

MAINE STATE LEGISLATURE

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MAINE VETERANS' HOMES

caring for those who served

An independent nonprofit organization serving Maine's Veterans and families

April 1, 2022

Joint Standing Committee on Veterans and Legal Affairs
c/o Legislative Information Office
100 State House Station
Augusta, ME 04333

RE: Annual Report to the Joint Standing Committee on Veterans and Legal Affairs

Senator Hickman, Representative Caiazzo, and Committee Members:

Pursuant to 37-B MRSA §611, I am providing the following information on the Maine Veterans' Homes (MVH) on behalf of the MVH Board of Trustees.

In CY 2021, MVH cared for 898 residents, including 731 veterans and 167 spouses. A by-facility breakout is attached. Our top priority remained to keep COVID-19 out of the Homes and protect our residents and staff. Fortunately, we had very few severe cases during the Delta and Omicron variant surges.

Combatting the pandemic has been costly, both in finances and workforce impacts. FY 2021 operating revenues decreased by approximately \$16 million (or -18.8%) from the previous year. This decrease primarily resulted from the global pandemic, which forced long-term care providers, including MVH, to limit admissions to prevent the spread of COVID-19. Census has been slow to recover due to ongoing staffing shortages and the variant surges. The operating deficit after COVID stimulus funds was \$8.1 million.

The ongoing workforce shortage continues to be a significant concern across the system. The annual turnover rate reached a record high of 45.7 percent last year. The average vacancy rate nearly doubled to 20.4 percent. We relied heavily on costly agency and traveling nurse contracts, expending \$3.5 million in FY 2021, up 34 percent from the prior year.

Despite the pandemic challenges, MVH continued to excel in quality and customer service. All MVH nursing homes are at the highest 5-star rating by the Centers for Medicare and Medicaid Services. Likewise, all MVH facilities are "Best in Class" for customer satisfaction by Pinnacle

AUGUSTA

35 Heroes Way
AUGUSTA, ME 04330
1-888-684-4464

BANGOR

44 HOGAN ROAD
BANGOR, ME 04401
1-888-684-4665

CARIBOU

163 VAN BUREN ROAD
CARIBOU, ME 04736
1-888-684-4667

MACHIAS

32 VETERAN WAY
MACHIAS, ME 04654
1-877-866-4669

SCARBOROUGH

290 US ROUTE 1
SCARBOROUGH, ME 04074
1-888-684-4666

SOUTH PARIS

477 HIGH STREET
SOUTH PARIS, ME 04281
1-888-684-4668

CENTRAL OFFICE

460 CIVIC CENTER DRIVE
AUGUSTA, ME 04330
1-800-278-9494

Quality Insight. MVH Bangor was awarded the National Gold Award for Excellence in Quality by the American Health Care Association and National Center for Assisted Living, joining only 48 other facilities in the nation to have earned this prestigious recognition since the program's inception 25 years ago! MVH Bangor joins MVH Scarborough and MVH Machias as the only Gold recipients in Maine.

Last week, we began operations in the new MVH Augusta facility. The new state-of-the-art, small-house facility replaces the original home that opened in 1983. Residents were moved into the new facility last week. The total project cost was \$91 million. Funding sources included \$49 million in VA construction grants, \$20 million in revenue bonds, and \$22 million from capital reserves. MVH provided the entire State match (35 percent) for the VA construction grant, unlike all other states. We will need to seek a general bond from the Legislature for future replacement projects.

The MVH Board voted to maintain operations at Machias and Caribou in accordance with the Governor's request and subsequent commitment of \$3.5 million in funding through FY 2023. We greatly appreciate the allocation and assurance to work together over the next year to find a more equitable and adequate funding solution. ***Securing a permanent funding solution is essential to preserving access to quality care and support for veterans in future years. Similarly, we are very concerned about the shifting demographics across the state in the coming years, and its impact on veteran populations served and workforce supply.*** We look forward to studying this more with the stakeholders' group.

Attached, please find supporting documents and information.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read 'Kelley J. Kash', written over a light blue circular stamp or watermark.

Kelley J. Kash, Colonel, USAF, MSC (Retired)
Chief Executive Officer

Attachments

1. Veterans served by facility CYs 2019-2021
2. FY 2021 Audit Report
3. Medicaid Shortfall Calculation FYs 2018-2021
4. Veterans (over 65) Population Projection by County

cc: Governor Janet Mills
Jim Settele, Chair, MVH Board of Trustees

Augusta

| | Male Vets | Female Vets | Female Spouses | Male Spouses |
|------|-----------|-------------|----------------|--------------|
| 2019 | 254 | 9 | 55 | 0 |
| 2020 | 150 | 6 | 42 | 0 |
| 2021 | 132 | 6 | 42 | 0 |
| 2022 | 80 | 5 | 32 | 0 |

Machias

| | Male Vets | Female Vets | Female Spouses | Male Spouses |
|------|-----------|-------------|----------------|--------------|
| 2019 | 28 | 3 | 9 | 0 |
| 2020 | 27 | 1 | 8 | 0 |
| 2021 | 28 | 1 | 7 | 0 |
| 2022 | 18 | 1 | 7 | 0 |

Bangor

| | Male Vets | Female Vets | Female Spouses | Male Spouses |
|------|-----------|-------------|----------------|--------------|
| 2019 | 305 | 21 | 82 | 2 |
| 2020 | 181 | 17 | 47 | 1 |
| 2021 | 166 | 10 | 58 | 0 |
| 2022 | 94 | 1 | 36 | 0 |

Scarborough

| | Male Vets | Female Vets | Female Spouses | Male Spouses |
|------|-----------|-------------|----------------|--------------|
| 2019 | 281 | 22 | 16 | 0 |
| 2020 | 190 | 19 | 1 | 0 |
| 2021 | 203 | 17 | 1 | 0 |
| 2022 | 113 | 5 | 5 | 0 |

Caribou

| | Male Vets | Female Vets | Female Spouses | Male Spouses |
|------|-----------|-------------|----------------|--------------|
| 2019 | 85 | 0 | 19 | 0 |
| 2020 | 64 | 0 | 17 | 0 |
| 2021 | 61 | 0 | 31 | 0 |
| 2022 | 39 | 0 | 23 | 0 |

So Paris

| | Male Vets | Female Vets | Female Spouses | Male Spouses |
|------|-----------|-------------|----------------|--------------|
| 2019 | 116 | 9 | 31 | 0 |
| 2020 | 79 | 9 | 23 | 0 |
| 2021 | 99 | 8 | 28 | 0 |
| 2022 | 65 | 2 | 15 | 0 |

MVH

| | Male Vets | Female Vets | Female Spouses | Male Spouses |
|------|-----------|-------------|----------------|--------------|
| 2019 | 1069 | 64 | 212 | 2 |
| 2020 | 691 | 52 | 138 | 1 |
| 2021 | 689 | 42 | 167 | 0 |
| 2022 | 409 | 14 | 118 | 0 |

2022 numbers through 2/28/22



Maine Veterans' Homes

BASIC FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

June 30, 2021

With Independent Auditor's Report



MAINE VETERANS' HOMES

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Maine Veterans' Homes

Report on the Financial Statements

We have audited the accompanying statement of net position of Maine Veterans' Homes as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Maine Veterans' Homes' basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 Maine Veterans' Homes as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Report on Summarized Comparative Information

We have previously audited Maine Veterans' Homes 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

U.S. generally accepted accounting principles require the Management's Discussion and Analysis on Pages 3 through 9 and the Required Supplementary Information on Pages 43 through 46 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 the 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 U.S. generally accepted auditing standards, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021 on our consideration of Maine Veterans' Homes' 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 solely 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 the effectiveness of Maine Veterans' Homes' internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maine Veterans' Homes' internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
October 25, 2021

MAINE VETERANS' HOMES

Management's Discussion and Analysis (Unaudited)

June 30, 2021

This discussion and analysis of Maine Veterans' Homes' (MVH) performance provides an analytical overview of its financial activities for the fiscal year ended June 30, 2021. Please read it in conjunction with the attached financial statements.

USING THIS ANNUAL REPORT

This annual report consists of four parts:

- Management's Discussion and Analysis (MD&A) (this section): This section provides an analytical overview of MVH's financial activities as of and for the year ended June 30, 2021.
- Basic Financial Statements: This section includes the following:
 - ⇒ *Statement of Net Position*: Shows the financial status of MVH at June 30, 2021, including a listing of all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.
 - ⇒ *Statement of Revenues, Expenses, and Changes in Net Position*: Provides information on financial activity of MVH during the fiscal year and the resulting surpluses or deficits; also shows the resultant changes in the net position.
 - ⇒ *Statement of Cash Flows*: Shows a categorical listing of MVH's flow of cash during the fiscal year.
- Notes to Basic Financial Statements: These notes explain some of the information in the financial statements and provide more detailed data.
- Required Supplementary Information: This section includes the following:
 - ⇒ *Schedule of MVH's Proportionate Share of the Net Pension Liability*: Shows MVH's share of the Participating Local District (PLD) Consolidated Plan (the Plan) net pension liability with the Maine Public Employment Retirement System (MePERS).
 - ⇒ *Schedule of MVH Contributions*: Shows the trend of MVH contributions to the Plan as a percent of covered payroll.
 - ⇒ *Schedules of Changes in Total Other Postemployment Benefits Other Than Pensions (OPEB) Liability and Related Ratios*: Shows changes in total OPEB liabilities and trends and total OPEB liabilities as a percent of covered payroll for the PLD Consolidated Retiree Group Life Insurance Plan and the MVH Retiree Welfare Plan.

MAINE VETERANS' HOMES

Management's Discussion and Analysis (Unaudited)

June 30, 2021

Statement of Net Position

Comparison of 2021 to 2020

| | <u>June 30, 2021</u> | <u>June 30, 2020</u> |
|--|-----------------------|-----------------------|
| Total current assets | \$ 25,464,175 | \$ 23,985,622 |
| Assets whose use is limited, net of amount required for current liabilities | 34,867,530 | 35,404,744 |
| Net property, plant and equipment | 146,626,458 | 117,626,120 |
| Total other assets | <u>2,955,765</u> | <u>2,978,035</u> |
| Total assets | 209,913,928 | 179,994,521 |
| Deferred outflows of resources | <u>7,613,263</u> | <u>7,318,617</u> |
| Total assets and deferred outflows | \$ <u>217,527,191</u> | \$ <u>187,313,138</u> |
| | | |
| Total current liabilities | \$ 14,983,859 | \$ 13,379,655 |
| Long-term debt and capital lease obligations, excluding current portion | 18,102,122 | 6,750,411 |
| Net other postemployment benefit obligation liabilities | 848,798 | 1,031,662 |
| Net pension liability | <u>24,253,567</u> | <u>18,380,629</u> |
| Total liabilities | 58,188,346 | 39,542,357 |
| Deferred inflows of resources | 1,065,549 | 5,509,417 |
| Total net position | <u>158,273,296</u> | <u>142,261,364</u> |
| Total liabilities, deferred inflows and net position | \$ <u>217,527,191</u> | \$ <u>187,313,138</u> |

MVH's total assets increased by approximately \$29,919,000 due primarily to increases in net property, plant and equipment associated with the ongoing construction of the Augusta replacement facility.

Current assets increased primarily due to recognizing a receivable of COVID-19 stimulus funds from the U.S. Department of Veterans Affairs (V.A.) of \$4.9 million which was received after the end of the fiscal year. Resident accounts receivable, net of allowance for doubtful accounts, which is included in total current assets, increased approximately \$113,000.

The allowance for doubtful accounts of \$565,200 at June 30, 2021 reflects certain account balances that may be uncollectible and decreased by \$4,800 from the June 30, 2020 balance.

Net property, plant, and equipment increased from approximately \$117,626,000 to \$146,626,000, an increase of \$29,000,000, or 24.7%, during the year ended June 30, 2021. MVH recorded new assets of approximately \$33,866,000, net of transfers from construction in process of \$1,166,000, disposed of assets with a net book value totaling \$1,000, and recognized depreciation of capital assets totaling approximately \$4,859,000.

MAINE VETERANS' HOMES

Management's Discussion and Analysis (Unaudited)

June 30, 2021

During FY 2016, MVH began planning for a replacement facility in Augusta. Planning for the Augusta replacement facility continued in FY 2018 and included filing a Certificate of Need (CON) with the State of Maine in February 2018. The CON was approved by the State of Maine in August 2018. Total project costs of approximately \$84,861,000 related to the Augusta replacement facility are included in construction in progress at June 30, 2021.

The deferred outflows of resources and deferred inflows of resources related to the pension plan and other postemployment benefits (OPEB) plan as of June 30, 2021 and 2020 were recorded in connection with Governmental Accounting Standards Board Statements (GASB) No. 68 and 75. Deferred outflows related to the pension plan and OPEB plan increased approximately \$295,000 primarily due to an increase in the net difference between projected and actual earnings on pension plan investments partially offset by a net decrease in differences between actual and expected experience and changes in proportions. These items are further discussed in Note 15 to the financial statements.

Total liabilities increased from June 30, 2020 to June 30, 2021 by approximately \$18,646,000, or 47.2%. The major changes in liabilities relate to the net pension liability, increase in current liabilities, and draws on tax exempt bond financing. Under GASB No. 68, cost sharing governments, such as MVH, are required to report a net pension liability, pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts of all governmental entity participants in the plan. The net pension liability at June 30, 2021 and 2020 was approximately \$24,254,000 and \$18,381,000, respectively. Current liabilities increased primarily due to an increase in accounts payable of approximately \$1,542,000 or 23.6% due to an increase in the retainage amount owed to the construction manager related to the Augusta replacement facility construction project. Long-term debt also increased by approximately \$11,352,000 due primarily to funding for the Augusta replacement facility, net of principal payments on existing capital leases.

Net position increased by approximately \$16,012,000 or 11.3% from June 30, 2020 to June 30, 2021. There are three categories of net position, as follows:

| | <u>June 30, 2021</u> | <u>June 30, 2020</u> |
|----------------------------------|------------------------------|------------------------------|
| Net investment in capital assets | \$ 128,236,000 | \$ 110,540,000 |
| Unrestricted | 29,785,000 | 31,541,000 |
| Restricted – expendable | <u>252,000</u> | <u>180,000</u> |
| Total | <u>\$ 158,273,000</u> | <u>\$ 142,261,000</u> |

Net investment in capital assets includes capital assets (e.g., land, buildings, equipment, vehicles, etc.) reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to these assets. Restricted / expendable net assets represent restricted gifts donated to MVH that remain unspent at fiscal year-end.

Included in the increase in net investment in capital assets from June 30, 2020 to June 30, 2021 are 2021 construction costs of \$31,610,000 associated with the Augusta replacement facility. Construction in process for all projects at June 30, 2021 was approximately \$86,146,000.

The decrease in unrestricted net position from June 30, 2020 to June 30, 2021 includes the impact on pension expense from recording the change in the pension liability required by GASB No. 68. The pension expense required to be booked under GASB No. 68 was \$1.1 million in FY 2021 compared to \$1.7 million in FY 2020 associated with the change in the unfunded pension liability.

MAINE VETERANS' HOMES

Management's Discussion and Analysis (Unaudited)

June 30, 2021

Revenues

Total revenues for the year ended June 30, 2021 were approximately \$104,184,000, a decrease from the year ended June 30, 2020 of (\$10,201,000), or -8.9%. Revenues are divided into two categories: operating revenues and non-operating revenues. Each category is sub-divided as follows:

| | <u>FY 2021</u> | <u>FY 2020</u> |
|---|------------------------------|-----------------------|
| <u>Operating</u> | | |
| Net resident service revenue | \$ 53,520,000 | \$ 66,564,000 |
| Net V.A. stipend revenue | 7,807,000 | 10,490,000 |
| Net pharmacy revenue | 7,423,000 | 8,071,000 |
| Meal, laundry and other revenue, net | <u>658,000</u> | <u>335,000</u> |
| Subtotal | <u>69,408,000</u> | <u>85,460,000</u> |
| <u>Nonoperating</u> | | |
| Contribution revenue | 337,000 | 433,000 |
| COVID-19 relief grant revenue | 10,170,000 | 1,778,000 |
| Investment gain | 6,597,000 | 1,200,000 |
| Interest and dividend income, net of fees | 866,000 | 888,000 |
| V.A. construction grant revenue | <u>16,766,000</u> | <u>24,586,000</u> |
| Subtotal | <u>34,736,000</u> | <u>28,885,000</u> |
| Total | <u>\$ 104,144,000</u> | <u>\$ 114,345,000</u> |

Operating revenues decreased by approximately (\$16,052,000) or -18.8% from June 30, 2020 to June 30, 2021. Net resident service revenue decreased by approximately (\$13,044,000) or -19.6% from June 30, 2020 to June 30, 2021. This decrease was in large part a result of the COVID-19 global pandemic. The pandemic forced long term care facilities, including MVH, to limit admissions to prevent the spread of COVID-19. This caused census to decline dramatically in FY 2021. Census has been slow to recover due to ongoing staffing shortages and the recurrence of the Delta variant of the coronavirus.

Net V.A. stipend revenue decreased primarily due to drop in resident census caused by the COVID-19 pandemic. The drop in census, including MaineCare and Medicare residents, negatively impacted V.A. stipend revenue in FY 2021.

Net pharmacy revenue decreased by approximately (\$648,000) or -8.0% from June 30, 2020 to June 30, 2021. Pharmacy net revenues were negatively impacted by COVID-19 as MVH and external pharmacy clients delayed admissions and experienced lower census levels in an effort to keep the COVID-19 virus out of nursing home facilities. These actions lowered pharmacy prescription volumes and corresponding net revenue.

Nonoperating revenues increased approximately \$5,851,000 from June 30, 2020 to June 30, 2021. Stimulus monies received from the Center for Medicare & Medicaid Services (CMS) to offset the impact of COVID-19 accounted for the largest portion of the increase along with increases in gains on investments. COVID-19 stimulus funds from the Maine Department of Economic and Community Development, Federal Health and Human Services, and V.A. totaling \$10,170,000 were received and recognized in FY 2021 which helped offset a portion of the lost revenue and increased costs incurred related to the COVID-19 pandemic. This increase in stimulus funds was offset by a decrease in VA construction grant revenue due to the project nearing completion.

MAINE VETERANS' HOMES

Management's Discussion and Analysis (Unaudited)

June 30, 2021

Expenses

Total expenses decreased from approximately \$88,151,000 to \$88,132,000 from June 30, 2020 to June 30, 2021, a decrease of (\$19,000). Comparison with prior year expenses is as follows:

| | <u>FY 2021</u> | <u>FY 2020</u> |
|------------------------|----------------------|----------------------|
| Operating expenses | \$ 87,710,000 | \$ 87,630,000 |
| Non-operating expenses | <u>422,000</u> | <u>521,000</u> |
| Total | <u>\$ 88,132,000</u> | <u>\$ 88,151,000</u> |

Operating expenses increased by 0.1% from June 30, 2020 to June 30, 2021. This increase was due primarily to pandemic related expenses. Purchases of personal protective equipment (PPE) and costs incurred for testing of residents and employees caused increases in supplies and other expenses from June 30, 2020 to June 30, 2021.

Salaries decreased approximately (\$746,000) or -1.8% from June 30, 2020 to June 30, 2021. MVH suffered low staffing levels during the COVID-19 pandemic which drove the decrease in salaries. Pharmacy cost of sales decreased (\$281,000) or -6.5% from June 30, 2020 to June 30, 2021. The decrease is associated with a drop in resident census for MVH facilities as well as external pharmacy clients.

Nonoperating expenses decreased by approximately (\$99,000) from June 30, 2020 to June 30, 2021. Increases in interest expense and development expenses were offset by decreases in restricted expenses. Spending on resident activities, which utilize restricted funds, declined in FY 2021 as a result of the pandemic in an effort to keep residents safe. Also, spending was elevated in FY 2020 with the completion of a project in South Paris that utilized restricted funds.

Statement of Cash Flows

The Statement of Cash Flows reports MVH's sources and uses of cash. The four categories considered are operating, capital and related financing, noncapital financing, and investing activities. Cash at the beginning of FY 2021 was \$12,361,000 and was \$12,142,000 at the end of FY 2021. This represents a net decrease in cash of \$219,000. The net decrease in cash from FY 2020 to FY 2021 is primarily due to cash used by operating activities exceeding cash provided by capital and related financing activities, noncapital financing activities, and investment activities.

For the year ended June 30, 2021, net cash used by operating activities was approximately \$11.6 million for a decrease of approximately \$16.7 million from FY 2020. The decrease is mostly attributable to decreases in net resident service revenue and V.A. stipend revenue caused by the COVID-19 pandemic.

Net cash provided by capital and related financing activities was approximately \$5 million for FY 2021 which represents an increase from FY 2020 of approximately \$11.6 million. This is mostly due to proceeds of approximately \$16.8 million from V.A construction grants, \$11.6 million from long-term debt, and \$8.0 million from funded depreciation offset by investments in property, plant and equipment.

MAINE VETERANS' HOMES

Management's Discussion and Analysis (Unaudited)

June 30, 2021

Net cash provided by noncapital financing activities for FY 2021 was \$5.5 million primarily due to cash received from COVID-19 federal relief grants.

Net cash provided from investing activities in FY 2021 consists of interest income from investing activities and remained relatively consistent with FY 2020.

FINANCIAL ACTIVITY – BUDGET VS. ACTUAL

The total surplus of \$16,012,000 for the year ended June 30, 2021 was more than the budgeted surplus of \$11,041,000 by \$4,971,000 or 45%. The positive variance from budget was due primarily to strong market performance on MVH's investment portfolio. Gains on the investment portfolio in FY 2021 totaled \$6.6 million which exceeded the budgeted amount by \$5.6 million. The loss from operations of (\$18.3) million exceeded budget by (\$12.2) million. The loss from operations was caused in large part to the COVID-19 pandemic: lost revenue due to low census, high costs for contract labor to offset staffing shortages, high costs for COVID supplies and testing. The loss from operations was partially offset by unbudgeted COVID stimulus funds which totaled \$10.2 million in FY 2021.

Net V.A. stipend revenues of \$7,807,000 accounted for 11.2% of operating revenues and 7.5% of total revenues for the year ended June 30, 2021. MVH is restricted by state statute in its use of these revenues, primarily for the payment of its long-term and other debt and funding for future capital acquisitions (funded depreciation). Consequently, MVH measures its financial performance by excluding this revenue source and any V.A. construction grant revenues received during the year.

Excluding the V.A. stipend revenues and V.A. construction grant revenues, the financial performance of MVH was as follows:

| | <u>Actual</u> <u>Surplus / (Deficit)</u> | <u>Budgeted</u> <u>Surplus / (Deficit)</u> | <u>Difference</u> |
|-------|---|---|-------------------|
| Total | \$ (8,560,000) | \$ (13,970,000) | \$ 5,410,000 |

Resident Occupancy

The most recently available data indicates the occupancy rate in the state of Maine is 78.6% for nursing homes and 84.2% for residential care facilities. The occupancy rate for MVH for FY 2021 was 70.2% for its nursing home beds and 80.0% for its residential care beds. The combined rate for both levels of care was 73.0%. COVID-19 negatively impacted occupancy rates for nursing facilities and residential care facilities since the pandemic began in March 2020.

Payor Sources

Payor sources for all MVH facilities combined in FY 2021 were:

| | <u>Nursing Home</u> | <u>Residential Care</u> |
|--------------------|---------------------|-------------------------|
| Private/Commercial | 17.0% | 19.8% |
| V.A. | 19.7% | n/a |
| Medicaid | 60.3% | 80.2% |
| Medicare | 3.0% | n/a |

MAINE VETERANS' HOMES

Management's Discussion and Analysis (Unaudited)

June 30, 2021

Next Year's Budget and Rates

A combined budgeted occupancy of 80.6% was approved for FY 2022. Admissions were budgeted to slowly improve each month in FY 2022 to recover from the pandemic, but not to pre-pandemic levels until FY 2023.

The approved budget for FY 2022 forecasts an operating loss of (\$14,310,000) including budgeted V.A. stipend revenue of \$8,684,000 which, as mentioned above, is limited in its use.

Budgeted operating expenses for FY 2022 are \$90,632,000, including budgeted cost of sales of \$5,809,000 for MVH's pharmacy. This is \$2,922,000, or 3.3%, higher than FY 21 actual operating expenses of \$87,710,000. This higher budgeted amount is attributed to an increase in wages and benefits, an increase in cost of sales associated with MVH's pharmacy operations due to expected census improvement as recovery from the pandemic continues, one-time expenses to outfit the new Augusta facility, and increased depreciation expense associated with opening the new Augusta replacement facility.

Total FY 2022 budgeted operating revenues are \$76,322,000. This is an increase of \$6,914,000 from FY 2021 actual operating revenues of \$69,408,000. Pharmacy revenue is budgeted to increase \$2,041,000 in FY 2022 compared to the prior year actual amount associated with the increased resident census noted above. MVH recorded investment gains of \$6.6 million in FY 2021 and budgeted \$1.0 million for gains from investments in FY 2022. MVH recorded a gain on disposal of assets of \$38,000 in FY 2021 which was reflected as an addition to operating revenues. A gain on disposal was not budgeted for FY 2022. Finally, the average daily census budgeted for FY 2022 is 507.6 compared to the actual daily census for FY 2021 of 467.0. This is estimated to impact revenues by \$6.1 million.

The FY 2022 budget does not include the potential impact of GASB No. 68 as that amount cannot be reasonably estimated during the budget time period.

The Augusta replacement facility is expected to be ready for residents in October 2021. No decisions have been made relative to the future use of the existing Augusta facility which will be vacated. MVH plans to acquire the land from the State of Maine and management is exploring options for the sale of the property.

Contacting the Maine Veterans' Homes Financial Management

This financial report is designed to provide the public with a general overview of MVH's finances and to demonstrate MVH's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the MVH central office finance department, 460 Civic Center Drive, Augusta, ME 04330.

MAINE VETERANS' HOMES

Statement of Net Position

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

ASSETS AND DEFERRED OUTFLOWS

| | <u>Operating Fund</u> | <u>Restricted Fund</u> | <u>Eliminations</u> | <u>2021 Total</u> | <u>2020 Total</u> |
|--|---------------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| Current assets | | | | | |
| Cash | \$ 12,141,642 | \$ - | \$ - | \$ 12,141,642 | \$ 12,360,714 |
| Accounts receivable, net of allowance for doubtful accounts of \$565,200 and \$570,000 in 2021 and 2020, respectively. | 4,189,925 | - | - | 4,189,925 | 4,076,851 |
| Pharmacy inventory | 998,540 | - | - | 998,540 | 1,134,720 |
| Employee receivables | 64,158 | - | - | 64,158 | 122,316 |
| Stimulus receivable | 4,861,398 | - | - | 4,861,398 | - |
| V.A. stipend receivable | - | 813,778 | - | 813,778 | 906,820 |
| V.A. construction grant receivable | - | 916,425 | - | 916,425 | 3,599,465 |
| Prepaid expenses, supplies and other current assets | 314,138 | - | - | 314,138 | 613,779 |
| Assets whose use is limited | 330,265 | - | - | 330,265 | 275,140 |
| Due from other fund | 1,477,749 | - | (1,477,749) | - | - |
| Estimated third-party payor settlements | <u>833,906</u> | <u>-</u> | <u>-</u> | <u>833,906</u> | <u>895,817</u> |
| Total current assets | <u>25,211,721</u> | <u>1,730,203</u> | <u>(1,477,749)</u> | <u>25,464,175</u> | <u>23,985,622</u> |
| Assets whose use is limited, net of amount required for current liabilities | <u>34,867,530</u> | <u>-</u> | <u>-</u> | <u>34,867,530</u> | <u>35,404,744</u> |
| Property, plant and equipment | 213,881,759 | 530,000 | - | 214,411,759 | 180,650,862 |
| Less accumulated depreciation | <u>(67,785,301)</u> | <u>-</u> | <u>-</u> | <u>(67,785,301)</u> | <u>(63,024,742)</u> |
| Net property, plant and equipment | <u>146,096,458</u> | <u>530,000</u> | <u>-</u> | <u>146,626,458</u> | <u>117,626,120</u> |
| Other assets | | | | | |
| Computer software, net of amortization | 18,150 | - | - | 18,150 | 40,420 |
| License rights | <u>2,937,615</u> | <u>-</u> | <u>-</u> | <u>2,937,615</u> | <u>2,937,615</u> |
| Total other assets | <u>2,955,765</u> | <u>-</u> | <u>-</u> | <u>2,955,765</u> | <u>2,978,035</u> |
| Total assets | 209,131,474 | 2,260,203 | (1,477,749) | 209,913,928 | 179,994,521 |
| Deferred outflows of resources | <u>7,613,263</u> | <u>-</u> | <u>-</u> | <u>7,613,263</u> | <u>7,318,617</u> |
| Total assets and deferred outflows | <u>\$216,744,737</u> | <u>\$ 2,260,203</u> | <u>\$ (1,477,749)</u> | <u>\$217,527,191</u> | <u>\$187,313,138</u> |

The accompanying notes are an integral part of these financial statements.

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

| | <u>Operating Fund</u> | <u>Restricted Fund</u> | <u>Eliminations</u> | <u>2021 Total</u> | <u>2020 Total</u> |
|---|---------------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| Current liabilities | | | | | |
| Current portion of capital lease obligations | \$ 288,257 | \$ - | \$ - | \$ 288,257 | \$ 336,105 |
| Accounts payable | 8,066,716 | - | - | 8,066,716 | 6,525,092 |
| Accrued expenses and other current liabilities | 206,221 | - | - | 206,221 | 51,664 |
| Accrued payroll and related expenses | 5,902,181 | - | - | 5,902,181 | 6,117,563 |
| Resident funds held in trust | 330,265 | - | - | 330,265 | 275,140 |
| Refunds due to third-party payors | 190,219 | - | - | 190,219 | 74,091 |
| Due to other fund | <u>-</u> | <u>1,477,749</u> | <u>(1,477,749)</u> | <u>-</u> | <u>-</u> |
| Total current liabilities | 14,983,859 | 1,477,749 | (1,477,749) | 14,983,859 | 13,379,655 |
| Long-term debt and capital lease obligations, excluding current portion | 18,102,122 | - | - | 18,102,122 | 6,750,411 |
| Net other post-employment benefit obligation liabilities | 848,798 | - | - | 848,798 | 1,031,662 |
| Net pension liability | <u>24,253,567</u> | <u>-</u> | <u>-</u> | <u>24,253,567</u> | <u>18,380,629</u> |
| Total liabilities | <u>58,188,346</u> | <u>1,477,749</u> | <u>(1,477,749)</u> | <u>58,188,346</u> | <u>39,542,357</u> |
| Deferred inflows of resources | <u>1,065,549</u> | <u>-</u> | <u>-</u> | <u>1,065,549</u> | <u>5,509,417</u> |
| Net position | | | | | |
| Net investment in capital assets | 127,706,079 | 530,000 | - | 128,236,079 | 110,539,604 |
| Unrestricted | 29,784,763 | - | - | 29,784,763 | 31,541,785 |
| Restricted – expendable | <u>-</u> | <u>252,454</u> | <u>-</u> | <u>252,454</u> | <u>179,975</u> |
| Total net position | <u>157,490,842</u> | <u>782,454</u> | <u>-</u> | <u>158,273,296</u> | <u>142,261,364</u> |
| | | | | | |
| Total liabilities, deferred inflows and net position | <u>\$216,744,737</u> | <u>\$ 2,260,203</u> | <u>\$ (1,477,749)</u> | <u>\$217,527,191</u> | <u>\$187,313,138</u> |

MAINE VETERANS' HOMES

Statement of Revenues, Expenses, and Changes in Net Position

**Year Ended June 30, 2021
(With Comparative Totals for Year Ended June 30, 2020)**

| | <u>Operating Fund</u> | <u>Restricted Fund</u> | <u>2021 Total</u> | <u>2020 Total</u> |
|--|---------------------------|----------------------------|-----------------------|-----------------------|
| Operating revenues | | | | |
| Net resident service revenue | \$ 53,519,685 | \$ - | \$ 53,519,685 | \$ 66,563,989 |
| Net V.A. stipend revenue | - | 7,806,538 | 7,806,538 | 10,490,452 |
| Net pharmacy revenue | 7,423,268 | - | 7,423,268 | 8,070,978 |
| Meal, laundry and other revenue, net | <u>658,413</u> | <u>-</u> | <u>658,413</u> | <u>335,398</u> |
| Total operating revenues | <u>61,601,366</u> | <u>7,806,538</u> | <u>69,407,904</u> | <u>85,460,817</u> |
| Operating expenses | | | | |
| Salaries | 41,665,492 | - | 41,665,492 | 42,411,602 |
| Benefits | 13,192,359 | - | 13,192,359 | 12,848,902 |
| Pharmacy – cost of sales | 4,059,029 | - | 4,059,029 | 4,340,095 |
| Purchased services | 8,699,397 | - | 8,699,397 | 9,137,902 |
| Supplies | 5,741,766 | - | 5,741,766 | 4,886,582 |
| Other | 5,970,221 | - | 5,970,221 | 4,422,666 |
| Bad debts | 304,513 | - | 304,513 | 559,596 |
| Depreciation and amortization | 4,887,006 | - | 4,887,006 | 5,093,158 |
| Health care provider tax | <u>3,190,170</u> | <u>-</u> | <u>3,190,170</u> | <u>3,929,229</u> |
| Total operating expenses | <u>87,709,953</u> | <u>-</u> | <u>87,709,953</u> | <u>87,629,732</u> |
| Operating (deficiency) excess of revenues over expenses | <u>(26,108,587)</u> | <u>7,806,538</u> | <u>(18,302,049)</u> | <u>(2,168,915)</u> |
| Nonoperating revenues and expenses | | | | |
| Contribution revenue | 98,559 | 238,790 | 337,349 | 433,018 |
| COVID-19 relief grant revenue | 10,170,143 | - | 10,170,143 | 1,778,406 |
| Investment gain | 6,596,686 | - | 6,596,686 | 1,200,335 |
| Interest and dividend income, net of fees | 866,348 | - | 866,348 | 888,037 |
| Interest expense | (68,600) | - | (68,600) | (55,510) |
| Development expenses | (187,499) | - | (187,499) | (179,776) |
| Restricted expenses | - | (166,311) | (166,311) | (286,153) |
| V.A. construction grant revenue | <u>-</u> | <u>16,765,865</u> | <u>16,765,865</u> | <u>24,586,177</u> |
| Total nonoperating revenues and expenses | <u>17,475,637</u> | <u>16,838,344</u> | <u>34,313,981</u> | <u>28,364,534</u> |
| Total (deficiency) excess of revenues over expenses | <u>(8,632,950)</u> | <u>24,644,882</u> | <u>16,011,932</u> | <u>26,195,619</u> |
| Funding of depreciation and capital expenditures | <u>24,572,403</u> | <u>(24,572,403)</u> | <u>-</u> | <u>-</u> |
| Total increase in net position | <u>15,939,453</u> | <u>72,479</u> | <u>16,011,932</u> | <u>26,195,619</u> |
| Net position, beginning of year | <u>141,551,389</u> | <u>709,975</u> | <u>142,261,364</u> | <u>116,065,745</u> |
| Net position, end of year | <u>\$ 157,490,842</u> | <u>\$ 782,454</u> | <u>\$ 158,273,296</u> | <u>\$ 142,261,364</u> |

The accompanying notes are an integral part of these financial statements.

MAINE VETERANS' HOMES

Statement of Cash Flows

Year Ended June 30, 2021

(With Comparative Totals for Year Ended June 30, 2020)

| | <u>Operating</u> | <u>Restricted</u> | <u>2021</u> | <u>2020</u> |
|--|----------------------|--------------------|----------------------|----------------------|
| | <u>Fund</u> | <u>Fund</u> | <u>Total</u> | <u>Total</u> |
| Cash flows from operating activities | | | | |
| Cash received from V.A. stipend | \$ - | \$ 7,899,580 | \$ 7,899,580 | \$ 10,678,706 |
| Cash received from other sources | 7,980,947 | - | 7,980,947 | 8,683,866 |
| Cash received from residents and third-party payors | 53,345,013 | - | 53,345,013 | 65,240,838 |
| Cash paid to employees | (41,822,716) | - | (41,822,716) | (41,364,980) |
| Cash paid to vendors | <u>(38,980,578)</u> | <u>-</u> | <u>(38,980,578)</u> | <u>(38,151,806)</u> |
| Net cash (used) provided by operating activities | <u>(19,477,334)</u> | <u>7,899,580</u> | <u>(11,577,754)</u> | <u>5,086,624</u> |
| Cash flows from capital and related financing activities | | | | |
| Proceeds from long-term debt | 11,572,071 | - | 11,572,071 | 5,759,615 |
| Interest paid on long-term debt and capital lease obligation | (62,420) | - | (62,420) | (13,328) |
| Principal payments on capital lease obligations | (315,206) | - | (315,206) | (157,630) |
| Proceeds from V.A. construction grants | 16,765,865 | - | 16,765,865 | 24,586,177 |
| Additions to property, plant and equipment | (32,615,787) | - | (32,615,787) | (37,725,977) |
| Proceeds from sale of property, plant and equipment | 38,585 | - | 38,585 | 86,862 |
| Interfund transfers | 10,655,099 | (7,972,059) | 2,683,040 | (1,014,323) |
| Cash paid for development activities | (187,499) | - | (187,499) | (179,778) |
| Proceeds from draw from funded depreciation | 8,000,000 | - | 8,000,000 | 3,000,000 |
| Increase in funded depreciation and bond debt service | <u>(866,098)</u> | <u>-</u> | <u>(866,098)</u> | <u>(887,687)</u> |
| Net cash provided (used) by capital and related financing activities | <u>12,984,610</u> | <u>(7,972,059)</u> | <u>5,012,551</u> | <u>(6,546,069)</u> |
| Cash flows from noncapital financing activities | | | | |
| Cash received from contributions | 98,559 | 238,790 | 337,349 | 433,019 |
| Cash received from COVID-19 federal relief grants | 5,308,745 | - | 5,308,745 | 1,778,408 |
| Cash paid for restricted expenses | <u>-</u> | <u>(166,311)</u> | <u>(166,311)</u> | <u>(286,153)</u> |
| Net cash provided by noncapital financing activities | <u>5,407,304</u> | <u>72,479</u> | <u>5,479,783</u> | <u>1,925,274</u> |
| Cash flows from investing activities | | | | |
| Interest income from investing activities | <u>866,348</u> | <u>-</u> | <u>866,348</u> | <u>888,037</u> |
| Net cash provided by investing activities | <u>866,348</u> | <u>-</u> | <u>866,348</u> | <u>888,037</u> |
| Net (decrease) increase in cash | (219,072) | - | (219,072) | 1,353,866 |
| Cash, beginning of year | <u>12,360,714</u> | <u>-</u> | <u>12,360,714</u> | <u>11,006,848</u> |
| Cash, end of year | <u>\$ 12,141,642</u> | <u>\$ -</u> | <u>\$ 12,141,642</u> | <u>\$ 12,360,714</u> |

The accompanying notes are an integral part of these financial statements.

MAINE VETERANS' HOMES

Statements of Cash Flows (Concluded)

**Year Ended June 30, 2021
(With Comparative Totals for Year Ended June 30, 2020)**

| | <u>Operating Fund</u> | <u>Restricted Fund</u> | <u>2021 Total</u> | <u>2020 Total</u> |
|--|---------------------------|----------------------------|------------------------|-----------------------|
| Reconciliation of operating (deficiency) excess of revenues over expenses to net cash (used) provided by operating activities | | | | |
| Operating (deficiency) excess of revenues over expenses | \$ (26,108,587) | \$ 7,806,538 | \$ (18,302,049) | \$ (2,168,915) |
| Adjustments to reconcile operating (deficiency) excess of revenues over expenses to net cash (used) provided by operating activities | | | | |
| Depreciation and amortization | 4,887,006 | - | 4,887,006 | 5,093,158 |
| (Gain) loss on disposal of property, plant and equipment | (37,889) | - | (37,889) | 170,359 |
| (Increase) decrease in Accounts and employee receivables, net | (54,916) | - | (54,916) | 1,060,634 |
| Pharmacy inventory | 136,180 | - | 136,180 | (4,349) |
| V.A. stipend receivable | - | 93,042 | 93,042 | 188,254 |
| Prepaid expenses, supplies and other current assets | 299,641 | - | 299,641 | (331,591) |
| Deferred outflows of resources | (294,646) | - | (294,646) | (411,920) |
| Increase (decrease) in Accounts payable | 338,639 | - | 338,639 | 252,740 |
| Accrued expenses and other current liabilities | 49,121 | - | 49,121 | 885,261 |
| Estimated third-party payor liabilities | 61,911 | - | 61,911 | (1,617,168) |
| Net other post-employment benefit obligation liabilities | (182,864) | - | (182,864) | 30,096 |
| Net pension liability | 5,872,938 | - | 5,872,938 | 1,586,201 |
| Deferred inflows of resources | <u>(4,443,868)</u> | <u>-</u> | <u>(4,443,868)</u> | <u>353,864</u> |
| Net cash (used) provided by operating activities | <u>\$ (19,477,334)</u> | <u>\$ 7,899,580</u> | <u>\$ (11,577,754)</u> | <u>\$ 5,086,624</u> |

Supplemental cash flow disclosures:

At June 30, 2021, additions to property, plant and equipment totaling \$6,413,225 were included in accounts payable. Additions to property, plant and equipment of \$5,210,240 included in accounts payable at June 30, 2020 were paid in 2021.

Equipment financed through capital lease obligations totaled \$46,998 and \$1,002,361 during the year ended June 30, 2021 and 2020, respectively.

The accompanying notes are an integral part of these financial statements.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021
(With Comparative Totals for June 30, 2020)

Nature of Business

Maine Veterans' Homes (MVH) provides nursing and residential care to qualified veterans and their spouses, widows, widowers and "gold star" parents. MVH operates six facilities in Maine.

Augusta

The Augusta facility has 120 nursing facility beds and 30 residential care beds. The nursing facility has been operating its 120 nursing home beds since 1983. Construction was funded by a grant from the U.S. Department of Veterans' Affairs (V.A.) for 65% of allowed costs, and the balance was funded by a general obligation bond issue of the State of Maine (State). The land was deeded to MVH by the State Bureau of Public Lands (Bureau). Title to the land will revert back to the Bureau after a certain tax-free general obligation bond has been redeemed.

The 30-bed residential care unit in Augusta has been in operation since August 2004. Construction of this unit was funded by a grant from the V.A. for 65% of allowed costs and the balance was funded by a tax-free revenue bond issue of MVH. The residential care unit is adjacent to the nursing facility.

Construction on an Augusta replacement facility with 108 nursing facility beds and 30 residential care beds is almost complete. The facility is expected to be operational by December 2021. (See Note 8.)

Caribou

The Caribou facility has 40 nursing facility beds and 30 residential care beds attached to Cary Medical Center. The 40-bed nursing facility has been in operation since January 1990. Construction was funded by a grant from the V.A. for 65% of allowed costs, and the balance was funded by a tax-free revenue bond issue of MVH. The property is under a lease from the Caribou Hospital District. Although the term of the lease is for 99 years, the landlord has retained the right to terminate the lease upon 30 days' written notice in the event MVH shall cease to operate a veterans' facility at the premises. The lease expires in August 2087. In the event of a termination, MVH is entitled to receive, from Caribou Hospital District, a prescribed pro-rata portion of the original construction cost based on the number of years the facility has been in existence.

The 30-bed residential care unit in Caribou has been in operation since September 2003. Construction was funded by a grant from the V.A. for 65% of allowed costs, and the balance was funded by a tax-free revenue bond issue of MVH. The land occupied by MVH for the residential care unit is under lease from the Caribou Hospital District. Although the term of the lease is for 99 years, the landlord has retained the right to terminate the lease upon 30-day written notice in the event MVH shall cease to operate a veterans' facility at the premises. The lease expires in March 2101. The residential care unit is adjacent to the nursing facility.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021
(With Comparative Totals for June 30, 2020)

The Caribou facility also has a management contract with Cary Medical Center for the provision of various clinical and non-clinical ancillary services. The agreement can be terminated by either party with 90 days written notice.

Scarborough

The Scarborough facility has 120 nursing facility beds and 30 residential care beds. The nursing facility has been operating its 120 nursing home beds since July 1990. Construction was funded by a grant from the V.A. for 65% of allowed costs, and the balance was funded by a tax-free bond issue of MVH. The land was donated by the Town of Scarborough and the American Legion Post #76 of Scarborough. Title to the land would revert back to the town should MVH cease to operate as a veterans' facility.

The 30-bed residential care unit in Scarborough has been in operation since March 2003. Construction of this unit was funded by a grant from the V.A. for 65% of allowed costs and the balance was funded by a tax-free revenue bond issue of MVH. The residential care unit is adjacent to the nursing facility.

South Paris

The South Paris facility has 62 nursing facility beds and 28 residential care beds and has been in operation since July 1995. Construction was funded by a grant from the V.A. for 65% of allowed costs, and by tax-free revenue bonds of MVH. Most of the land was donated by Oxford Bank and Trust Company and Peoples Heritage Bank, and adjacent parcels were purchased from, or donated by, private land owners.

Bangor

The Bangor facility has 120 nursing facility beds and 30 residential care beds. The nursing facility has been operating its 120 nursing home beds since October 1995. Construction was funded by a grant from the V.A. for 65% of allowed costs, and by a tax-free revenue bond issue of MVH. The land was donated by the State. The 30-bed residential care unit has been in operation since June 2003. Construction was funded by a grant from the V.A. for 65% of allowed costs, and by a tax-free revenue bond issue. The residential care unit is adjacent to the nursing facility.

Machias

The Machias facility has 30 residential care beds and has been in operation since September 2005. Construction was funded partially by a grant from the V.A. for 65% of allowed costs.

MVH also has a central office whose costs are allocated to each of the facilities. The central office provides accounting, human resources, and other management support.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021
(With Comparative Totals for June 30, 2020)

In addition, MVH operates a pharmacy at the central office location. The pharmacy provides pharmaceuticals and pharmacy consulting services to residents of MVH facilities and to certain other long-term care facilities in the State under contracts for professional services which are renewable on an annual basis.

MVH was created by the State Legislature to provide public homes for veterans, and the State has the authority to appoint its governing board. However, MVH is a separate and distinct legal entity, and is not included in the State's component unit financial statements. It receives no appropriation from the State legislature, and there are no appropriated budgets to include for reporting purposes. In addition, its employees are classified as public, not State, employees.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. MVH extends credit at regular terms without collateral to its residents.

Inventory

Inventory consists of pharmaceuticals and is stated at cost.

Assets Whose Use is Limited

Assets whose use is limited includes investments which are stated at fair value. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of the investment securities will occur and that such changes could materially affect the amounts reported in the statement of net position.

Investment income, including interest, dividends and realized and unrealized gains, is excluded from operating revenue. Interest and dividends are included with interest income from other sources in the statement of revenues, expenses, and changes in net position.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021

(With Comparative Totals for June 30, 2020)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, if donated, at the fair market value at date of donation. Depreciation and amortization are provided on the straight-line basis over the assets' estimated useful lives, as outlined in *Estimated Useful Lives of Depreciable Hospital Assets, 2013 Edition*, published by the American Hospital Association. Following is a summary of estimated useful lives by asset category:

| | <u>Estimated Useful Lives (Years)</u> |
|----------------------------|---------------------------------------|
| Land improvements | 8 - 20 |
| Buildings and improvements | 5 - 40 |
| Equipment | 5 - 15 |
| Motor vehicles | 4 |

Computer Software

Computer software costs are being amortized using the straight-line method over three years.

License Rights

MVH capitalized the Medicaid funding stream rights acquired from other long-term care facilities, to construct and operate residential care units at its Scarborough, Augusta, Bangor, Caribou, and Machias locations. These beds have been placed in service and through June 30, 2008, MVH had been amortizing the costs by the straight-line method over 20 years. Under Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, intangible assets with indefinite useful lives should not be amortized. If changes in factors and conditions result in the service capacity being reduced or the useful life of the license rights no longer being indefinite, the assets are to be tested for impairment.

In September 2014, MVH purchased \$2,600,000 of MaineCare revenue stream for use in future projects. Utilization of the license rights and related revenue stream is subject to review and approval by the Maine Department of Health and Human Services (DHHS). DHHS approved the use of approximately \$2,400,000 of this revenue stream to meet MaineCare neutrality requirements for the Augusta replacement facility (see Note 8).

Operating Revenues and Expenses

The operating (deficiency) excess of revenues over expenses reported in the financial statements includes revenues and expenses related to the primary, continuing operations of MVH. Principal operating revenues are charges to residents for services and pharmaceuticals and stipends received from the V.A. for eligible resident services. Principal operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

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(With Comparative Totals for June 30, 2020)

Restricted Revenue

When both restricted and unrestricted resources are available for use, it is MVH's policy to use restricted resources first, then unrestricted resources as needed, as permitted by GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

Resident Revenue

MVH records its revenue based on its standard charges for resident services rendered. MVH has contractual arrangements with Medicare, DHHS, and other third-party payors to render services to qualifying residents under certain cost-based programs which may result in MVH receiving payments for such services which differ from the standard charges. Any differences of this nature are recorded as contractual adjustments.

Basis of Presentation – Fund Accounting

The accounts of MVH are maintained in accordance with the principles of fund accounting recognized on the accrual basis using the economic resources measurement focus. MVH maintains two proprietary type funds. It has no fiduciary or endowment type funds.

The financial statements include certain prior-year summarized comparative information in total, not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with MVH's financial statements as of and for the year ended June 30, 2020, from which the summarized information was derived.

Risk Management

MVH is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Net Position

Net position of MVH is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation, and is reduced by the current balances of any outstanding accounts payable and borrowings used to finance the purchase or construction of those assets. Expendable restricted net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors or contributors external to MVH. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or expendable restricted net position.

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(With Comparative Totals for June 30, 2020)

Operating Fund

Included in the operating fund, in addition to the unrestricted net position, are amounts received from the V.A. for completed construction, contributed land on which the facilities are built, and an initial state appropriation for the planning of the Augusta home in 1982.

Restricted Fund

Under Maine law, MVH is allowed to retain, as revenue, any stipend funds it receives from the V.A. for MVH's Medicaid-eligible resident population. The law stipulates that MVH shall expend stipend funds received for the support and maintenance of its facilities primarily on the payment of debt service. It is the policy of MVH to release funds from restrictions when the required parameters are met.

Income Taxes

MVH is a nonprofit organization and has been recognized as tax-exempt pursuant to Internal Revenue Code (the Code) Section 501(c)(3), whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Defined Benefit Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense, information about the fiduciary net position of the Maine Public Employees Retirement System (System) Participating Local District (PLD) Consolidated Plan (the PLD Plan) and additions to/deductions from the Plan's fiduciary net position has been determined on the same basis as it is reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the System PLD Consolidated Plan - Retiree Group Life Insurance Plan and the MVH Retiree Welfare Plan (collectively, OPEB Plans) and additions to/deductions from the OPEB Plans' fiduciary net position has been determined on the same basis as it is reported by the OPEB Plans. For this purpose, the OPEB Plans recognize benefit payments when due and payable in accordance with the benefit terms.

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Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, MVH has recorded deferred outflows and inflows of resources relative to its pension plan and OPEB plans. As discussed in Notes 12 and 15, amounts reported as deferred outflows of resources and deferred inflows of resources are results of differences between expected and actual experience, projected and actual earnings on pension plan investments, changes of assumptions, changes in proportion and differences between contributions and proportionate share of contributions, and contributions made subsequent to the actuarial measurement date. These deferred outflows and inflows of resources are amortized over various lives and are charged to OPEB and pension expense as discussed in Notes 12 and 15, respectively. The unamortized portion is reported in the Statement of Net Position as a deferred outflow or inflow of resources, as applicable.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, MVH has considered transactions or events occurring through October 25, 2021, which was the date that the financial statements were available to be issued.

Subsequent to June 30, 2021, MVH drew the remaining \$2.7 million from its construction note payable (see Borrowings in Note 9) which was immediately placed into escrow.

2. Bank Deposits

MVH had bank balances as follows at June 30:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Insured (Federal Deposit Insurance Corporation) | \$ 2,498,946 | \$ 2,830,183 |
| Collateralized (by securities held by financial institution's trust department in the financial institution's name) | 4,316,320 | 10,908,447 |
| Uncollateralized | <u>5,871,166</u> | <u>5,127,937</u> |
| Total | <u>\$ 12,686,432</u> | <u>\$ 18,866,567</u> |

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(With Comparative Totals for June 30, 2020)

3. Assets Whose Use is Limited

Unrestricted assets whose use is limited consist of cash and cash equivalents and investments, and include resident funds held in trust and funded depreciation as follows at June 30:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------------|-----------------------------|
| Resident funds held in trust | \$ 330,265 | \$ 275,140 |
| Funded depreciation* | <u>34,867,530</u> | <u>35,404,744</u> |
| Total assets whose use is limited | 35,197,795 | 35,679,884 |
| Less those required for current liabilities | <u>330,265</u> | <u>275,140</u> |
| Noncurrent assets whose use is limited | <u>\$ 34,867,530</u> | <u>\$ 35,404,744</u> |

* In addition to cash of \$1,312 and \$1,302 at June 30, 2021 and 2020, respectively, funded depreciation includes assets held in investments; see Notes 4 and 5.

4. Investments

Investments are reported at fair value and consist of the following as of June 30:

| | <u>2021</u> | |
|--|-----------------------------|-----------------------------|
| | <u>Cost</u> | <u>Fair Value</u> |
| Vanguard Total Bond Market Index Fund Institutional Shares | \$ 6,866,615 | \$ 7,207,915 |
| Vanguard Short-Term Investment Grade Admiral Shares | 3,148,300 | 3,295,531 |
| Vanguard Intermediate-Term Investment Grade Admiral Shares | 2,337,890 | 2,404,355 |
| Vanguard Total Stock Market Index Fund Institutional Shares | 3,756,014 | 10,936,931 |
| Vanguard Total International Stock Index Fund Institutional Shares | 5,130,099 | 7,183,945 |
| Vanguard Long-Term Investment Grade Admiral Shares | 1,891,917 | 1,876,984 |
| Vanguard REIT Index Fund Admiral Shares | <u>1,411,337</u> | <u>1,960,557</u> |
| | <u>\$ 24,542,172</u> | <u>\$ 34,866,218</u> |
| | <u>2020</u> | |
| | <u>Cost</u> | <u>Fair Value</u> |
| Vanguard Total Bond Market Index Fund Institutional Shares | \$ 6,706,800 | \$ 7,237,359 |
| Vanguard Short-Term Investment Grade Institutional Shares | 3,121,604 | 3,264,796 |
| Vanguard Intermediate-Term Investment Grade Admiral Shares | 2,204,931 | 2,344,917 |
| Vanguard Total Stock Market Index Fund Institutional Shares | 5,491,445 | 11,495,813 |
| Vanguard Total International Stock Index Fund Institutional Shares | 6,983,456 | 7,411,000 |
| Vanguard Long-Term Investment Grade Admiral Shares | 1,766,959 | 1,861,387 |
| Vanguard REIT Index Fund Admiral Shares | <u>1,686,847</u> | <u>1,788,170</u> |
| | <u>\$ 27,962,042</u> | <u>\$ 35,403,442</u> |

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The Vanguard Total Bond Market Index Fund (VBTIX) tracks the Barclays Capital U.S. Aggregate Float Adjusted Index. This index tracks investment grade bonds commonly traded in the U.S. The holdings of the VBTIX are rated as follows as of June 30, 2021: AAA (69%), AA (3%), A (12%), and BBB (16%).

The Vanguard Intermediate-Term Investment Grade Fund (VFIDX) tracks high and mid-quality fixed-income securities. The holdings of VFIDX are as follows as of June 30, 2021: AAA (12%), AA (3%), A (33%), BBB (48%), and other (4%).

The Vanguard Short-Term Investment Grade Fund (VFSUX) seeks to provide current income while maintaining limited price volatility. The holdings of VFSUX are as follows as of June 30, 2021: AAA (18%), AA (4%), A (30%), BBB (44%), and other (4%).

The Vanguard Long-Term Investment Grade Fund (VWETX) provides diversified exposure to medium- and high-quality investment-grade corporate bonds with an average maturity of 15 to 25 years. The holdings of VWETX are as follows as of June 30, 2021: AAA (10%), AA (21%), A (59%), BBB (7%), and other (3%).

5. Fair Value Measurement and Application

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB Statement No. 72 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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Assets and liabilities measured at fair value on a recurring basis are summarized below.

| <u>Fair Value Measurements at June 30, 2021, Using:</u> | | | | |
|--|-----------------------------|-----------------------------|-----------------------|-----------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments: | | | | |
| Equity mutual funds | \$ 18,120,876 | \$ 18,120,876 | \$ - | \$ - |
| Fixed income mutual funds | 14,784,785 | 14,784,785 | - | - |
| Real estate investment trusts | <u>1,960,557</u> | <u>1,960,557</u> | - | - |
| | <u>\$ 34,866,218</u> | <u>\$ 34,866,218</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>Fair Value Measurements at June 30, 2020, Using:</u> | | | | |
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments: | | | | |
| Equity mutual funds | \$ 18,906,813 | \$ 18,906,813 | \$ - | \$ - |
| Fixed income mutual funds | 14,708,459 | 14,708,459 | - | - |
| Real estate investment trusts | <u>1,788,170</u> | <u>1,788,170</u> | - | - |
| | <u>\$ 35,403,442</u> | <u>\$ 35,403,442</u> | <u>\$ -</u> | <u>\$ -</u> |

Return on investments consisted of the following for the years ended June 30:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| Interest and dividends, net of investment fees of \$38,928 and \$41,396 in 2021 and 2020, respectively. | \$ 866,348 | \$ 888,037 |
| Investment gain | <u>6,596,686</u> | <u>1,200,335</u> |
| | <u>\$ 7,463,034</u> | <u>\$ 2,088,372</u> |

Investment Practices

Investments are managed to generate maximum total return (interest, dividends and capital appreciation) from MVH's invested assets consistent with accepted risk levels and objectives of the MVH Board of Trustees. The long-term objective of the portfolio is to produce total returns, net of fees, which exceed the inflation rate (as measured by the Consumer Price Index) by at least four percentage points.

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Notes to Financial Statements

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

Fund assets are allocated across the three broad asset classes in accordance with the following guidelines:

| <u>Asset Class</u> | <u>Sub-Asset Class</u> | <u>Target Allocation</u> | |
|-------------------------------|--------------------------|--------------------------|------|
| Equity | Domestic (U.S.) | 30 % | |
| | International (non-U.S.) | <u>20 %</u> | 50 % |
| Fixed income | Investment Grade | 23 % | |
| | Bond Market Index | <u>22 %</u> | 45 % |
| Real estate investment trusts | | | 5 % |

6. Interfund Balances

Outstanding balances between the operating and restricted fund reported as "due from (to) other fund" include V.A. stipend receivables, V.A. construction grant receivables, and restricted funds.

Substantially all of these interfund balances at June 30, 2021 are expected to be repaid within one year.

7. Significant Concentration and Estimated Third-Party Payor Settlements

Approximately 56% and 65% of the residents served during 2021 and 2020, respectively, were beneficiaries of the Maine Medicaid or federal Medicare programs. Revenue from the Medicaid program accounted for approximately 56% and 50% of MVH's net resident service revenue for 2021 and 2020, respectively. Under the Medicaid program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year. Differences between these interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement governing the respective programs, are determined and settled on a retroactive basis. Nursing facility rates are released bi-annually and include inflationary increases and additional funds for facilities servicing a high MaineCare population. Providers of services to nursing care residents eligible for Medicare benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on the scoring attributed to the acuity level of the resident at a rate determined by federal guidelines. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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**June 30, 2021
(With Comparative Totals for June 30, 2020)**

A per diem allowance is received from the V.A. for all eligible veterans. This allowance is for support of a mutual obligation between the federal and state governments. Through June 30, 2017, the per diem allowance for Medicare eligible veterans for the first 20 days of their stay was returned to Medicare via the annual cost report filing and settlement process. Due to a rule change, MVH ceased returning these funds to Medicare in 2018 and recorded them as a liability until the related cost report filing was audited to help ensure MVH's interpretation of the rule change was consistent with Medicare's interpretation. During 2021, \$164,990 of V.A. per diem payments for the first 20 days of Medicare eligible veteran stays was reported in net V.A. stipend revenue. During 2020, \$1,030,000 of V.A. per diem payments related to 2018 and 2019 was reporting in net V.A. stipend revenue and per diem payments of \$368,388 were recorded as revenue upon billing in 2020. The per diem allowance for the remaining days of stay is recorded as a reduction of accounts receivable. The per diem allowance for private pay veterans is recorded as a reduction of accounts receivable. The per diem allowance for Medicaid veterans is recorded as revenue by MVH. Net V.A. stipend revenue, excluding amounts discussed above was \$7,641,548 and \$9,092,064 in 2021 and 2020, respectively.

In December 2018, the V.A. changed enforcement of existing rules that include a work requirement for veterans under the domiciliary care per diem stipend program, which impacts eligibility. MVH was granted equitable relief from this enforcement through September 30, 2021, and was therefore able to bill for residents who were initially deemed ineligible. MVH is required to file for equitable relief annually in order to continue to bill for certain veterans deemed ineligible under the domiciliary care per diem stipend program. Such billings approximated \$583,000 and \$1,600,000 for the years ended June 30, 2020 and 2021, respectively.

During 2020, the Maine State Plan Under Title XIX of the Social Security Act was amended to allow supplemental payments for nursing facilities meeting certain criteria, including providing critical access to veteran-focused care which MVH meets. The amendment allows for a temporary payment adjustment of the lesser of approximately \$2 million per year for two years or the difference between MaineCare payments and actual allowed MaineCare costs as reported on the most recent filed cost reports for each year. MVH received supplemental payments totaling approximately \$2 million in both 2021 and 2020 which is included in net resident service revenue in the statement of revenues, expenses, and changes in net position.

In addition, MVH receives room and board per diem payments from the V.A. for qualifying service-connected disabled veterans. Eligibility criteria for this program is identified by statute based on a V.A. adjudicated service-connected disability. The room and board per diem under this program is included in net routine service revenue. Revenue under this program was \$9,988,697 and \$11,971,361 in 2021 and 2020, respectively.

Settlements do not become final until the cost reports are audited and approved by DHHS or the Medicare intermediary. Differences between the estimated and actual settlements are recorded as contractual adjustments in the year of final determination. Net resident service revenue decreased by approximately \$2,900 in 2021 and increased by approximately \$341,000 in 2020 due to changes in prior years' estimated settlements. Medicaid cost reports have been audited through 2019 and Medicare cost reports have been audited through 2020.

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(With Comparative Totals for June 30, 2020)

Following is a summary of net resident service revenue for the years ended June 30:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Routine services | \$ 57,358,106 | \$ 71,690,825 |
| Ancillary services | 7,816,482 | 12,401,226 |
| Contractual adjustments under third-party reimbursement programs | <u>(11,654,903)</u> | <u>(17,528,062)</u> |
| Net resident service revenue | <u>\$ 53,519,685</u> | <u>\$ 66,563,989</u> |

Due to the large concentration of residents who receive benefits from the Medicaid and Medicare reimbursement programs, MVH is highly dependent upon regulatory authorities establishing reimbursement rates that are adequate to sustain MVH's operations, as is typical for most long-term healthcare facilities in the State.

8. Property, Plant and Equipment

The following tables provide a summary of changes in capital assets:

| | <u>June 30,</u> <u>2020</u> | <u>Increases</u> | <u>Transfers/ Decreases</u> | <u>June 30,</u> <u>2021</u> |
|---|--------------------------------|----------------------|---------------------------------|--------------------------------|
| Cost | | | | |
| Land | \$ 8,544,130 | \$ - | \$ - | \$ 8,544,130 |
| Land improvements | 3,837,501 | 126,051 | - | 3,963,552 |
| Buildings and improvements | 92,759,913 | 1,217,457 | - | 93,977,370 |
| Equipment | 19,584,209 | 552,305 | 18,189 | 20,118,325 |
| Motor vehicles | 1,743,506 | - | 81,352 | 1,662,154 |
| Construction in process | <u>54,181,603</u> | <u>33,130,569</u> | <u>1,165,944</u> | <u>86,146,228</u> |
| Property, plant and equipment, at cost | <u>180,650,862</u> | <u>35,026,382</u> | <u>1,265,485</u> | <u>214,411,759</u> |
| Accumulated depreciation | | | | |
| Land improvements | 2,511,511 | 163,768 | - | 2,675,279 |
| Buildings and improvements | 46,633,124 | 2,888,487 | - | 49,521,611 |
| Equipment | 12,595,347 | 1,606,026 | 17,495 | 14,183,878 |
| Motor vehicles | <u>1,284,760</u> | <u>201,125</u> | <u>81,352</u> | <u>1,404,533</u> |
| Total accumulated depreciation | <u>63,024,742</u> | <u>4,859,406</u> | <u>98,847</u> | <u>67,785,301</u> |
| Net property, plant and equipment | <u>\$ 117,626,120</u> | <u>\$ 30,166,976</u> | <u>\$ 1,166,638</u> | <u>\$ 146,626,458</u> |

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Notes to Financial Statements

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

| | June 30, <u>2019</u> | <u>Increases</u> | <u>Transfers/ Decreases</u> | June 30, <u>2020</u> |
|---|-------------------------|----------------------|---------------------------------|-------------------------|
| Cost | | | | |
| Land | \$ 8,520,884 | \$ 23,246 | \$ - | \$ 8,544,130 |
| Land improvements | 3,716,300 | 125,809 | 4,608 | 3,837,501 |
| Buildings and improvements | 91,325,093 | 1,637,439 | 202,619 | 92,759,913 |
| Equipment | 20,099,497 | 1,431,496 | 1,946,784 | 19,584,209 |
| Motor vehicles | 1,655,638 | 260,508 | 172,640 | 1,743,506 |
| Construction in process | <u>16,025,649</u> | <u>39,606,191</u> | <u>1,450,237</u> | <u>54,181,603</u> |
| Property, plant and equipment, at cost | <u>141,343,061</u> | <u>43,084,689</u> | <u>3,776,888</u> | <u>180,650,862</u> |
| Accumulated depreciation | | | | |
| Land improvements | 2,363,821 | 152,299 | 4,609 | 2,511,511 |
| Buildings and improvements | 43,818,016 | 2,923,663 | 108,555 | 46,633,124 |
| Equipment | 12,620,089 | 1,759,744 | 1,784,486 | 12,595,347 |
| Motor vehicles | <u>1,242,925</u> | <u>214,475</u> | <u>172,640</u> | <u>1,284,760</u> |
| Total accumulated depreciation | <u>60,044,851</u> | <u>5,050,181</u> | <u>2,070,290</u> | <u>63,024,742</u> |
| Net property, plant and equipment | <u>\$ 81,298,210</u> | <u>\$ 38,034,508</u> | <u>\$ 1,706,598</u> | <u>\$117,626,120</u> |

During 2016, MVH began planning for a replacement facility in Augusta. The expected cost of the Augusta project is approximately \$91 million of which a total of \$20 million has been funded via proceeds from financing with Camden National Bank. MVH has been approved for V.A. construction grant funds to cover approximately \$49 million of the estimated project cost. Remaining project costs are to be funded with investments.

MVH plans to sell the current Augusta facility once the replacement facility is placed into operation. MVH obtained legislative approval in Spring 2021 to purchase the land where the current Augusta facility resides from the State. MVH plans to close on the purchase of the land in FY 2022 to facilitate the sale of the Augusta facility as soon as a buyer is identified.

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**June 30, 2021
(With Comparative Totals for June 30, 2020)**

9. Borrowings

Long-term debt and capital leases consist of:

| | June 30, <u>2020</u> | <u>Additions</u> | <u>Reductions</u> | June 30, <u>2021</u> | <u>Due Within One Year</u> |
|---|---------------------------------|----------------------------|--------------------------|---------------------------------|---------------------------------------|
| Loan payable with principal due at original maturity of September 30, 2015, extended to September 30, 2023, interest due annually to registered holder Bangor Savings Bank. The bond bears interest at 1.75% per annum based on outstanding principal during the term of the bond; unsecured. | \$ 5,000 | \$ - | \$ - | \$ 5,000 | \$ - |
| 4.03% lease payable to vendor due in five annual payments of \$36,449, including interest, through March 2022; collateralized by equipment. | 68,716 | - | 33,679 | 35,037 | 35,037 |
| 5.00% lease payable to vendor due in 48 monthly payments of \$10,989, including interest, through May 2022; collateralized by equipment. | 260,386 | - | 132,024 | 128,362 | 117,423 |
| 6.195% lease payable to vendor due in 84 monthly payments of \$14,736, including interest, through November 2026; collateralized by equipment. | 992,799 | 46,998 | 149,503 | 890,294 | 135,797 |
| 3.51% construction loan payable due in monthly payments of interest only through July 2025, at which time the entire balance is due; collateralized by land and building under construction, and guaranteed by a tax-exempt revenue bond through the Finance Authority of Maine. Total available borrowing remaining as of June 30, 2021 was \$2,668,314. | <u>5,759,615</u> | <u>11,572,071</u> | <u>-</u> | <u>17,331,686</u> | <u>-</u> |
| | <u>\$7,086,516</u> | <u>\$11,619,069</u> | <u>\$ 315,206</u> | <u>\$ 18,390,379</u> | <u>\$ 288,257</u> |

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**June 30, 2021
(With Comparative Totals for June 30, 2020)**

| | June 30, <u>2019</u> | <u>Additions</u> | <u>Reductions</u> | June 30, <u>2020</u> | <u>Due Within One Year</u> |
|--|-------------------------|---------------------|-------------------|-------------------------|--------------------------------|
| Loan payable with principal due at original maturity of September 30, 2015, extended to September 30, 2023, interest due quarterly to registered holder Bangor Savings Bank. The bond bears interest at 1.75% per annum based on outstanding principal during the term of the bond; unsecured. | \$ 5,000 | \$ - | \$ - | \$ 5,000 | \$ - |
| 4.03% lease payable to vendor due in five annual payments of \$36,449, including interest, through March 2022; collateralized by equipment. | 101,091 | - | 32,375 | 68,716 | 33,679 |
| 5.00% lease payable to vendor due in 48 monthly payments of \$10,989, including interest, through May 2022; collateralized by equipment. | 376,079 | - | 115,693 | 260,386 | 121,611 |
| 6.195% lease payable to vendor due in 84 monthly payments of \$14,736, including interest, through November 2026; collateralized by equipment. | - | 1,002,361 | 9,562 | 992,799 | 180,815 |
| 3.51% construction loan payable due in monthly payments of interest only through July 2025, at which time the entire balance is due; collateralized by land and building under construction, and guaranteed by a tax-exempt revenue bond through the Finance Authority of Maine. Total available borrowing remaining as of June 30, 2020 was \$14,240,385. | - | <u>5,759,615</u> | - | <u>5,759,615</u> | - |
| | <u>\$ 482,170</u> | <u>\$ 6,761,976</u> | <u>\$ 157,630</u> | <u>\$ 7,086,516</u> | <u>\$ 336,105</u> |

MAINE VETERANS' HOMES

Notes to Financial Statements

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(With Comparative Totals for June 30, 2020)

The annual debt service requirements to maturity of borrowings as of June 30, 2021 are as follows:

| | <u>Principal</u> | <u>Interest</u> |
|------------|----------------------|---------------------|
| 2022 | \$ 288,257 | \$ 404,308 |
| 2023 | 146,787 | 378,286 |
| 2024 | 159,400 | 369,347 |
| 2025 | 164,200 | 359,934 |
| 2026 | 20,174,700 | 10,142 |
| Thereafter | <u>116,096</u> | <u>1,128</u> |
| | <u>\$ 21,049,440</u> | <u>\$ 1,523,145</u> |

10. Leases

The Caribou facility lease (see Nature of Business Note) provides for a one-time lease payment at inception equal to the cost of the facility. The mortgage on the Caribou facility is a leasehold mortgage on MVH's leasehold estate. The following amounts are included in property, plant and equipment related to this capital lease at June 30:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|--------------------|--------------------|
| Buildings and improvements | \$ 1,426,711 | \$ 1,426,711 |
| Less accumulated depreciation | <u>(1,114,972)</u> | <u>(1,079,304)</u> |
| | <u>\$ 311,739</u> | <u>\$ 347,407</u> |

The land occupied by MVH for the residential care unit in Machias is under lease from Down East Community Hospital. Although the term of the lease is for 99 years with a \$1 payment due annually, the landlord has retained the right to terminate the lease upon 30 days written notice in the event MVH shall cease to operate a veterans' facility at the premises. The lease expires in April 2104. In the event of a termination, MVH is entitled to an apportionment equal to the value of the facility.

11. Commitments

MVH entered into several ancillary service contracts with unrelated vendors. The contract fees are contingent upon the number of beds, occupancy, and acuity level and classification of residents at each facility, regardless of payor source. The contracts have one-year renewable terms.

In 2019, MVH entered into an agreement with a contractor related to the construction of the new Augusta project (see Note 8). The amount of the contract is approximately \$72.5 million and at June 30, 2021, the project was approximately 98% complete.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021

(With Comparative Totals for June 30, 2020)

12. Post-Employment Benefits Other than Pensions (OPEB)

Plan Description

MVH offers two defined benefit OPEB Plans, the System PLD Consolidated Plan – Retiree Group Life Insurance (Life Insurance Plan) and the MVH Retiree Welfare Plan (Welfare Plan). The Life Insurance Plan is a multiple-employer cost sharing plan administered by the System. The Welfare Plan is a single employer plan administered by MVH. Information regarding these plans is as follows:

Benefits Provided

The Life Insurance Plan provides basic group life insurance benefits, during retirement, to retirees who participated in the plan for a minimum of 10 years prior to retirement.

The Welfare Plan offers health insurance to employees who have attained age 59-1/2 at the time of retirement and completed 15 consecutive years of service. The Welfare Plan is closed to new participants. Employees of MVH retiring prior to July 1, 2000 are not eligible. Employees of MVH as of September 28, 2001, who meet the established criteria are eligible to receive the benefit. Employees hired after September 28, 2001 are not eligible to receive the benefit. Under the Welfare Plan's provisions, MVH pays 50% of the premiums for individual coverage and the employee pays the remainder.

At June 30, 2021, the following employees were covered by the benefit terms at June 30:

| | <u>Life Insurance Plan</u> | <u>Welfare Plan</u> |
|---|--------------------------------|---------------------|
| Inactive employees or beneficiaries currently receiving benefits | - | 3 |
| Inactive employees entitled to but not yet receiving benefit payments | - | - |
| Active plan members | <u>54</u> | <u>59</u> |
| | <u>54</u> | <u>62</u> |

Total OPEB Liability

MVH's total OPEB liability of \$848,798 as of June 30, 2021 is comprised of an OPEB liability related to the Life Insurance Plan of \$234,704 and an OPEB liability related to the Welfare Plan of \$614,094. The Life Insurance Plan OPEB liability was measured as of June 30, 2020 and was determined by an actuarial valuation as of that date. The Welfare Plan OPEB liability was measured as of July 1, 2020, and was determined by an actuarial valuation as of that date.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021
(With Comparative Totals for June 30, 2020)

Actuarial Assumptions

The OPEB's liabilities in the June 30, 2020 and July 1, 2020 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | <u>Life Insurance Plan</u> | <u>Welfare Plan</u> |
|--|--------------------------------|---------------------|
| Inflation | 2.75% | 2.50 % |
| Salary increases | 2.75% - 9.00% | 3.00 % |
| Healthcare cost trend rates | N/A | 5.00 % |
| Retirees' share of benefit-related costs | N/A | 50.00 % |
| Investment rate of return | 6.75% | 6.44 % |

The discount rate used for the Life Insurance Plan valuation was 6.75% and was based the assumed long-term expected rate of return. The discount rate used for the valuation of the Welfare Plan was 2.00% and was based on the S&P Municipal Bond 20-Year High Grade Index (1.86% at July 1, 2020).

There were two mortality tables used for the mortality rates in the Life Insurance Plan. The RP-2014 Total Dataset Healthy Annuitant Mortality Table was used for active members and non-disabled retirees. The RP-2014 Total Dataset Disabled Annuitant Mortality Table was used for disability benefits.

The RP-2014 Mortality Table projected generationally with Scale MP-2016 for males and females was the mortality table used for all three assumptions related to the Welfare Plan—pre-retirement mortality, disabled mortality, and post-retirement mortality.

The actuarial assumptions used in the June 30, 2020 valuation for the Life Insurance Plan were based on the results of an actuarial experience study conducted for the period of June 30, 2012 to June 30, 2015. The actuarial assumptions used in the June 30, 2020 valuations for the Welfare Plan were based on an experience analysis published in 2014, updated to reflect data through January 1, 2016.

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Notes to Financial Statements

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

Changes in the Total OPEB Liability

| | Total OPEB Liability | |
|--|--------------------------|--------------------------|
| | Life Insurance Plan | Welfare Plan |
| Balance at June 30, 2019 | \$ <u>383,672</u> | \$ <u>647,990</u> |
| Changes for the year: | | |
| Service cost | 9,631 | 14,583 |
| Interest | 35,804 | 22,345 |
| Changes of benefit terms | (11,739) | - |
| Differences between actual and expected experience | 13,405 | (160,735) |
| Changes in assumptions or other inputs | (166,764) | 138,626 |
| Benefit payments | <u>(29,305)</u> | <u>(48,715)</u> |
| Net changes | <u>(148,968)</u> | <u>(33,896)</u> |
| Balance at June 30, 2020 | \$ <u><u>234,704</u></u> | \$ <u><u>614,094</u></u> |

Changes in assumptions or other inputs for the Life Insurance Plan reflect a change in the discount rate from 4.98% in 2019 to 6.75% in 2020. Changes in assumptions or other outputs for the Welfare Plan reflect a change in the discount rate from 3.5% in 2019 to 2% in 2020.

Sensitivity

The following presents the total OPEB liability of MVH, as well as what MVH's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

Life Insurance Plan

| | 1 % Decrease <u>(5.75%)</u> | Discount Rate <u>(6.75%)</u> | 1% Increase <u>(7.75%)</u> |
|----------------------|--------------------------------|---------------------------------|-------------------------------|
| Total OPEB liability | \$ 316,103 | \$ 234,704 | \$ 169,280 |

Welfare Plan

| | 1 % Decrease <u>(1.00%)</u> | Discount Rate <u>(2.00%)</u> | 1% Increase <u>(3.00%)</u> |
|----------------------|--------------------------------|---------------------------------|-------------------------------|
| Total OPEB liability | \$ 633,895 | \$ 614,094 | \$ 590,787 |

MAINE VETERANS' HOMES

Notes to Financial Statements

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

The following presents the total OPEB liability of MVH, as well as what MVH's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

Welfare Plan

| | 1 % Decrease <u>(3.50%)</u> | Trend Rate <u>(4.50%)</u> | 1% Increase <u>(5.50%)</u> |
|----------------------|--------------------------------|------------------------------|-------------------------------|
| Total OPEB liability | \$ 569,390 | \$ 614,094 | \$ 664,101 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021 and 2020, MVH recognized OPEB benefit of \$56,135 and \$82,191, respectively. At June 30, 2021 and 2020, MVH reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | 2021 | | | |
|---|---------------------------------------|---------------------|--------------------------------------|---------------------|
| | <u>Deferred Outflows of Resources</u> | | <u>Deferred Inflows of Resources</u> | |
| | <u>Life Insurance</u> | | <u>Life Insurance</u> | |
| | <u>Plan</u> | <u>Welfare Plan</u> | <u>Plan</u> | <u>Welfare Plan</u> |
| Difference between projected and actual investment earnings | \$ - | \$ - | \$ 5,860 | \$ - |
| Difference between expected and actual experience | 28,976 | - | - | 423,572 |
| Changes of assumptions | 24,426 | 117,686 | 167,260 | - |
| Changes in proportion | <u>7,134</u> | <u>-</u> | <u>18,447</u> | <u>-</u> |
| Total | <u>\$ 60,536</u> | <u>\$ 117,686</u> | <u>\$ 191,567</u> | <u>\$ 423,572</u> |

MAINE VETERANS' HOMES

Notes to Financial Statements

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

| | 2020 | | | |
|---|---------------------------------------|---------------------|--------------------------------------|--------------------------|
| | <u>Deferred Outflows of Resources</u> | | <u>Deferred Inflows of Resources</u> | |
| | <u>Life Insurance Plan</u> | <u>Welfare Plan</u> | <u>Life Insurance Plan</u> | <u>Welfare Plan</u> |
| Difference between projected and actual investment earnings | \$ - | \$ - | \$ 17,155 | \$ - |
| Difference between expected and actual experience | 24,454 | - | - | 371,543 |
| Changes of assumptions | 31,933 | - | 50,128 | 5,297 |
| Changes in proportion | <u>8,918</u> | <u>-</u> | <u>23,433</u> | <u>-</u> |
| Total | <u>\$ 65,305</u> | <u>\$ -</u> | <u>\$ 90,716</u> | <u>\$ 376,840</u> |

Amounts reported as net deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year ending June 30:</u> | <u>Life Insurance Plan</u> | <u>Welfare Plan</u> |
|-----------------------------|----------------------------|---------------------|
| 2022 | \$ (39,585) | \$ (93,063) |
| 2023 | (36,025) | (93,063) |
| 2024 | (10,655) | (93,063) |
| 2025 | (19,589) | (21,288) |
| 2026 | (25,177) | (3,340) |
| Thereafter | - | (2,069) |

13. Contingencies

Legislation and regulations at all levels of government have affected, and may continue to affect, revenues and expenses of nursing facilities. These basic financial statements have been prepared based on all known legislation currently in effect. If future legislation or regulations related to nursing facilities are enacted or adopted, such legislation or regulations could have a material effect on future operations.

MVH receives construction grants from the V.A. for the construction and major renovation of nursing home care facilities and residential care facilities. If MVH ceases to operate these homes for nursing home care, domiciliary care or hospital care to veterans within 20 years from the final approval and inspection of the construction and/or renovation, the V.A. shall be entitled to recover from MVH, or any subsequent owner, 65% of the project costs (but in no event an amount greater than the original grant awards). Management does not anticipate the V.A. will recover any funds from the initial construction of the existing Augusta facility.

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Notes to Financial Statements

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(With Comparative Totals for June 30, 2020)**

MVH is involved in a fee dispute with a contractor for additional costs incurred for the construction of the Augusta replacement facility as a result of the pandemic. The parties are currently discussing potential resolutions of the issue. If that fails, the agreement provides for mediation, and if that fails, binding arbitration. The potential monetary outcome cannot be estimated at this time.

In a prior year, MVH received a donation of land from the State valued at \$530,000 which was included in restricted fund contributions as the deed includes certain restrictions including limiting the use of the land to principally provide services for Maine veterans such as hospice care, a community-based outpatient clinic, housing for veterans in need, and other such services. During 2010, MVH entered into a \$1 ground lease agreement expiring in December 2030 with a third party, with permitted use under the lease as described above. If MVH fails to satisfy any conditions as outlined in the land deed, or the property is not used for the purposes described above, title to the land including any and all improvements thereon shall revert to the State of Maine.

14. Restricted Expendable Net Assets

Restricted expendable net assets at June 30, 2021 and 2020 consist of funds restricted for the following purposes:

| | <u>2021</u> | <u>2020</u> |
|-------------------------|-------------------|-------------------|
| Activities | \$ 142,962 | \$ 85,880 |
| Scholarships | 3,031 | 3,031 |
| Memorials | 1,878 | 7,203 |
| Special events | 9,870 | 9,414 |
| Residents in need | 20,019 | 14,267 |
| Masonic | 9,490 | 4,711 |
| Future capital campaign | 50,000 | 50,000 |
| Other projects | <u>15,204</u> | <u>5,469</u> |
| | <u>\$ 252,454</u> | <u>\$ 179,975</u> |

15. Defined Benefit Pension Plan

General Plan Description

All full-time, part-time, and intermittent employees are covered by the PLD Plan. The PLD Plan is a multiple-employer cost sharing plan and is administered by the System. Eligible employers are defined in Maine statute.

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Notes to Financial Statements

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(With Comparative Totals for June 30, 2020)

Benefit terms are proposed by an advisory group, established by Maine Statute, who review the terms of the plan and periodically make recommendations to the Legislature to amend the terms. The PLD Plan provides defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting occurs upon the earning of five years of service credit. The normal retirement age for PLD Plan members is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below his/her normal retirement age.

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by the Board of Trustees of the System and Title 5 MRSA Part 20, Chapter 425, Subchapter 3 and were 8.1% of wages for the Age 60 Plan members and 7.35% of wages for the Age 65 PLD Plan members in both 2021 and 2020. Employer contribution rates are determined through actuarial valuations. Employer contributions determined by the System based on financing needs were 10.1% of wages in 2021 and 10.0% in 2020.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2021 and 2020, MVH reported a liability of \$24,253,567 and \$18,380,629, respectively, for its proportionate share of the net pension liability. The net pension liability was measured on June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MVH's proportion of the net pension liability was based on a projection of MVH's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. MVH's proportion of the net pension liability was 6.10% as of the June 30, 2020 valuation, which was an increase of 0.09% from the June 30, 2019 valuation.

MAINE VETERANS' HOMES

Notes to Financial Statements

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

For the years ended June 30, 2021 and 2020, MVH recognized pension expense of \$1,099,756 and \$1,654,621, respectively. At June 30, 2021 and 2020, MVH reported deferred outflows of resources and deferred inflows of resources related to the PLD Plan from the following sources:

| | <u>2021</u> | |
|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ 1,455,416 | \$ 266,667 |
| Net difference between projected and actual earnings on pension plan investments | 1,578,213 | - |
| Changes in proportion and differences between MVH's contributions and proportionate share of contributions | 200,632 | 183,743 |
| MVH contributions subsequent to the measurement date (June 30, 2020) | <u>4,200,780</u> | <u>-</u> |
| Total | <u>\$ 7,435,041</u> | <u>\$ 450,410</u> |
| | <u>2020</u> | |
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ 2,176,327 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 4,603,892 |
| Changes in proportion and differences between MVH's contributions and proportionate share of contributions | - | 437,969 |
| Changes of assumptions | 930,858 | - |
| MVH contributions subsequent to the measurement date (June 30, 2019) | <u>4,146,127</u> | <u>-</u> |
| Total | <u>\$ 7,253,312</u> | <u>\$ 5,041,861</u> |

MAINE VETERANS' HOMES

Notes to Financial Statements

**June 30, 2021
(With Comparative Totals for June 30, 2020)**

The amount of \$4,200,780 reported as deferred outflows of resources related to pensions resulting from MVH contributions subsequent to the measurement date at June 30, 2020 will be recognized as a reduction of the net pension liability in the actuarial report for the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the PLD Plan will be recognized in pension expense as follows:

| | |
|----------------------|--------------|
| Year ending June 30: | |
| 2022 | \$ (800,914) |
| 2023 | 900,755 |
| 2024 | 1,340,525 |
| 2025 | 1,343,485 |

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

| | |
|----------------------------------|--|
| Salary increases | 2.75% plus merit component based on each employee's years of service |
| Investment rate of return | 6.75% per annum, compounded annually |
| Cost of living benefit increases | 1.91% |

Mortality rates were based on the RP2014 Total Dataset Healthy Annuitant Mortality Table for males and females.

The economic assumptions and mortality table were proposed by the actuary and adopted by the Board of Trustees of the System on July 14, 2016 for use starting with the 2016 valuation. The demographic assumptions are based on an experience study covering the period from June 30, 2012 through June 30, 2015.

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021
(With Comparative Totals for June 30, 2020)

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Public equities | 30.0% | 6.0% |
| U.S. Government | 7.5 | 2.3 |
| Private equity | 15.0 | 7.6 |
| Real assets: | | |
| Real estate | 10.0 | 5.2 |
| Infrastructure | 10.0 | 5.3 |
| Natural resources | 5.0 | 5.0 |
| Traditional credit | 7.5 | 3.0 |
| Alternative credit | 5.0 | 7.2 |
| Diversified | 10.0 | 5.9 |

Discount Rate

The discount rate used to measure the total pension liability was 6.75% for the plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

Sensitivity

The following presents MVH's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what MVH's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1% Decrease <u>(5.75%)</u> | Current <u>Discount Rate</u> | 1% Increase <u>(7.75%)</u> |
|---|-------------------------------|---------------------------------|-------------------------------|
| MVH's proportionate share of the net pension liability | \$50,971,208 | \$24,253,567 | \$ 2,383,218 |

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021
(With Comparative Totals for June 30, 2020)

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs are recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately-issued System financial report. A copy of the most recent financial statements can be obtained at www.maineopers.org.

16. Defined Contribution Retirement Plan

MVH has established a defined contribution retirement plan. MVH's Tax Sheltered Annuity Plan is administered by the System. MVH provides discretionary matching contributions to employees up to 3% of eligible compensation upon meeting certain service requirements. Total employer contributions to the plan were \$391,200 and \$358,037 for the years ended June 30, 2021 and 2020, respectively. Total employee contributions to the plan were \$1,283,643 and \$1,171,024 for the years ended June 30, 2021 and 2020, respectively.

17. Health Care Provider Tax

A 6% health care provider tax is assessed on revenues derived from nursing care services. Total nursing home provider tax expense was \$2,712,943 and \$3,369,630 for the years ended June 30, 2021 and 2020, respectively.

A 6% Service Provider Tax (SPT) is assessed on the "value" (i.e., sales price) of certain services provided in the State including Private Non-Medical Institutions (PNMI) services. MVH's residential care services are considered PNMI services. Providers are taxed based on all revenue, regardless of source, received for the purpose of providing food, shelter and treatment. MaineCare reimburses facilities for their portion of the tax by increasing their direct care per diem rate. The portion of the tax paid on revenue generated from private pay residents is not funded by MaineCare. Total SPT expense was \$477,227 and \$559,599 for the years ended June 30, 2021 and 2020, respectively.

18. Uncertainty

During the years ended June 30, 2021 and 2020, in response to coronavirus disease (COVID-19) global pandemic, The Centers for Medicare & Medicaid services (CMS) implemented certain relief measures and also issued guidance for limiting the spread of COVID-19 specifically for nursing homes. In addition, in an effort to keep acute care beds available during this national emergency, CMS waived the three-day acute care stay requirement for a Medicare beneficiary to qualify for a skilled admission into a nursing home as well as the spell of illness requirement which restricted available Medicare benefit days.

MAINE VETERANS' HOMES

Notes to Financial Statements

June 30, 2021
(With Comparative Totals for June 30, 2020)

During the year ended June 30, 2020, local, U.S., and world governments encouraged self-isolation to curtail the spread of COVID-19, by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and size and duration of group meetings. Many industries continue to experience disruption to business operations. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management expects this matter may have a financial impact on the Organization's financial position and results of future operations, such potential impact cannot be reasonably estimated at this time.

19. COVID-19 Relief Funding

The U.S. government responded to the COVID-19 global pandemic with relief legislation. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was enacted into law March 7, 2020. The CARES Act, among other things, established the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 outbreak. The PRF is being administered by the U.S. Department of Health and Human Services (HHS). MVH received PRF in the amount of approximately \$2,834,000 during the year ended June 30, 2021 and approximately \$1,778,000 during the year ended June 30, 2020. These funds are to be used for infection control, qualifying expenses and to cover lost revenue due to COVID-19. The PRF is recognized as income when qualifying expenditures have been incurred, lost revenues have been identified, or incentive payments earned based on HHS criteria. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

During 2021, MVH also received emergency grant funding under the CARES Act passed through the Maine Department of Economic and Community Development (DECD) in the form of Maine Health Care Financial Relief Grants totaling \$500,000. The grant funds are intended to alleviate the disruption of operations as a result of the COVID-19 pandemic.

Additional relief legislation was signed into law March 11, 2021. The American Rescue Plan Act of 2021 allocated \$17 billion in support of the V.A.'s nationwide response to the pandemic. MVH received \$1,975,000 of ARP funds in 2021 and recorded a receivable at June 30, 2021 for an additional \$4.9 million, which was received July 2021.

Management believes MVH has met the conditions necessary to recognize the PRF, ARP fund and DECD funds received and accrued through June 30, 2021 as income.

Subsequent to June 30, 2021, MVH also received an additional \$3.6 million from funds appropriated by the State legislature and matched by federal HHS to alleviate further COVID-19 related operational challenges. The use of these funds is subject to audit by DHHS.

MAINE VETERANS' HOMES

Required Supplementary Information

Schedule of Maine Veterans' Homes Proportionate Share of the Net Pension Liability

Maine Public Employees Retirement System PLD Consolidated Plan

June 30, 2021

Last 10 Fiscal Years *

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Maine Veterans' Homes (MVH) proportion of the net pension liability | 6.10 % | 6.01 % | 6.14 % | 6.26 % | 6.19 % | 5.96 % | 5.79 % | 4.45 % |
| MVH's proportionate share of the net pension liability | \$ 24,253,567 | \$ 18,380,629 | \$ 16,794,428 | \$ 25,617,192 | \$ 32,871,051 | \$ 19,007,220 | \$ 8,902,081 | \$ 16,796,988 |
| MVH's covered-employee payroll | \$ 39,754,900 | \$ 39,317,462 | \$ 35,485,002 | \$ 33,758,119 | \$ 32,617,986 | \$ 31,222,341 | \$ 30,851,076 | \$ 30,297,156 |
| MVH's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 61.01 % | 46.75 % | 47.33 % | 75.88 % | 100.78 % | 60.88% | 28.86 % | 55.44% |
| Plan fiduciary net position as a percentage of the total pension liability | 88.35 % | 90.62 % | 91.14 % | 86.43 % | 81.61 % | 88.27% | 94.10 % | 87.50% |

* The amounts presented for each year were determined as of June 30 of the previous year. This schedule is designed to provide information for ten years. However, until a full ten-year trend is compiled, information for those years for which information is available is presented.

MAINE VETERANS' HOMES
Required Supplementary Information
Schedule of Maine Veterans' Homes Contributions
Maine Public Employees Retirement System
PLD Consolidated Plan

June 30, 2021

Last 10 Fiscal Years *

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually required contribution | \$ 3,943,124 | \$ 3,675,489 | \$ 3,406,561 | \$ 3,249,033 | \$ 2,945,950 | \$ 2,435,217 | \$ 2,005,609 | \$ 1,605,749 |
| Contributions in relation to the contractually required contribution | <u>(3,943,124)</u> | <u>(3,675,489)</u> | <u>(3,406,561)</u> | <u>(3,249,033)</u> | <u>(2,945,950)</u> | <u>(2,435,217)</u> | <u>(2,005,609)</u> | <u>(1,605,749)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Maine Veterans' Homes covered employee payroll | \$ 39,754,900 | \$ 39,317,462 | \$ 35,485,002 | \$ 33,758,119 | \$ 32,617,986 | \$ 31,222,341 | \$ 30,851,076 | \$ 30,297,156 |
| Contributions as a percentage of covered employee payroll | 9.92 % | 9.35 % | 9.60 % | 9.62 % | 9.03 % | 7.80 % | 6.50 % | 5.30 % |

* This schedule is designed to provide information for ten years. However, until a full ten-year trend is compiled, information for those years for which information is available is presented.

MAINE VETERANS' HOMES

Required Supplementary Information

**Schedule of Changes in Total OPEB
Liability and Related Ratios**

**Maine Public Employees Retirement System
PLD Consolidated Plan - Retiree Group Life Insurance**

June 30, 2021

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Total OPEB Liability | | | | |
| Service cost | \$ 9,631 | \$ 9,356 | \$ 5,993 | \$ 18,858 |
| Interest | 35,804 | 35,100 | 23,087 | 49,182 |
| Changes in benefit terms | (11,739) | - | - | - |
| Differences between expected and actual experience | 13,405 | - | 27,681 | - |
| Changes in assumptions or other inputs | (166,764) | 17,117 | 21,029 | (170,140) |
| Benefit payments | <u>(29,305)</u> | <u>(30,287)</u> | <u>(20,708)</u> | <u>(42,436)</u> |
| Net change in total OPEB liability | (148,968) | 31,286 | 57,082 | (144,536) |
| Total OPEB liability - beginning | <u>383,672</u> | <u>352,386</u> | <u>295,304</u> | <u>439,840</u> |
| Total OPEB liability - ending | <u>\$ 234,704</u> | <u>\$ 383,672</u> | <u>\$ 352,386</u> | <u>\$ 295,304</u> |
| Covered employee payroll | \$ 1,145,285 | \$ 985,370 | \$ 953,850 | \$ 725,090 |
| Total OPEB liability as a percentage of covered employee payroll | 20.49 % | 38.94 % | 36.94 % | 40.73 % |

Notes to Schedule

Changes of assumptions

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rates used were as follows:

| | |
|------|--------|
| 2020 | 6.75 % |
| 2019 | 4.98 % |
| 2018 | 5.13 % |
| 2017 | 5.41 % |
| 2016 | 4.43 % |

* This schedule is designed to provide information for ten years. However, until a full ten-year trend is compiled, information for those years for which information is available is presented.

MAINE VETERANS' HOMES

Required Supplementary Information

**Schedule of Changes in Total OPEB
Liability and Related Ratios**

Maine Veterans' Homes Retiree Welfare Plan

June 30, 2021

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|-------------------|---------------------|
| Total OPEB Liability | | | | |
| Service cost | \$ 14,583 | \$ 12,738 | \$ 37,793 | \$ 30,437 |
| Interest | 22,345 | 22,534 | 41,880 | 38,028 |
| Differences between expected and actual experience | (160,735) | - | (548,467) | - |
| Changes in assumptions or other inputs | 138,626 | - | (7,819) | - |
| Benefit payments | <u>(48,715)</u> | <u>(36,462)</u> | <u>(65,410)</u> | <u>(33,606)</u> |
| Net change in total OPEB liability | (33,896) | (1,190) | (542,023) | 34,859 |
| Total OPEB liability - beginning | <u>647,990</u> | <u>649,180</u> | <u>1,191,203</u> | <u>1,156,344</u> |
| Total OPEB liability - ending | <u>\$ 614,094</u> | <u>\$ 647,990</u> | <u>\$ 649,180</u> | <u>\$ 1,191,203</u> |
| Covered employee payroll | \$ 2,728,437 | \$ 3,157,652 | \$ 3,157,652 | \$ 3,939,656 |
| Total OPEB liability as a percentage of covered employee payroll | 22.51 % | 20.52 % | 20.56 % | 30.24 % |

Notes to Schedule

Changes of assumptions

The discount rates used were as follows:

| | |
|------|--------|
| 2020 | 2.00 % |
| 2019 | 3.50 % |
| 2018 | 3.50 % |
| 2017 | 3.25 % |
| 2016 | 3.50 % |

* This schedule is designed to provide information for ten years. However, until a full ten-year trend is compiled, information for those years for which information is available is presented.

Maine Veterans' Homes
 Medicaid Shortfall Calculation - Nursing Facility and Residential Care
 FYE 6/30/2021

| | FY 2021 | FY 2020 | FY 2019 | FY 2018 |
|-------------|-------------|-------------|-------------|-------------|
| | Shortfall | Shortfall | Shortfall | Shortfall |
| Augusta | (3,283,150) | (1,036,332) | (464,109) | (905,491) |
| Bangor | (2,579,131) | (1,118,379) | (783,735) | (1,224,460) |
| Caribou | (2,488,440) | (1,666,719) | (1,416,110) | (1,004,028) |
| Machias | (1,044,626) | (784,763) | (838,506) | (805,102) |
| Scarborough | (3,446,524) | (1,966,293) | (1,360,535) | (1,607,595) |
| South Paris | (2,825,503) | (1,320,885) | (1,016,987) | (1,114,715) |

| | | | | |
|-------|--------------|-------------|-------------|-------------|
| Total | (15,667,374) | (7,893,370) | (5,879,982) | (6,661,391) |
|-------|--------------|-------------|-------------|-------------|

\$10,170,000 received in COVID stimulus/grants in FY 2021 for both NF & Res Care

Medicaid shortfall = Actual MaineCare reimbursements - Allowed costs

Source: Medicaid cost reports

| | |
|-----------|------------------|
| State | Maine |
| Age Group | (Multiple Items) |
| Gender | (All) |

| Veterans | | | | | | | |
|--------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| FIPS | County, St | 9/30/2021 | 9/30/2026 | 9/30/2031 | 9/30/2036 | 9/30/2041 | 9/30/2046 |
| 23001 | Androscoggin,ME | 4,172 | 3,760 | 3,472 | 3,043 | 2,507 | 2,034 |
| 23003 | Aroostook,ME | 2,797 | 2,392 | 2,063 | 1,667 | 1,278 | 986 |
| 23005 | Cumberland,ME | 10,181 | 9,848 | 9,143 | 8,127 | 6,889 | 5,816 |
| 23007 | Franklin,ME | 1,624 | 1,522 | 1,393 | 1,184 | 966 | 784 |
| 23009 | Hancock,ME | 2,585 | 2,319 | 2,037 | 1,697 | 1,363 | 1,104 |
| 23011 | Kennebec,ME | 5,046 | 4,678 | 4,220 | 3,627 | 2,947 | 2,393 |
| 23013 | Knox,ME | 1,849 | 1,721 | 1,532 | 1,325 | 1,105 | 937 |
| 23015 | Lincoln,ME | 1,796 | 1,681 | 1,523 | 1,339 | 1,138 | 968 |
| 23017 | Oxford,ME | 2,464 | 2,311 | 2,084 | 1,765 | 1,444 | 1,168 |
| 23019 | Penobscot,ME | 4,921 | 4,538 | 4,157 | 3,619 | 3,003 | 2,500 |
| 23021 | Piscataquis,ME | 996 | 917 | 817 | 671 | 557 | 455 |
| 23023 | Sagadahoc,ME | 1,874 | 1,719 | 1,552 | 1,338 | 1,088 | 880 |
| 23025 | Somerset,ME | 2,102 | 1,881 | 1,695 | 1,448 | 1,181 | 952 |
| 23027 | Waldo,ME | 1,809 | 1,699 | 1,531 | 1,315 | 1,108 | 945 |
| 23029 | Washington,ME | 1,731 | 1,531 | 1,320 | 1,081 | 857 | 682 |
| 23031 | York,ME | 8,461 | 8,139 | 7,804 | 7,224 | 6,310 | 5,436 |
| Grand Total | | 54,405 | 50,654 | 46,343 | 40,470 | 33,741 | 28,041 |