumulated Depreciation for* | | | | | | |
| Buildings and Building Improvements | (13,759,735.97) | | | (1,813,880.88) | | (15,573,616.85) |
| Furniture and Equipment | (233,396.78) | | | (7,564.95) | 8,508.88 | (232,452.85) |
| Vehicles | (23,803.94) | | | (6,642.96) | | (30,446.90) |
| **Total Accumulated Depreciation** | **(14,016,936.69)** | **0.00** | **0.00** | **(1,828,088.79)** | **8,508.88** | **(15,836,516.60)** |
| **Depreciable Assets, net** | **28,283,795.23** | **0.00** | **0.00** | **(1,779,946.59)** | **0.00** | **26,503,848.64** |
| **Capital Assets, net** | **29,024,795.23** | **0.00** | **0.00** | **(1,779,946.59)** | **0.00** | **27,244,848.64** |

# NOTE 3: CONCENTRATIONS

*Revenues.* The components of revenues from major payors are shown on the face of the Statement of Revenues, Expenses, and Changes in Net Assets. The Bond-Financed Homes are located in primarily rural Texas areas but serve all eligible Texas veterans.

*Bank Accounts.* The Bond-Financed Homes cash is maintained in the State Treasury under the control of the Texas Comptroller of Public Accounts and is subject to the operating constraints of that organization.

*Suppliers.* The Bond-Financed Homes may be dependent on local providers of healthcare services and/or the contractors that operate them. Failure to obtain favorable renewal of the contracts or locate alternative suppliers could result in a future disruption of service to residents.

# NOTE 4: DEPOSITS AND INVESTMENTS, REPURCHASE AGREEMENTS, AND SECURITIES LENDING

## DEPOSITS

Carrying amounts of bank accounts at August 31, 2011, August 31, 2010, and August 31, 2009 are presented on page 21 in ***Table 4, Table 5,*** and ***Table 6,*** respectively.

These amounts consist of cash held in an external investment pool by the Texas Comptroller of Public Accounts (CPA). These amounts are included in the Statement of Net Assets as a part of Cash and Cash Equivalent accounts.

## INVESTMENTS

Tex. Nat. Res. Code Ann., §164.011(d) specifies that money in the Program "shall be invested in authorized investments as provided by a bond resolution or order of the Board." The Trust Indenture relating to the Series 2002 Refunding Bonds defines "Permitted Investments" to include, though not exclusively: investment agreements, direct repurchase and reverse repurchase agreements, direct obligations of the United States, agency obligations, bankers' acceptances, commercial paper, municipal obligations, collateralized mortgage obligations, and any other investment authorized for investment of state funds by the State Treasury under applicable law. Tex. Nat. Res.
Code Ann., §164.011(g)-(h) authorizes the Board to engage in securities lending.

Money and investments related to the Bond-Financed Homes that are not held in the State Treasury are held by the Trustee for the Veterans' Land Board of the Series 2002 Refunding Bonds.

Investments are reported at fair value as required by GASB Statement 31.

*Credit Risk.* The investment portfolio's credit risk is controlled by investing in securities with high credit quality. These are typically securities rated A or higher by a nationally recognized rating agency. At August 31, 2011, the average credit rating of the securities in the investment portfolio was Aaa by Moody's Investor Services and AAA by Standard & Poor's.

*Custodial Credit Risk.* There was no custodial credit risk at August 31, 2011, because the securities in the investment portfolio were registered in the name of the Board.

The Board does not anticipate the need to sell any investments prior to their maturities in order to fulfill the liquidity needs of its programs. However, the Board reserves the right to sell any investment if it determines that such action is in the best interest of its programs.

A summary showing the fair value of the Bond-Financed Homes' investments as of August 31, 2011, August 31, 2010, and August 31, 2009, can be found on page 21 in ***Table 7, Table 8, and Table 9,*** respectively.

As of August 31, 2011, August 31, 2010, and August 31, 2009, the fair value of the total portfolio for the Bond-Financed Homes was $3,983,303.18, $4,445,756.98, and $5,430,865.56, respectively. This includes cash, cash equivalents, and investments, which reconcile to deposits and investments presented on page 21.

## REVERSE REPURCHASE AGREEMENTS

Investments in reverse repurchase agreements are authorized by the Tex. Nat. Res. Code Ann., §161.173.

Table 4

**DEPOSITS**
**Bond-Financed Homes**
**August 31, 2011**

| Type of Deposit | Total Bank Balance | Carrying Amount |
|---|---|---|
| | $ | $ |
| Current Assets: | | |
| Cash in State Treasury | 3,284,703.77 | 3,284,703.77 |
| **Total** | **3,284,703.77** | **3,284,703.77** |

Table 5

**DEPOSITS**
**Bond-Financed Homes**
**August 31, 2010**

| Type of Deposit | Total Bank Balance | Carrying Amount |
|---|---|---|
| | $ | $ |
| Current Assets: | | |
| Cash in State Treasury | 3,731,937.69 | 3,731,937.69 |
| **Total** | **3,731,937.69** | **3,731,937.69** |

Table 6

**DEPOSITS**
**Bond-Financed Homes**
**August 31, 2009**

| Type of Deposit | Total Bank Balance | Carrying Amount |
|---|---|---|
| | $ | $ |
| Current Assets: | | |
| Cash in State Treasury | 4,708,332.06 | 4,708,332.06 |
| **Total** | **4,708,332.06** | **4,708,332.06** |

Table 7

**INVESTMENT PORTFOLIO AT FAIR VALUE**
**Bond-Financed Homes**
**August 31, 2011**

| Type of Investment | Fair Value |
|---|---|
| | $ |
| Money Market Mutual Fund | 3,689.76 |
| U.S. Government Agency Obligations | 694,909.65 |
| **Total Investments** | **698,599.41** |
| **Total Investments** | **698,599.41** |
| Consisting of the following: | |
| Cash Equivalents | 3,689.76 |
| Current Investments | 694,909.65 |
| **Total Investments, as above** | **698,599.41** |

Table 8

**INVESTMENT PORTFOLIO AT FAIR VALUE**
**Bond-Financed Homes**
**August 31, 2010**

| Type of Investment | Fair Value |
|---|---|
| | $ |
| Money Market Mutual Fund | 6,314.89 |
| U.S. Government Agency Obligations | 707,504.40 |
| **Total Investments** | **713,819.29** |
| **Total Investments** | **713,819.29** |
| Consisting of the following: | |
| Cash Equivalents | 6,314.89 |
| Current Investments | 707,504.40 |
| **Total Investments, as above** | **713,819.29** |

Table 9

**INVESTMENT PORTFOLIO AT FAIR VALUE**
**Bond-Financed Homes**
**August 31, 2009**

| Type of Investment | Fair Value |
|---|---|
| | $ |
| Money Market Mutual Fund | 4,180.60 |
| U.S. Government Agency Obligations | 718,352.90 |
| **Total Investments** | **722,533.50** |
| **Total Investments** | **722,533.50** |
| Consisting of the following: | |
| Cash Equivalents | 4,180.60 |
| Current Investments | 718,352.90 |
| **Total Investments, as above** | **722,533.50** |

This section states "money...may be invested in direct security repurchase agreements and reverse security repurchase agreements made with state or national banks domiciled in this state or with primary dealers as approved by the Federal Reserve System." During Fiscal Year 2010, the Board entered into no reverse repurchase agreements. As of August 31, 2011, August 31, 2010, and August 31, 2009, there were no outstanding reverse repurchase agreements.

### *SECURITIES LENDING*

The Board is authorized to participate in securities lending transactions by §164.011, Tex. Nat. Res. Code Ann. As of August 31, 2011, August 31, 2010, and August 31, 2009, there were no securities lending agreements in place.

## NOTE 5: NONCURRENT LIABILITIES

During the years ended August 31, 2011, August 31, 2010, and August 31, 2009, the changes noted below in ***Table 10, Table 11,*** and ***Table 12***, respectively, occurred in noncurrent liabilities. Additional information about revenue bonds payable can be found in Note 6.

Table 10

**CHANGES IN NONCURRENT LIABILITIES**
**Bond-Financed Homes**
**August 31, 2011**

| | Balance 09-01-2010 | Additions | Deductions | Balance 08-31-2011 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenue Bonds Payable | 22,620,000.00 | | (400,000.00) | 22,220,000.00 | 425,000.00 |
| **Total, Non-current Liabilities** | **22,620,000.00** | **0.00** | **(400,000.00)** | **22,220,000.00** | **425,000.00** |

Table 11

**CHANGES IN NONCURRENT LIABILITIES**
**Bond-Financed Homes**
**August 31, 20010**

| | Balance 09-01-2009 | Additions | Deductions | Balance 08-31-2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenue Bonds Payable | 22,995,000.00 | | (375,000.00) | 22,620,000.00 | 400,000.00 |
| **Total, Non-current Liabilities** | **22,995,000.00** | **0.00** | **(375,000.00)** | **22,620,000.00** | **400,000.00** |

Table 12

**CHANGES IN NONCURRENT LIABILITIES**
**Bond-Financed Homes**
**August 31, 2009**

| | Balance 09-01-2008 | Additions | Deductions | Balance 08-31-2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenue Bonds Payable | 23,345,000.00 | | 350,000.00 | 22,995,000.00 | 375,000.00 |
| **Total, Non-current Liabilities** | **23,345,000.00** | **0.00** | **350,000.00** | **22,995,000.00** | **375,000.00** |

## NOTE 6:
## BOND INDEBTEDNESS

### *BONDS ISSUED*

REVENUE BONDS

During Fiscal Years 2011, 2010, and 2009, the Board issued no veterans homes revenue bonds.

### *OUTSTANDING BONDS*

Outstanding veterans homes revenue bonds are repaid from income, revenues, receipts, and collateral pledged under the related trust indenture.

The bonds accreted at an effective rate of 7.038% through August 1, 2005, and the bonds currently accrue interest at the coupon rate of 6.25%.

A summary of revenue bonds outstanding at August 31, 2011, August 31, 2010, and August 31, 2009, and the issue and final maturity dates are presented in ***Table 13*** and ***Table 14*** below and ***Tables 15*** through ***Table 17*** on page 24.

### *DERIVATIVES*

PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAP

*Objective of the swap.* The Board is currently a party to one forward-starting, pay-fixed, receive-variable interest rate swap that is associated with one variable-rate

Table 13

**OUTSTANDING BONDS**
**Bond-Financed Homes**
**August 31, 2011 and 2010**

| Bond Issue | Issue Date | Final Maturity Date | Bonds Outstanding 08-31-2011 | Bonds Outstanding 08-31-2010 |
|---|---|---|---|---|
| | | | $ | $ |
| **Revenue Bonds - Self-Supporting** | | | | |
| *Veterans Homes Revenue Bonds* | | | | |
| (Proceeds used to construct Texas State Veterans Homes) | | | | |
| Vet Home Revenue Ref Bds Ser 2002 | 05-09-2002 | 08-01-2035 | 22,220,000.00 | 22,620,000.00 |
| **Total, Veterans Homes Revenue Bonds** | | | **22,220,000.00** | **22,620,000.00** |

Table 14

**OUTSTANDING BONDS**
**Bond-Financed Homes**
**August 31, 2010 and 2009**

| Bond Issue | Issue Date | Final Maturity Date | Bonds Outstanding 08-31-2010 | Bonds Outstanding 08-31-2009 |
|---|---|---|---|---|
| | | | $ | $ |
| **Revenue Bonds - Self-Supporting** | | | | |
| *Veterans Homes Revenue Bonds* | | | | |
| (Proceeds used to construct Texas State Veterans Homes) | | | | |
| Vet Home Revenue Ref Bds Ser 2002 | 05-09-2002 | 08-01-2035 | 22,620,000.00 | 22,995,000.00 |
| **Total, Veterans Homes Revenue Bonds** | | | **22,620,000.00** | **22,995,000.00** |

Table 15

**BOND TRANSACTIONS**
**Bond-Financed Homes**
**August 31, 2011**

| Bond Issue | Bonds Payable 09-01-2010 | Bonds Issued | Annual Interest Accretion on Discount Bonds | Bonds Matured | Bonds Redeemed Prior to Maturity | Bonds Payable 08-31-2011 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Revenue Bonds - Self-Supporting** | | | | | | |
| *Veterans Homes Revenue Bonds* | | | | | | |
| Vet Home Revenue Ref Bds Ser 2002 | 22,620,000.00 | | | (400,000.00) | | 22,220,000.00 |
| **Total, Veterans Homes Revenue Bonds** | **22,620,000.00** | **0.00** | **0.00** | **(400,000.00)** | **0.00** | **22,220,000.00** |

Table 16

**BOND TRANSACTIONS**
**Bond-Financed Homes**
**August 31, 2010**

| Bond Issue | Bonds Payable 09-01-2009 | Bonds Issued | Annual Interest Accretion on Discount Bonds | Bonds Matured | Bonds Redeemed Prior to Maturity | Bonds Payable 08-31-2010 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Revenue Bonds - Self-Supporting** | | | | | | |
| *Veterans Homes Revenue Bonds* | | | | | | |
| Vet Home Revenue Ref Bds Ser 2002 | 22,995,000.00 | | | (375,000.00) | | 22,620,000.00 |
| **Total, Veterans Homes Revenue Bonds** | **22,995,000.00** | **0.00** | **0.00** | **(375,000.00)** | **0.00** | **22,620,000.00** |

Table 17

**BOND TRANSACTIONS**
**Bond-Financed Homes**
**August 31, 2009**

| Bond Issue | Bonds Payable 09-01-2008 | Bonds Issued | Annual Interest Accretion on Discount Bonds | Bonds Matured | Bonds Redeemed Prior to Maturity | Bonds Payable 08-31-2009 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Revenue Bonds - Self-Supporting** | | | | | | |
| *Veterans Homes Revenue Bonds* | | | | | | |
| Vet Home Revenue Ref Bds Ser 2002 | 23,345,000.00 | | | (350,000.00) | | 22,995,000.00 |
| **Total, Veterans Homes Revenue Bonds** | **23,345,000.00** | **0.00** | **0.00** | **(350,000.00)** | **0.00** | **22,995,000.00** |

bond issue that is anticipated to be issued within the ninety-day period immediately prior to the effective date of the swap. The combination of swap and variable-rate bond creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the Board's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds.

The swap contains a barrier knock-out provision that provides for the Board to be "knocked out" of the swap by the respective counterparty upon the breach of a certain predetermined barrier. The Board was paid an up-front option premium by the counterparty. The knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached.

*Terms, fair values, and credit ratings.* The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-fixed swap as of August 31, 2011, was as shown in ***Table 18*** below. The notional amounts and amortization schedules of the swap match those of the associated variable-rate bond. This swap yield curve, the path of future expected floating LIBOR interest rates, is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a

Table 18

**PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAP**

| | |
|---|---|
| Associated Bond Issue: | Vet Homes Rev Ref Bds, Ser 2012 |
| Notional Amount: | $21,795,000.00 |
| Effective Date: | 08-01-2012 |
| Fixed Rate Paid: | 3.7600% |
| Variable Rate Received: | 68% of 1M LIBOR |
| Knock-out Barrier: | 1M LIBOR >= 7.00% |
| Knock-out Type: | Mandatory |
| Knock-out Period: | Periodic |
| Up-Front Knock-out Premium Received: | $578,750.00 |
| Fair Value: | ($4,559,437.00) |
| Swap Termination Date: | 08-01-2035 |
| Counterparty Credit Ratings: | A+/Aa3 |

series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

An additional calculation similar to that described above is conducted to determine the value of the knock-out provision. Using the approach described above, a swap rate is derived for each potential exercise date of each knock-out provision. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the knock-out provision. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the knock-out provision.

*Credit risk.* The Board mitigated the credit risk associated with its swap by entering into the transaction with a highly-rated counterparty. As shown in ***Table 18*** below, the credit ratings of the Board's counterparty are A+ by Standard & Poor's and Aa3 by Moody's Investors Service.

The Board's swap agreement also contains collateralization provisions that require the counterparty to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by Standard & Poor's or A1 by Moody's Investors Service. Only U.S. government obligations are acceptable forms of collateral. Posted collateral may be held either by the Board itself or by a third party custodian that is rated at least BBB+ by Standard & Poor's or Baa1 by Moody's Investors Service.

*Basis risk.* The Board is exposed to basis risk to the extent that the interest payment on its variable-rate bond does not match the variable-rate payment received on the associated swap. The Board mitigated this risk by: (1) matching the notional amount and amortization schedule of the swap to the principal amount and amortization schedule of the associated variable-rate bond issue, and (2) selecting an index for the variable-rate leg of the swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bond over the life of the bond issue.

*Termination risk.* The Board or the counterparty may terminate the swap if the other party fails to perform under the terms of the swap agreement. The Board also has the right to terminate the swap at any time without cause. If the swap is terminated, the associated variable-rate bond would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds was not hedged with another swap or with variable-rate assets on the Board's balance sheet. Also, if at the time of termination, the swap has a negative fair value, the Board would owe the counterparty a termination payment equal to the swap's fair value.

*Rollover risk.* The Board has no rollover risk because the termination date of the swap matches the maturity date of the associated bond issue.

## DEBT SERVICE REQUIREMENTS

***Table 19*** and ***Table 20*** below represent principal and interest due on bonds from the period of August 1, 2010, through final maturity on August 1, 2035. The information is disclosed by fiscal year and bond issue, respectively.

Table 19

**DEBT SERVICE REQUIREMENTS BY FISCAL YEAR**
**Bond-Financed Homes**

| Fiscal Year | Principal | Interest | Totals |
|---|---|---|---|
| | $ | $ | $ |
| 2012 | 425,000.00 | 1,388,750.00 | 1,813,750.00 |
| 2013 | 450,000.00 | 1,362,187.50 | 1,812,187.50 |
| 2014 | 475,000.00 | 1,334,062.50 | 1,809,062.50 |
| 2015 | 505,000.00 | 1,304,375.00 | 1,809,375.00 |
| 2016 | 540,000.00 | 1,272,812.50 | 1,812,812.50 |
| 2017-2021 | 3,240,000.00 | 5,815,000.00 | 9,055,000.00 |
| 2022-2026 | 4,395,000.00 | 4,666,875.00 | 9,061,875.00 |
| 2027-2031 | 5,950,000.00 | 3,110,937.50 | 9,060,937.50 |
| 2032-2036 | 6,240,000.00 | 1,004,687.50 | 7,244,687.50 |
| **Total Debt Service** | **22,220,000.00** | **21,259,687.50** | **43,479,687.50** |

Table 20

**DEBT SERVICE REQUIREMENTS BY BOND ISSUE**
**Bond-Financed Homes**

| Bond Issue | Principal | Interest | Total Debt Service |
|---|---|---|---|
| | $ | $ | $ |
| **Revenue Bonds - Self-Supporting** | | | |
| *Veterans Homes Revenue Bonds* | | | |
| Vet Home Revenue Refunding Bds Ser 2002 | 22,220,000.00 | 21,259,687.50 | 43,479,687.50 |
| **Total, Veterans Homes Revenue Bonds** | **22,220,000.00** | **21,259,687.50** | **43,479,687.50** |

*SECURITY FOR BONDS*

Pursuant to Article III, Section 49-b(s)(2) of the Texas Constitution and Section 164.009(a)(5), Texas Natural Resources Code, the Board determined that assets from the Veterans' Land Fund in the amount of $21,000,000.00 were not needed for the purposes of the land fund and therefore used and pledged such assets to secure the Veterans' Land Board of the State of Texas Veterans Homes Revenue Refunding Bonds, Series 2002 by creating a collateral account to be held as a part of the land fund segregated on the books of the Board.

The assets in the collateral account may be invested in (i) direct obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States; (ii) obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date, are rated as to investment quality by Standard & Poor's Rating Service not less than "AAA" or its equivalent; (iii) obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by Standard & Poor's not less than "AAA" or its equivalent; or (iv) money market funds. Such investments must mature (i) not later than the next date that scheduled payments on the bonds are due, or (ii) if the bonds are to be redeemed, not later than such redemption date.

The Board shall transfer to the trustee for the bonds' assets on deposit in the collateral account to pay principal of or interest on the bonds to the extent that insufficient amounts are available from assets attributable to the bonds on the date any such payment is due.

The amount held in the collateral account on each revalue date (each February 1 and August 1) shall be equal to the outstanding principal amount of the bonds (or the accreted value of the bonds prior to August 1, 2005) plus nine months interest on the bonds. On August 1, 2011, August 1, 2010, and August 1, 2009, the value of the collateral account was $23,262,000.00, $23,681,000.00, and $24,073,000.00, respectively.

## NOTE 7: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Bond-Financed Homes funded related administrative expenses through monthly transfers to the Veterans' Administrative Fund 522 for Fiscal Year 2011, Fiscal Year 2010, and Fiscal Year 2009 totaling $537,087.13, $577,296.00, and $517,968.00, respectively.

Excess assets of the Bond-Financed Homes are also periodically designated to be used to make certain improvements to the Bond-Financed Homes. In the past, these improvements have included: replacing resident bathroom flooring; replacing carpet; replacing all existing beds and mattresses; painting; installing power and cable outlets in resident rooms; installing privacy curtains; replacing laundry machines; enhancing wall protection; and furniture replacement.

GASB 51 defines an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. All intangible assets subject to the provisions of GASB 51 are classified as capital assets. The straight-line amortization method is used for Land Use Rights - Term, Computer Software/Intangible and Other Intangible Capital Assets. Note 2 presentation now includes a separate category for reporting intangible assets.

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