

MICHIGAN VETERANS' FACILITY AUTHORITY

Annual Comprehensive Financial Report for the Fiscal Year Ended September 30, 2021

A Discretely Presented Component Unit of the State of Michigan



MICHIGAN VETERAN HOMES

Michigan Veteran Homes at Chesterfield Township
47901 Sugarbush Road
Chesterfield Township, MI 48047

Michigan Veteran Homes D.J. Jacobetti
425 Fisher Street
Marquette, MI 49855

Michigan Veteran Homes at Grand Rapids
2950 Monroe Avenue NE
Grand Rapids, MI 49505

TABLE OF CONTENTS

INTRODUCTORY SECTION.....	1
Letter of Transmittal	2
Administrative Organization	6
Board of Directors	6
Organization Chart	7
FINANCIAL SECTION	9
Independent Auditor's Report	10
Management's Discussion and Analysis	12
Government-wide Financial Statements	16
Statement of Net Position.....	16
Statement of Activities	17
Governmental Fund Financial Statements	18
Balance Sheet	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	21
Fiduciary Fund Financial Statements	22
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position.....	22
Notes to Financial Statements	23
Note 1 – Description of Authority and Summary of Significant Accounting Policies	23
Note 2 – Deposits and Investments	26
Note 3 – Capital Assets	27
Note 4 – Long-term Obligations	28
Note 5 – Pension Plans	28
Note 6 – Other Post-Employment Benefits	33
Note 7 – Restricted Net Position	35
Note 8 – Fund Balance.....	36
Note 9 – Special Item	36
Note 10 – Upcoming Accounting Pronouncements	36
Required Supplementary Information	38
Budgetary Comparison Schedule	38
Budget-to-GAAP Reconciliation	38
Notes to Required Supplementary Information.....	39
Note A – Budgetary Reporting	39
ACKNOWLEDGMENTS	40

INTRODUCTORY SECTION

Letter of Transmittal
Board of Directors
Organization Chart

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
MICHIGAN VETERAN HOMES
LANSING

ANNE ZERBE
EXECUTIVE DIRECTOR

December 2, 2022

The Honorable Gretchen Whitmer
Governor, State of Michigan,

Michigan Veterans' Facility Authority Board Members,
and
Major General Paul Rogers

Ladies and Gentlemen:

We are pleased to present the Michigan Veterans' Facility Authority annual comprehensive financial report for fiscal year 2021.

INTRODUCTION TO REPORT

The Michigan Veterans' Facility Authority (MVFA) was established by legislation under Public Act 560 of 2016 (the Michigan Veterans' Facility Authority Act) as a public body corporate within the Michigan Department of Military and Veterans Affairs (DMVA) and amended by Public Act 351 of 2020. The MVFA is administered under the supervision of the DMVA and exercises its prescribed statutory powers, duties, and functions independently as an autonomous entity within the Department. The MVFA's exercise of the powers conferred by Public Act is an essential governmental function of the State of Michigan.

Responsibility

The Department of Technology, Management and Budget Accounting Service Center, overseen by the leadership team of the Michigan Veteran Homes (MVH), MVFA Board of Directors, and DMVA, prepare the annual comprehensive financial report and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the information contained in the financial report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the MVFA and MVH.

Report

The report includes this letter, the MVFA's organization chart, the list of Board of Directors, the independent auditor's report on the Basic Financial Statements, Management's Discussion and Analysis (MD&A), and Basic Financial Statements.

Internal Control Structure

The leadership team of the MVH is responsible for the overall operations of the veteran homes and maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization and are recorded as necessary to maintain

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. All financial transactions of MVFA are recorded in the State's central accounting system; therefore, MVFA is responsible for maintaining the State's internal control structure.

Public Act 431 of 1984, as amended, requires each principal department to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd-numbered year, effective as of the preceding October 1. The MVFA internal control evaluation is included with DMVA's biennial review.

Internal Auditors

The Office of Internal Audit Services (OIAS) provides internal audit services to executive branch departments and agencies. OIAS performs periodic financial, performance, and compliance audits of MVFA, as part of DMVA. In addition to periodic audits, OIAS also reviews MVFA managements' processes for establishing, monitoring, and reporting on internal controls; advises MVFA and DMVA management on internal control matters; and assists with investigations of alleged fraud and other irregularities.

Independent Auditors

The Office of the Auditor General (OAG), independent auditors, conducted an annual audit of the MVFA. The independent auditor's report on the MVFA's financial statements is included in the Financial Section of this report. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2021, are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2021, are fairly presented in accordance with GAAP and issued an unmodified opinion.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of an MD&A. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

Michigan's state veteran homes system was originally established by legislation under Public Act 152 of 1885, creating the first Michigan Veterans' Facility with general supervision and oversight provided by a 7-member Board of Managers. This Act was subsequently repealed when Public Act 560 of 2016 established the MVFA, intended to provide increased autonomy and improved oversight for Michigan's state veteran homes.

The MVH, governed by the MVFA and housed within DMVA, provides quality long-term care for veterans and their eligible family members through a federal-state partnership with the United States Department of Veterans Affairs (USDVA). High-quality care for this phase of life is central to the "member for life" concept. Currently, the MVH operates 3 veteran homes located in Grand Rapids, Marquette, and Chesterfield Township.

Although the MVFA is administered under the supervision of the DMVA, it exercises its prescribed statutory powers, duties, and functions independently as an autonomous entity within the department. The MVFA's exercise of the powers conferred by Public Act is an essential governmental function of this state.

One of the primary goals in the creation of the MVFA was to oversee the modernization of the facilities and operations of MVH. The Authority has undergone significant changes in the years since Public Act 152 took effect.

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

Of greatest significance, MVH has opened two new state-of-the-art facilities – a replacement facility in Grand Rapids and a new location in Macomb County (Chesterfield Township).

In 2021, as MVH scaled up operations of the newly constructed home in Chesterfield Township, it provided care to approximately 300 veterans and eligible dependents.

Governance & Oversight

The Authority is governed by its own Board of Directors, comprised of nine members, consisting of the Director of DMVA and eight gubernatorial appointees. The Board provides overall governing direction for the Authority. All administrative functions of the Authority, including budgeting, procurement, personnel, and management functions, are under the supervision of MVH and the Director of DMVA. A detailed description of the Authority is included in Note 1 of the Financial Section in this report.

ECONOMIC CONDITIONS AND OUTLOOK

Increased Costs for the HealthCare Industry

Although the rising cost of healthcare was a known challenge prior to the COVID-19 pandemic, the pandemic further intensified escalating operating costs within the healthcare industry, particularly with respect to labor costs. These current trends in the healthcare industry, along with current U.S. inflation rate, are a strong indicator that operational expenditures will continue to grow in the next several years.

Diversification of Federal Revenue Sources

All veteran homes, under MVFA, will be certified by the Centers for Medicare and Medicaid Services (CMS) to receive federal funding to contribute towards the cost of care for Medicaid-eligible members. This additional federal revenue will help minimize the amount of supplemental state funding that may be required to offset anticipated increases in operating costs. As of September 30, 2021, the Michigan Veteran Homes DJ Jacobetti received federal revenue for its certified beds. In fiscal year 2022, all three veteran homes will receive federal revenue for its certified beds.

MAJOR GOALS ACCOMPLISHED

Construction Completed on Two New Skilled Nursing Facilities

During fiscal year 2021, MVH completed construction on two new state-of-the-art skilled nursing homes. Construction on a new facility in Macomb County and a replacement facility in Grand Rapids began in 2018 and, despite site shutdowns required during the COVID-19 pandemic, both projects were completed on time and within budget. Each facility will serve 128 members in a home-like environment that provides members with private resident rooms, as well as a community center with amenities that include a physical therapy and rehabilitation gym, community bistro and activity space, barbershop, and therapeutic bathing suites. Both homes are certified by the USDVA and CMS to provide skilled nursing services.

Full Implementation of New Electronic Medical Records System

MVH completed the first full year of implementation of Point Click Care, the preferred EMR system used in long term care environments, during fiscal year 2021. Implementation supports ongoing efforts for continued modernization of MVHs' operations.

HONORS

MVHCT Receives Skilled Nursing Facility Architecture and Design Award

MVH at Chesterfield Township received the top award in Senior House News' (SHN) 2021 Architecture and Design Awards for "Best Skilled Nursing/Post-Acute" design. SHN cited the project as a "sterling example of the small-

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

home concept.” SHN noted in its award profile that, in addition to being the first “state veterans’ home [...] to serve the southeast and Detroit region, [MVHCT does so] with an innovative small-home concept that brings infection control and other benefits in a design-forward manner.”

ACKNOWLEDGEMENTS

The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and regulatory requirements, and as a means for determining responsible stewardship of the funds provided by both our state and federal partners to support the highest quality of care for veterans and dependents living in Michigan state veteran homes.

We would, therefore, like to express our appreciation for the assistance given by staff, the advisors, and the many people who contributed to its preparation. Although it is the first time our organization has prepared a document of this nature, we believe our combined efforts have produced a report that will provide stakeholders with additional information that will aid in their ability to assess the organization’s overall performance and support MVHs’ commitment to performance improvement and organizational transparency.

Sincerely,



Anne Zerbe, Executive Director
Michigan Veteran Homes

INTRODUCTORY SECTION

ADMINISTRATIVE ORGANIZATION

BOARD OF DIRECTORS

Governing Board, Michigan Veteran Homes

December 2, 2022

David Henry
Chair

*Serving a four-year term,
expiring on April 15, 2025*

Mary Naber
Vice-Chair

*Serving a four-year term,
expiring on April 15, 2025*

Brad Slagle
Secretary/Treasurer

*Serving a four-year term,
expiring on April 15, 2024*

Zaneta Adams[^]

*DMVA designee, serving on
behalf of MG Paul D. Rogers*

Larry Yachcik

*Serving a four-year term,
expiring on April 15, 2025*

Henry Boutros^{*}

*Serving a four-year term,
expiring on April 15, 2023*

Kenneth Robbins

*Serving a four-year term,
expiring on April 15, 2025*

David Rutledge

*Serving a four-year term,
expiring on April 15, 2023*

MaryAnne Shannon

*Serving a four-year term,
expiring on April 15, 2026*

** Resigned June 2, 2022*

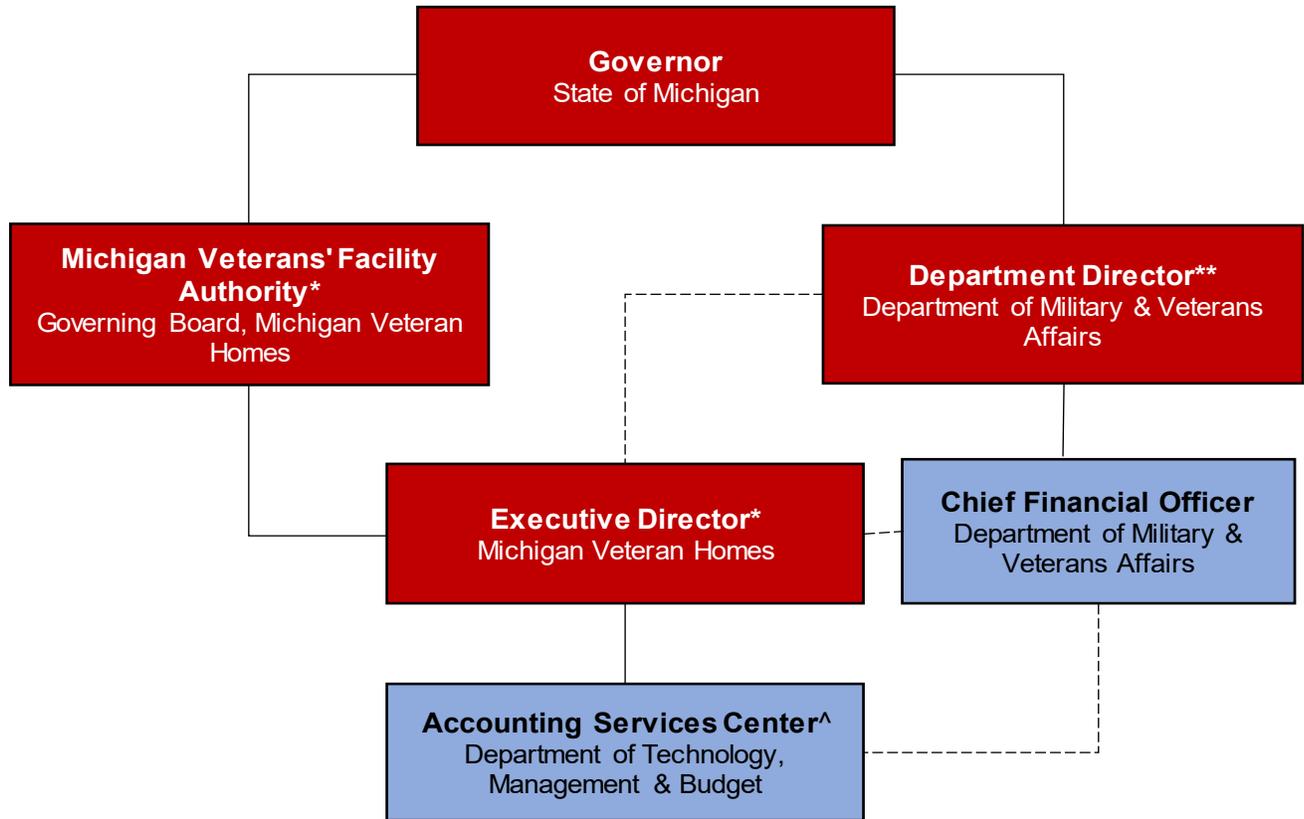
[^] Serves as a voting member until one year after the second facility operated by MVFA is open and housing veterans (August 2022) and a new member is appointed by the Governor with the advice and consent of the Senate

INTRODUCTORY SECTION

ADMINISTRATIVE ORGANIZATION

ORGANIZATION CHART

As of December 2, 2022



** *Gubernatorial Appointee, Cabinet Member*

* *Gubernatorial Appointee(s)*

^ *Contracted Services*

INTRODUCTORY SECTION

ADMINISTRATIVE ORGANIZATION

This page was intentionally left blank.

FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Government-wide Financial Statements
Governmental Fund Financial Statements
Fiduciary Fund Financial Statements
Notes to Financial Statements
Required Supplementary Information
Notes to Required Supplementary Information



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Mr. David Henry, Chair
Michigan Veterans' Facility Authority
and
Ms. Anne Zerbe, Executive Director
Michigan Veteran Homes
and
Major General Paul D. Rogers, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear Mr. Henry, Ms. Zerbe, and General Rogers:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Michigan Veterans' Facility Authority, Department of Military and Veterans Affairs, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2021 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



OAG

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

Mr. David Henry, Chair
Ms. Anne Zerbe, Executive Director
General Rogers, Director
Page 2

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Michigan Veterans' Facility Authority as of September 30, 2021 and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying introductory section and acknowledgments, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and acknowledgments have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General
December 2, 2022

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Michigan Veterans' Facility Authority (the Authority), we offer readers of the Michigan Veterans' Facility Authority financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2021.

FINANCIAL HIGHLIGHTS

- The year ended September 30, 2021, was the Authority's first year of financial reporting.
- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$17,480,345 (net position). Of this amount, \$11,895,748 (unrestricted net position) may be used to meet the Authority's ongoing obligations to citizens and creditors. The Authority also has net position restricted for other purposes which is identified in Note 7 of the notes.
- As of the close of the current fiscal year, the Authority's governmental fund reported an ending fund balance of \$9,347,351.
- As the end of the current fiscal year, restricted fund balance for the general fund was \$5,198,003, and the unrestricted fund balance for the general fund was \$4,149,348, of which \$1,012,908 is unassigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

The government-wide financial statements can be found on pages 16 and 17 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The operating fund of the Authority is categorized as a governmental fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide information to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund which is considered a major fund.

The Authority adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund in the required supplementary information.

The basic governmental fund financial statements can be found on pages 18 and 20 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 37 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's general fund budget on pages 38 through 39.

Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of government's financial position. In the case of the Authority, assets exceeded liabilities by \$17,480,345 on September 30, 2021.

The Authority's net position is mostly comprised of \$5,198,003 restricted for other purposes and \$11,895,748 in unrestricted net position. The unrestricted net position may be used to meet the Authority's ongoing obligations to citizens and creditors.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Michigan Veterans' Facility Authority's Net Position

Current Assets	\$	18,240,881
Capital Assets (net)		386,594
Total Assets	\$	<u>18,627,475</u>
Deferred Outflows	\$	<u>9,767,616</u>
Current Liabilities	\$	10,266,155
Long Term Liabilities		648,591
Total Liabilities	\$	<u>10,914,746</u>
Net Position		
Net investment in Capital Assets	\$	386,594
Restricted		5,198,003
Unrestricted		11,895,748
Total Net Position	\$	<u><u>17,480,345</u></u>

Governmental Activities

Being the first year of operations, governmental activities increased the Authority's net position by \$17,480,345. Key elements of this increase are as follows:

Michigan Veterans' Facility Authority Changes in Net Position

Revenues		
Charges for services	\$	5,409,625
Operating grants and contributions		32,027,319
Payments from the State of Michigan		43,022,596
Other		12,464
Total Revenues	\$	<u>80,472,004</u>
Expenses		
Health and welfare	\$	<u>74,642,858</u>
Special Item		
Transfer of equity from the State of Michigan	\$	<u>11,651,200</u>
Beginning Net Position	\$	-
Ending Net Position		<u>17,480,345</u>
Change in Net Position	\$	<u><u>17,480,345</u></u>

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF MICHIGAN VETERANS' FACILITY AUTHORITY

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund

The focus of the Authority's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental fund reported ending fund balance of \$9,347,351. Approximately 44% of this total amount (\$4,149,348) constitutes unrestricted fund balance, which is available for spending at the government's discretion. The remainder of fund balance is related to restricted fund balance for other purposes (\$5,198,003).

The general fund is the main fund and only operating fund of the Authority. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents approximately 5% of total general fund expenditures, while total fund balance represents approximately 11% of that same amount.

CAPITAL ASSET AND LONG-TERM OBLIGATIONS ADMINISTRATION

Capital Assets

The Authority's investment in capital assets for its governmental activities as of September 30, 2021, amounts to \$386,594 (net of accumulated depreciation). Equipment purchases for the year ended September 30, 2021, totaled \$171,606. See Note 3 for additional details related to capital assets.

Long-Term Obligations

The Authority does not have any outstanding debt issued. The only long-term obligation the Authority currently has is related to compensated absences. The total liability for this long-term obligation on September 30, 2021, is \$2,309,888, all of which was reported as an addition for the year then ended. See Note 4 for additional details related to long-term obligations.

ECONOMIC FACTORS

Michigan Veterans' Facility Authority's goal is to maintain and enhance the services that are provided to the veterans utilizing the most efficient and effective methods. The Authority has a conservative and financially prudent budget for fiscal year 2022 that will promote several of the Authority's activities and programs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Michigan Veterans' Facility Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Michigan Veterans' Facility Authority, 3423 N. Martin Luther King Jr. Blvd., Building 30, Room 231, Lansing, MI 48906.

FINANCIAL SECTION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

September 30, 2021

ASSETS

Current Assets:

Cash	\$	842,079
Equity in common cash		13,357,383
Amounts due from federal government		3,091,768
Other current assets		949,652
Total Current Assets	\$	<u>18,240,881</u>

Noncurrent Assets:

Capital Assets:

Equipment, and other depreciable assets	\$	1,447,571
Less accumulated depreciation		(1,060,977)
Total capital assets	\$	<u>386,594</u>

Other noncurrent assets		-
Total Noncurrent Assets	\$	<u>386,594</u>

Total Assets	\$	<u>18,627,475</u>
--------------	----	-------------------

DEFERRED OUTFLOWS OF RESOURCES	\$	<u>9,767,616</u>
---------------------------------------	-----------	-------------------------

LIABILITIES

Current Liabilities:

Accounts payable and other liabilities	\$	3,363,343
Amounts due to primary government		222,271
Unearned revenue		5,019,243
Current portion of other long-term obligations		1,661,297
Total Current Liabilities	\$	<u>10,266,155</u>

Long-Term Liabilities:

Noncurrent portion of other long-term obligations	\$	648,591
Total Long-Term Liabilities	\$	<u>648,591</u>

Total Liabilities	\$	<u>10,914,746</u>
-------------------	----	-------------------

DEFERRED INFLOWS OF RESOURCES	\$	<u>-</u>
--------------------------------------	-----------	-----------------

NET POSITION

Net investment in capital assets	\$	386,594
Restricted For:		
Other purposes		5,198,003
Unrestricted		11,895,748
Total Net Position	\$	<u><u>17,480,345</u></u>

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

FINANCIAL SECTION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

Fiscal Year Ended September 30, 2021

EXPENSES

Health and welfare	\$	74,642,858
Total Program Expenses	\$	<u>74,642,858</u>

PROGRAM REVENUES

Charges for services	\$	5,409,625
Operating grants and contributions		
Federal revenues		21,747,179
Private revenues		<u>10,280,139</u>
Total Program Revenues	\$	<u>37,436,944</u>

Net (Expense) Revenue and Changes in Net Position \$ (37,205,914)

GENERAL REVENUES

Payments from the State of Michigan	\$	43,022,596
Other		<u>12,464</u>
Total General Revenues	\$	<u>43,035,060</u>

SPECIAL ITEM

	\$	11,651,200
Change in Net Position	\$	17,480,345
Net position - Beginning of the year	\$	<u>-</u>
Net position - End of the year	\$	<u>17,480,345</u>

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

FINANCIAL SECTION

GOVERNMENTAL FUND FINANCIAL STATEMENTS

BALANCE SHEET

September 30, 2021

ASSETS

Current Assets:

Cash	\$	842,079
Equity in common cash		13,357,383
Amounts due from federal agencies		3,091,768
Other current assets		949,652
Total Current Assets	\$	<u>18,240,881</u>

LIABILITIES

Current Liabilities:

Accounts payable and other liabilities	\$	3,363,343
Amounts due to primary government		222,271
Unearned revenue		5,019,243
Total Current Liabilities	\$	<u>8,604,858</u>

DEFERRED INFLOWS OF RESOURCES

\$ 288,672

FUND BALANCES

Nonspendable	\$	53,696
Restricted		5,198,003
Committed		2,327,690
Assigned		755,055
Unassigned		1,012,908
Total Fund Balances	\$	<u>9,347,351</u>

Total Liabilities, Deferred Inflows
of Resources, and Fund Balances \$ 18,240,881

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

FINANCIAL SECTION

GOVERNMENTAL FUND FINANCIAL STATEMENTS

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

September 30, 2021

Total fund balances for governmental fund		\$	9,347,351
Amounts reported for the governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.			
Equipment, and other depreciable assets	\$	1,447,571.2	
Accumulated Depreciation		<u>(1,060,977)</u>	386,594
Long-term receivables are not available to pay for current period expenditures and therefore are considered unavailable and are reported as deferred inflows of resources in the governmental fund.			288,672
Deferred outflows of resources not reported in the governmental fund:			
Pension related	\$	4,348,308	
OPEB related		<u>5,419,308</u>	9,767,616
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.			
Compensated absences			(2,309,888)
Net position of governmental activities		\$	<u>17,480,345</u>

FINANCIAL SECTION

GOVERNMENTAL FUND FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Fiscal Year Ended September 30, 2021

REVENUES

Charges for services	\$	5,120,953
Operating grants and contributions		
Federal revenues		21,747,179
Private revenues		10,280,139
Payments from the State of Michigan - General Fund		43,022,596
Other - miscellaneous		12,464
Total Revenues	\$	<u>80,183,332</u>

EXPENDITURES

Michigan Veteran Homes at Chesterfield Township		7,728,347
Michigan Veteran Homes D.J. Jacobetti		29,317,294
Michigan Veteran Homes at Grand Rapids		42,173,667
Michigan Veteran Homes administration		2,802,349
Veterans cemetery		85,200
Veteran Homes special maintenance		153,565
Total Expenditures	\$	<u>82,260,421</u>
Excess of Revenues over/(under) Expenditures	\$	<u>(2,077,090)</u>

SPECIAL ITEM

Transfer from Primary Government	\$	<u>11,424,441</u>
Net change in fund balances	\$	9,347,351
Fund Balances, Beginning of fiscal year	\$	<u>-</u>
Fund Balances, End of fiscal year	\$	<u><u>9,347,351</u></u>

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

FINANCIAL SECTION

GOVERNMENTAL FUND FINANCIAL STATEMENTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Fiscal Year Ended September 30, 2021

Net change in fund balance - total governmental fund \$ 9,347,351

The primary government transferred capital assets, net of accumulated depreciation to the Authority during the current period. These amounts are not reported in the governmental fund. The net amount of the transfer of these long-term items is included in the special item reported on the Statement of Activities. 226,758

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay:
Equipment, and other depreciable assets \$ 171,606
Depreciation expense (11,770) 159,836

Changes in deferred inflows of resources from the prior year. Revenues recognized in the Statement of Activities are reported as deferred inflows of resources in the funds when they are not yet available. 288,672

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. Some expenditures reported in the funds either increase or decrease long-term obligations reported in the Statement of Net Position.

In the current year, the amounts related to:
Pension related \$ 4,348,308
OPEB related 5,419,308
Compensated absences (2,309,888) 7,457,728

Change in net position of governmental activities \$ 17,480,345

FINANCIAL SECTION

FIDUCIARY FUND FINANCIAL STATEMENTS

STATEMENT OF FIDUCIARY NET POSITION

September 30, 2021

ASSETS

Cash	\$	<u>648,453</u>
Total Assets	\$	<u>648,453</u>

NET POSITION

Restricted For:		
Individuals, organizations and other governmental units	\$	<u><u>648,453</u></u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Fiscal Year Ended September 30, 2021

ADDITIONS

Contributions:		
Member income ¹	\$	2,176,281
Other Additions:		
Collections from primary government		<u>673,681</u>
Total Additions	\$	<u>2,849,962</u>

DEDUCTIONS

Member payments/withdrawals ²	\$	<u>2,201,510</u>
Total Deductions	\$	<u>2,201,510</u>
Change in net position	\$	648,453
Net position - Beginning of fiscal year	\$	<u>-</u>
Net position - End of fiscal year	\$	<u><u>648,453</u></u>

¹ Includes income collected from members

² Includes all payments/withdrawals from members for personal needs and/or liability owed to veteran homes

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

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Michigan Veterans' Facility Authority (MVFA or the Authority) was established pursuant to Michigan Public Act 560 of 2016. Prior to fiscal year 2021, the activities of the Authority were recorded in the State of Michigan's General Fund. Under the authority provided in Section 494 of Public Act 431 of 1984, beginning in fiscal year 2021, the Authority is reported separately as a discretely presented component unit in the State's Annual Comprehensive Financial Report.

The Authority was created as a public body corporate and politic within the Department of Military and Veterans Affairs (the Department). The Authority is administered under the supervision of the Department but exercises its prescribed statutory powers, duties, and functions independently of the Department as an autonomous entity within the Department. The exercise by the Authority of the powers conferred by this act is an essential governmental function of the State of Michigan.

Significant Accounting Policies

The accounting policies of the MVFA conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Standards. The following is a summary of the more significant policies:

Reporting Entity

The Authority is governed by its own Board of Directors, consisting of nine members, and oversees the Michigan Veteran Homes. The Board provides overall governing direction for the Authority. All administrative functions of the Authority, including the budgeting, procurement, personnel, and management functions, are under the direction and supervision of the Michigan Veteran Homes and the Director of the Department.

Eight of the nine members of the Board of Directors must have professional knowledge, skill or experience in long-term care, health care licensure, finance, or medicine. The ninth member is the Director of the Department of Military and Veterans Affairs, or his/her designee from within the Department.

Additional requirements for the make-up of the board are as follows:

- Three members are appointed by the Governor with the advice and consent of the Senate and represent the interests of one or more congressionally chartered veterans' organizations.
- Three members are appointed by the Governor with the advice and consent of the Senate, one of whom shall be a resident of the Upper Peninsula.
- One member is appointed by the Governor from a list of two or more individuals selected by the Majority Leader of the Senate.
- One member is appointed by the Governor from a list of two or more individuals selected by the Speaker of the House of Representatives.

All members must have a steadfast commitment to ensuring that veterans and their families are delighted with the quality of our services and Homes and that our staff members and volunteers feel proud of the work we do.

MVFA is a discretely presented component unit of the financial reporting entity of the State of Michigan because the primary government appoints a voting majority of the governing board of MVFA and there is a potential for MVFA to provide specific financial benefits to, or impose specific financial burdens on, the State. The financial statements of MVFA are included in the State of Michigan Annual Comprehensive Financial Report.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the Authority as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, like that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes investment earnings and State appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Authority.

FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the Authority's funds, including its fiduciary fund. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on the major governmental fund.

The Authority reports a General Fund as the operating fund. It accounts for all financial resources of the general government. The Authority also reports a Fiduciary Fund, the Custodial Fund, to account for assets held for others in a custodial capacity.

Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as provided by GAAP applicable to governments. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Authority generally considers revenues reported in the governmental fund to be available if they are collected within 60 days after year end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Budgets and Budgetary Accounting

An annual budget is adopted on a basis consistent with U.S. generally accepted accounting principles for the General Fund. Not all appropriations would lapse funds as some appropriations have legal authority to carry funds forward. No funds were lapsed in fiscal year 2021. The legal level of budgetary control is based on the department level.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents consist of depository and demand accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Equity in Common Cash

Amounts included in the State of Michigan's equity in common cash are managed by the State Treasurer.

Due from Federal Government

Due from federal government includes amounts related to the U.S. Department of Veterans Affairs as well as Medicaid payments.

Capital Assets

Capital assets consist of equipment and are reported in the government-wide financial statements. The estimated useful lives for equipment range from three to ten years. As a general rule, the Authority defines capital assets as assets with an initial, individual cost of more than \$5,000, along with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated acquisition cost on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until then.

The Authority reports deferred outflows of resources related to pensions and OPEB for contributions made to the respective plans after the measurement date. These amounts are deferred and recognized as an outflow of resources in the period to which they apply.

Accounts Payable

The Authority's accounts payable relates to services provided by vendors, employees, and other costs incurred in the fiscal year, but not yet paid as of year-end.

Unearned Revenue

Unearned revenues are reported for resources that have been received, but not yet earned.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused compensatory time benefits, subject to certain limitations. Paid time off is accrued in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

The financial statements of MVFA present the classification between the current and noncurrent portion of other long-term obligations, related to compensated absences, differently than the State of Michigan Annual Comprehensive Financial Report. A different estimation methodology was used for MVFA between current and noncurrent portion of other long-term obligations. In accordance with the State of Michigan *Financial Management*

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

Guide Part II, Chapter 24, Section 400, MVFA requested and the State Budget Office, Office of Financial Management approved the change in reporting.

Fund Balance Classifications

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five fund balance classifications under this standard:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints, such as inventories and prepaids.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed.
- Unassigned - includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories.

For the classification of fund balances, the Authority's policy considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. When expenditures are incurred for which only unrestricted resources are available, the intent is to use committed resources first, then assigned. Unassigned amounts are generally used only after the other resources have been used.

Restricted Net Position

Restrictions of net position shown in the government-wide financial statements indicate restrictions imposed by the funding source or some other outside source, which precludes their use for unrestricted purposes.

NOTE 2 – DEPOSITS AND INVESTMENTS

DEPOSITS

Deposits held by the Authority on September 30, 2021, were as follows:

	Governmental Activities	Fiduciary Fund	Reporting Entity
Equity in common cash	\$ 13,357,383	\$ -	\$ 13,357,383
Deposits	842,079	648,453	1,490,532
Total Deposits	<u>\$ 14,199,462</u>	<u>\$ 648,453</u>	<u>\$ 14,847,914</u>

There is a custodial credit risk related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. On September 30, 2021, \$712,197 of the Authority's bank balance of \$1,490,532 was insured by the Federal Deposit Insurance Corporation. Surety bonds were purchased to insure the remaining balances of the resident trust funds. The additional insured balances totaled \$373,822. Bank balances of \$404,513 were exposed to custodial credit risk because they were uninsured and uncollateralized. The carrying amount on the books for deposits at the end of the year was \$14,847,914.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

The Authority's deposits included in the State of Michigan's equity in common cash are managed by the State Treasurer. The State Treasurer's policy requires financial institutions to secure State funds with collateral, to be organized under federal or state law and to maintain an office in Michigan. The policy also restricts deposits in a maximum of 50% of each financial institution's net worth. As of September 30, 2021, 99.67% of the State's common cash was either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. Additional details on this policy are described in the State of Michigan Annual Comprehensive Financial Report (SOMACFR).

INVESTMENTS

The Authority invests in money market funds only. The fair value is determined by the investment custodian and provided to the Authority in monthly statements. The fair value of money market funds on September 30, 2021, was \$219,268. The fair value of the money market account is included in the deposits caption above.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. As of September 30, 2021, the Authority did not have any investments exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GAAP require disclosures of the credit quality ratings of investments in debt securities. The Authority does not have a policy for controlling credit risk. As of September 30, 2021, the Authority's money market funds were not rated.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. As of September 30, 2021, the Authority did not have any investments in foreign securities.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, being depreciated:				
Equipment	\$ 1,275,965	\$ 171,606	\$ -	\$ 1,447,571
Less accumulated depreciation for:				
Equipment	1,049,207	11,770	-	1,060,977
Capital assets, net	<u>\$ 226,758</u>	<u>\$ 159,836</u>	<u>\$ -</u>	<u>\$ 386,594</u>

Capital asset activity does not include buildings. The buildings, which include the Michigan Veteran Homes at Chesterfield Township, Michigan Veteran Homes D.J. Jacobetti, and Michigan Veteran Homes at Grand Rapids, are owned by the State of Michigan. Information related to the State of Michigan capital assets can be found in the State of Michigan Annual Comprehensive Financial Report.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations (including current portion) of the Authority for the year ended September 30, 2021:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Compensated absences	\$ -	\$ 2,309,888	\$ -	\$ 2,309,888	\$ 1,661,297	\$ 648,591

NOTE 5 – PENSION PLANS

DEFINED BENEFIT PLAN

Plan Description

The Michigan State Employees Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2015, established the State of Michigan Retirement Board. The executive order establishes the board authority to promulgate or amend the provisions of the System. The board consists of nine members:

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement system appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor
- One current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employee's Retirement System appointed by the Governor
- One member of the general public appointed by the Governor

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System defined benefit pension is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 284-4400 or 1-800-381-5111.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Public Act 185 of 2010 established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

Pension Reform of 2012

On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% contribution began on April 1, 2012.
- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4% contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.
- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant, they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012, and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014, become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation to a 401(k) or 457 account, earning a matching 2% employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5% of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime - for the six-year period ending on the FAC calculation date - will be added to that initial FAC calculation to get the final FAC number.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

For members who switch to the DC plan for future service, the pension calculation (FAC times 1.5% times years of service) will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 10 or more years of credited service; or
2. age 55 with 30 or more years of credited service; or
3. age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5% for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012, and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

In either case, the three years immediately preceding retirement must have been in a covered position. Employees in covered positions are responsible for the custody and supervision of inmates.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Community Health employees subject to reduction in force lay-offs by reason of deinstitutionalization.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of \$6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

Survivor Benefit

Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of Duty Death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to \$6,000.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

Pension Payment Options

When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100%, 75% or 50% of the retiree's pension benefit after the retiree's death. The decision is irrevocable.

A description of the options follows:

Regular Pension - The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

100% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

75% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 75% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

50% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% or 75% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

Equated Pension - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100%, 75% or 50% option. At age 65 the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

Post Retirement Adjustments

One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977 and 1987. Beginning October 1, 1988, a 3% non-compounding increase, up to a maximum of \$25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8% annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3% increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987, are not eligible for the supplemental payment.

CONTRIBUTIONS

Member Contributions

Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

Employer Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles, so the contribution rates do not have to increase over time. For fiscal year 2021, the Authority's contribution rate was 23.90% of the defined benefit employee wages and 18.93% of the defined contribution employee wages. The MVFA's contribution to SERS for the fiscal year ending September 30, 2021, was \$4,348,308.

Actuarial Assumptions

The Authority was not established as a discretely presented component unit of the State of Michigan as of the September 30, 2020, measurement date. Therefore, the actuarial valuation did not include a total pension liability measurement for the Authority. As such, there are no actuarial assumptions to disclose that are related to the Authority.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employee's Retirement System (SERS) and additions to / deductions from SERS's fiduciary net position have been determined on the accrual basis as they are reported by SERS. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the benefit terms.

For the year ended September 30, 2021, the MVFA did not recognize a pension expense due to MVFA not being an established component unit of the State of Michigan as of the measurement date. On September 30, 2021, the MVFA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 4,348,308	\$ -

Amounts reported as deferred outflows of resources related to pensions resulting from MVFA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022.

Fair Value of Investments

Plan Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity and is subject to the independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at fair value.

DEFINED CONTRIBUTION PLAN

For the State Employees' Defined Contribution Retirement Plan, the Authority is required to contribute 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. The Authority's contribution to the plan was \$1,650,445 in fiscal year 2021. Employees participating in the defined contribution plan vest in employer contributions at 50% after 2 years of service, 75% after 3 years of service, and 100% after 4

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

years of service. Forfeited employer contributions are retained with the defined contribution plan are used toward future employer required contributions. The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions of the plans.

NOTE 6 – OTHER POST-EMPLOYMENT BENEFITS

STATE EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS (SERS OPEB)

Plan Description

The Michigan State Employees Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2015, established the State of Michigan Retirement Board. The executive order establishes the board authority to promulgate or amend the provisions of the System. The board consists of nine members:

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement system appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor
- One current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employee's Retirement System appointed by the Governor
- One member of the general public appointed by the Governor

The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act.

The Michigan State Employees' Retirement System health, dental, and vision benefit is accounted for in a separate OPEB trust fund and issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 284-4400 or 1-800-381-5111.

Benefits Provided

Benefit provisions of the other postemployment benefit (OPEB) plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan.

Defined Benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health prescription drug, dental, and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the Premium Subsidy benefit contribute 20% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earnings a 30% subsidy with ten years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by the Department of Technology, Management and Budget and the Civil Service Commission to make changes to retiree medical benefit plans. Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014, are not eligible for retiree health insurance coverage premium subsidy but will become a participant in the Personal Healthcare Fund.

This plan is closed to new hires.

Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent of payroll value funding principles, so the contribution rates do not have to increase over time. For fiscal year 2021, the Authority's contribution rate was 23.09% of the defined benefit employee wages and 23.09% of the defined contribution employee wages. The MVFA's contribution to the OPEB trust for fiscal year ending September 30, 2021 was \$5,172,497.

Actuarial Assumptions

The Authority was not established as a discretely presented component unit of the State of Michigan as of the September 30, 2020, measurement date. Therefore, the SERS OPEB actuarial valuation did not include a total OPEB liability measurement for the Authority. As such, there are no actuarial assumptions to disclose that are related to the Authority.

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

For the year ended September 30, 2021, the MVFA did not recognize a OPEB expense due to MVFA not being an established component unit of the State of Michigan as of the measurement date. On September 30, 2021, the MVFA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 5,172,497	\$ -

POSTEMPLOYMENT LIFE INSURANCE BENEFITS (PELIB)

Plan Description

The State of Michigan provides postemployment life insurance benefits (the Plan) to eligible individuals upon retirement from State employment. Members of the State Employees Retirement System (SERS), the State Police Retirement System (SPRS), the Judges' Retirement System (JRS), and certain members of the Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, state-wide, defined benefit other postemployment benefits (OPEB) plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963, and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounting for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the *State of Michigan Annual Comprehensive Financial Report (SOMACFR)*. The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with non-career appointments and those working less than 40% of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage (which is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse and \$1,000 for each dependent under age 23. The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$100,000 and a maximum of \$200,000; or b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

Contributions

The State contributes 100% of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal year 2021 was \$.28 for each \$1,000.00 of coverage. The employee contributes 100% of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

Actuarial Assumptions

The Authority was not established as a discretely presented component unit of the State of Michigan as of September 30, 2020, measurement date. Therefore, the PELIB actuarial valuation did not include a total OPEB liability measurement for the Authority. As such, there are no actuarial assumptions to disclose that are related to the Authority.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits

For the year ended September 30, 2021, the MVFA did not recognize a PELIB OPEB expense due to MVFA not being an established component unit of the State of Michigan as of the measurement date. On September 30, 2021, the MVFA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 246,811	\$ -

NOTE 7 – RESTRICTED NET POSITION

Restrictions of net position shown in the government-wide financial statements indicate that restrictions are imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various restrictions in net position as of September 30, 2021:

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

RESTRICTED FOR OTHER PURPOSES

USDVA - VHA	3,163,911
Member Related Depository Fund	842,133
Charitable Support Fund	1,191,958
	<hr/>
Total Restricted Net Position	<u>\$ 5,198,003</u>

The financial statements of MVFA present the amounts between the restricted and unrestricted net position differently than the State of Michigan Annual Comprehensive Financial Report. MVFA reflects the net position related to the deferred outflows of resources for pension and OPEB contributions of \$9,767,616 as unrestricted net position. In accordance with the State of Michigan *Financial Management Guide* Part II, Chapter 24, Section 400, MVFA requested and the State Budget Office, Office of Financial Management approved the change in reporting.

NOTE 8 – FUND BALANCE

The following are the fund balance constraints as of September 30, 2021:

FUND BALANCES

Nonspendable	\$ 53,696
Restricted	
USDVA - VHA	3,163,911
Member Related Depository Fund	842,133
Charitable Support Fund	1,191,958
Committed	2,327,690
Assigned	755,055
Unassigned	1,012,908
	<hr/>
Total Fund Balances	<u>\$ 9,347,351</u>

NOTE 9 – SPECIAL ITEM

Prior to fiscal year 2021, the activities of the Authority were recorded in the State of Michigan's General Fund. Under the provisions of Section 431 of Public Act 431 of 1984, beginning in fiscal year 2021, the Authority is reported separately as a discretely presented component unit in the State's Annual Comprehensive Financial Report. As part of the separation, the Primary Government transferred its existing equity (net position and fund balance, respectively) to the Authority. The existing net position transferred to the Authority from the Primary Government totaled \$11,651,200. This transfer included capital assets, net of accumulated depreciation totaling \$226,759 which are not reported in the governmental fund. Therefore, the fund balance transferred to the Authority totaled \$11,424,441.

NOTE 10 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, the GASB issued Statement No. 87, Leases. The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during fiscal year 2022.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS

In May 2020, the GASB issued Statement No. 96, Subscription-based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during fiscal year 2023.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

Fiscal Year Ended September 30, 2021

Budgetary Comparison Schedule (Statutory/Budgetary Basis)	Original Budget	Final Budget	Actual	Variance with Final Budget
Beginning budgetary fund balance	\$ -	\$ -	\$ -	\$ -
RESOURCES (inflows):				
Revenues and other sources:				
Charges for services	\$ 14,341,600	\$ 5,120,953	\$ 5,120,953	-
Operating grants and contributions				-
Federal revenues	23,624,100	21,747,179	21,747,179	-
Private revenues	540,000	10,280,139	10,280,139	-
Payments from the State of Michigan - General Fund	41,755,700	43,022,596	43,022,596	-
Special Item - Transfer from Primary Government	-	11,424,441	11,424,441	-
Other - miscellaneous	-	12,464	12,464	-
Total revenues and other sources	<u>\$ 80,261,400</u>	<u>\$ 91,607,773</u>	<u>\$ 91,607,773</u>	<u>\$ -</u>
 Total resources available	 <u>\$ 80,261,400</u>	 <u>\$ 91,607,773</u>	 <u>\$ 91,607,773</u>	 <u>\$ -</u>
CHARGES (outflows):				
Expenditures and encumbrances:				
Michigan Veteran Homes at Chesterfield Township	\$ 8,590,000	\$ 8,059,107	\$ 7,941,690	\$ 117,417
Michigan Veteran Homes D.J. Jacobetti	24,684,700	31,120,597	29,492,067	1,628,531
Michigan Veteran Homes at Grand Rapids	42,753,700	43,581,059	42,234,501	1,346,558
Michigan Veteran Homes administration	3,647,800	3,110,945	3,108,455	2,490
Veterans cemetery	85,200	85,200	85,200	-
Veteran Homes special maintenance	500,000	153,565	153,565	-
Total charges	<u>\$ 80,261,400</u>	<u>\$ 86,110,473</u>	<u>\$ 83,015,476</u>	<u>\$ 3,094,996</u>
 Ending budgetary fund balance	 <u>\$ -</u>	 <u>\$ 5,497,300</u>	 <u>\$ 8,592,296</u>	 <u>\$ 3,094,996</u>

BUDGET-TO-GAAP RECONCILIATION

Fiscal Year Ended September 30, 2021

Resources (inflows):	
Actual amount (budgetary basis) of "Total resources available"	\$ 91,607,773
Differences - Budget to GAAP:	
Special items are inflows of budgetary resources but are not revenues for financial reporting purposes	(11,424,441)
Total revenues (GAAP basis) on the statement of revenues, and changes in fund balance	<u>\$ 80,183,332</u>
 Charges (outflows):	
Actual amount (budgetary basis) of "Total charges"	\$ 83,015,476
Differences - Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year supplies are received for financial reporting purposes	(755,055)
Total expenditures (GAAP basis) on the statement of revenues, expenditures, and changes in fund balance	<u>\$ 82,260,421</u>

FINANCIAL SECTION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE A – BUDGETARY REPORTING

Statutory/Budgetary Presentation

The various programs within funds utilize several different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most “operating” funds.

The State of Michigan provides annual legislative appropriations to the MVFA for the Michigan Veteran Homes at Chesterfield Township, Michigan Veteran Homes D.J. Jacobetti, Michigan Veteran Homes at Grand Rapids, Michigan Veteran Homes administrations, Veterans cemetery, and Veteran Homes special maintenance.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue.

Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the Authority presents both the original and final appropriated budgets for fiscal year 2021, as well as the actual resource inflows, outflows, and fund balance stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of October 1, 2020, and include multi-year projects budgetary carryforwards from the prior fiscal year.

The budgetary fund balance represents total fund balance and prior year encumbrances. Prior year encumbrances are considered uses of spending authority in the year the MVFA incurs an obligation and are also removed. MVFA did not have prior year encumbrances since fiscal year 2021 was the Authority’s first year of financial reporting.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column; therefore, updated revenue estimates available for appropriations, rather than the amounts shown in the original budget, are reported. The November 30 date is used because Public Act 431 of 1984, as amended, permits budget adjustments by the Legislature through 60 days after year-end.

The final appropriations budget represents original and supplemental appropriations and carry-forwards.

The timing differences result from unspent authorizations for multi-year projects, such as capital outlay and work projects, and from restricted revenues that had not been appropriated for expenditure in the current year. Such authorization balances remaining at year-end are removed from the final budget column to provide an “annualized” budget.

Positive “variances” reflect restricted revenues that were appropriated and available for expenditure in the current year and unused general purpose spending authority (lapses); negative “variances” reflect budgetary overdrafts.

Statutory/Budgetary Reconciliation

The statutory/budgetary basis presentation differs from GAAP in ways that do not affect ending fund balance.

For budgetary reporting purposes, expenditures and transfers out in the “Actual” column include recorded encumbrances because they are considered uses of spending authority in the year the MVFA incurs an obligation. Therefore, the “Original” and “Final Budget” columns do not include encumbrance authorization balances carried over from the prior fiscal year. In the GAAP basis statements, expenditures do not include encumbrances. The effect of this difference is reflected as a reconciling item on the Budgetary Comparison Schedule.

ACKNOWLEDGMENTS

ACKNOWLEDGMENTS

The *Michigan Veterans' Facility Authority Annual Comprehensive Financial Report* is prepared by the Department of Technology, Management, and Budget (DTMB), Office of Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2021 report included:

Management:

Jacqueline Huhn, Director
Kayla Knoper, Manager

Special thanks are also extended to DMVA's Chief Financial Officer; Michigan Veteran Homes management and staff; accounting and support staff throughout DTMB Office of Financial Services; staff at the Office of Financial Management; and the Office of the Auditor General. Preparation of this report would not have been possible without the efforts of these individuals.

This report may be viewed online at: <https://www.michigan.gov/mvh/about/legislation>.