

## A FINANCIAL PRIMER

(Compiled by Carolyn Buttolph, September 1, 2020)

### GENERAL

#### What is the Mission of Goodwin House Incorporated (GHI)?

The mission of Goodwin House Incorporated is to support, honor and uplift the lives of older adults and the people who care for them through a faith-based, non-profit organization affiliated with the Episcopal Church.

*(The above mission statement is taken from the Goodwin House website)*

#### What organizations are under the umbrella of GHI?

Eight affiliates are operated by GHI. Four are clustered as “Obligated Groups”.

These are as follows:

Goodwin House Alexandria (GHA)

Goodwin House Bailey's Crossroads (GHBC)

Goodwin House Specialized Care (GHSC)

*For a fee, provides home health care to residents. Also provides palliative care and hospice care.*

Goodwin House at Home (GHAH)

*Provides services to members who wish to age in their homes.*

#### What are “Obligated Groups”?

See the four affiliates above. Presumably they are given this name because they are obligated to care for their residents/members.

#### What are the other affiliates?

There are four other affiliates. The Boards of these affiliates are very closely interlocked with the Board of Trustees for GHI. These affiliates are:

Goodwin House Foundation (the “Foundation”)

*Supports the operations and objectives of GHI through grants and financial support to residents. Also refer to page 8.*

Goodwin House Development Corporation (GHDC)

*Supports and develops the expansion of GHI. Also refer to page 9.*

Goodwin House Home and Community Based Services (GHHCBS)

*Organized in 2019 to provide home health care, rehabilitation, palliative care and hospice care to the community. Also refer to page 10.*

Goodwin House Community Services (GHCS)

*This is the only for-profit affiliate. For a fee, provides management services to Lewinsville Retirement Residence in McLean, an affordable housing community affiliated with the Presbyterian Church.*

Financial statements show these affiliates separately from the “Obligated Groups”.

Are the “Obligated Groups” of GHI financially sound?

Yes, very strong. Richard Carter, the Chief Financial Officer of GHI, provides annual briefings of the residents in GHA and GHBC. For years he has reported that finances are quite strong, and this is substantiated by financial data.

Are some residents financially pressed?

Yes. However, residents who need financial help may request it. A social worker will meet with them and review their finances. If appropriate, the social worker will help prepare requests for financial help from the Foundation. No one has ever had to leave GHA or GHBC because of lack of funds.

The Foundation recently reported that 25 residents (GHA and GHBC combined) received support. Some support may be on a one-time basis to meet an emergency. Other support may be on a continuing basis.

Where does the Foundation get their money?

Except for salaries of its staff, the Foundation does not receive any funds from GHI. The Foundation depends on contributions from residents, family and friends of residents, and a variety of organizations that support its mission. The Foundation is a 501(c)(3) organization, and contributions to it are tax deductible (if deductions are itemized). For more information, refer to page 8.

The Obligated Groups review the financial standing of all potential residents/members. So why do some residents/members have problems?

All potential residents/members submit medical and financial information, and it may appear that adequate financial resources exist. However, finances may erode with the passage of time. Pensions and annuities may not be adjusted for inflation or, if adjusted, increases may not keep pace with expenses.

For example, the federal government uses a “cost of living” index to adjust Social Security payments. Refer to the chart on page 6. In the last 13 years, annual cost of living increases averaged 1.79%. By contrast, GHI increased fees by an average of 3.39%. Since increases are compounded each year, fees have increased about 47% since 2008. That is, a monthly fee of \$3,500 in 2008 would be \$5,152 in 2020.

Some residents have investments which provide returns that keep pace with the increase in our fees. But many other residents rely heavily on social security and pension which have not kept pace.

Do entry fees and monthly fees charged by GHI depend on the medical and financial information submitted by potential members?

No. In the case of GHA or GHBC, entry fees and monthly fees depend on the particular unit chosen and the entry plan selected. Age, medical condition, and financial situation may have a bearing upon the decision made to admit a resident, but the fees paid are independent of those considerations.

For accounting purposes, entry fees are treated as funds to be invested (an asset). They are also treated as deferred revenue to provide future services (a liability). Monthly fees are considered as operating income.

## BASIC FINANCIAL REPORTS

### What are the basic financial reports that we need to know about?

There are several basic reports.

- Balance Sheet

This is simply a listing of all assets and all liabilities at a particular point in time – usually at the start of the fiscal year, at the end of the fiscal year, and at monthly intervals.

- Budgeted and Actual Operational Data

Income and expenditures for the upcoming fiscal year are planned (budgeted) on a monthly basis. These figures include all operational expenses (wages, rent, utilities, maintenance, repairs, etc.).

Each month during the year, actual income and actual expenditures are collected and compared to the budgeted figures to measure how well management is doing.

Usually the components of the operational budget remain constant although expenses vary. Labor expenses constitute about 75% of all expenses. Thus, an increase in wages has a great impact on total costs.

- Budgeted and Actual Capital Expenditures

Although operational data includes provision for maintenance and repair, there are instances where an existing asset no longer can be repaired (replacement is needed). There are also instances where a new asset is acquired. These acquisitions are covered as a capital expenditure. Each fiscal year a capital budget is developed, and capital expenditures are tracked.

The components of the capital budget vary significantly from year to year. In recent years, the capital budget has been about \$5-\$6 million. This does not impact on the operational budget, and our annual fees are not affected.

Capital expenditures are taken from funds which have been accumulated and invested. These funds are largely accumulated from entrance fees paid by residents and by earning on investments.

## INVESTMENT FUNDS

How large are GHI investment funds and do they generate revenue?

Take a look at this table for GHI and affiliates. Independent auditors' reports show the following:

Year	Investment Funds (1) (millions)	Investment Return (2) (millions)	Investment Return (3) (millions)	Investment Return (4) (millions)
2007	\$210.5	\$2.167	\$2.167	\$2.167
2008	\$168.6	\$2.514	(\$0.245)	(\$16.914)
2009	\$110.8	\$3.092	\$2.969	(\$0.840)
2010	\$119.7	\$1.695	\$2.705	\$6.594
2011	\$117.0	\$1.851	\$3.136	\$1.346
2012	\$139.9	\$2.671	\$4.273	\$9.854
2013	\$152.4	\$2.608	\$5.650	\$9.639
2014	\$159.0	\$2.693	\$8.687	\$8.818
2015	\$206.0	\$2.319	\$10.241	(\$0.254)
2016	\$191.5	\$2.399	\$4.248	\$8.882
2017	\$172.8	\$2.654	\$6.705	\$13.758
2018	\$172.6	\$3.123	\$6.676	\$9.742
2019	\$181.8	\$3.643	\$5.526	\$6.832

Notes:

- (1) This column includes (a) assets limited as to use, (b) trading securities, and (c) investments available for sale. "Assets limited as to use" include funds obtained from bonds issued for purposes such as recent construction at GHA. Until these funds are disbursed, they are invested (usually the return is minimal).
- (2) This column includes only interest and dividends.
- (3) This column includes interest, dividends, and net realized gain in value.
- (4) This column includes interest, dividends, net realized gain in value, as well as unrealized gain/loss in value.
- (5) Note that all the figures above relate to "GHI and Affiliates", not just the obligated groups. Only the Foundation has a significant impact on the figures. During the years in question, the Foundation averaged about \$12 million investment funds.

Where do investment funds come from?

Investment funds are assembled from several sources.

- The majority of funds come from the entrance fees which residents pay. For 2019, the independent auditors' report show total entrance fees and deposits as \$150.5 million – over 82% of all invested funds.
- The monies earned by investment add to the funds.
- Income might also be received from miscellaneous sources. For example, a 2010 agreement with Lehman provides for payment of damages to Goodwin

House. Over 67% of the agreed upon amount has been paid, and further payments are still anticipated.

Are any of the monies earned from investment of entrance fees used to balance the operational budget? To temper increases in monthly fees, for example?

There are several plans for potential residents to choose from when contracting to enter Goodwin House. None provide that residents might share revenue produced from investment of entrance fees.

Why does GHI accumulate such large investment funds?

There are several reasons to accumulate funds:

- GHI must plan for “continuing care” of its residents. Entrance fees (net of any refundable portion) are recorded as “deferred revenue from entrance fees” and are amortized annually. Each year, based on actuarial study, the obligation to provide future service is determined. Independent auditors report whether or not this obligation exceeds the revenue expected to be on hand. Currently, deferred revenue from entrance fees exceeds 115% of the net cost of future service.
- GHI has to plan for lean years. Management frequently cites the financial crisis of 2008. Although the recovery in 2009 and subsequent years has been slow, the economy continues to grow. More recently, the pandemic of 2020 has caused financial problems nationwide, but Goodwin House is weathering these problems quite well.
- GHI must also plan to fund capital expenditures.

Does GHI have “reserve funds” to meet the needs described above?

GHI is financially strong and has enough strength to meet the needs described above. In a sense, all investment funds are “reserve funds”.

## MONTHLY FEES

Historically, have monthly fees always increased?

Historically, they have. The chart that follows shows increases for the past fourteen years.

GHI Fiscal Year	GHI Fee Increase (1) (percent)	COLA Increase (2) (percent)
2008	4.00	2.30
2009	4.50	5.80
2010	4.00	0.00
2011	3.00	0.00
2012	3.00	3.60
2013	3.25	1.70
2014	3.00	1.50
2015	3.25	1.70
2016	3.00	0.00
2017	3.25	0.30
2018	3.00	2.00
2019	3.00	2.80
2020	3.80	1.60
2021	3.80	TBD
Average 2008-2021	3.42	TBD

- (1) GHI Fee increases are taken from reports to residents. These increases are generally announced in August to be effective at the start of the next fiscal year in October. Thus, the 3.80% increase shown for FY 2020 was announced in August of 2019 to be effective with FY 2020 which covers October 2019 through September 2020.
- (2) COLA increases are from SSA cost of living adjustments. COLAs are effective with benefits paid to beneficiaries in January.

Why does GHI increase monthly fees?

Each budget year, an operational budget is developed. The goal is to balance income against expenses. If operational expenses increase, then monthly fees are increased so as to balance the budget. Salaries and benefits are a major component of expenses.

Regardless of state or federal minimum wages, organizations must pay a “competitive wage” if they expect to recruit employees. In this area, the competitive hourly wage is about \$13.00 – and in a short while will reach \$15.00. For FY2020, salaries and wages here at GHBC were projected to increase by about \$566,000. Monthly fees were increased accordingly.

During the year, management does an excellent job of keeping operations within budget (the GHI fiscal year is from October 1 to September 30).

What if there is a major expenditure – a new elevator for example? Doesn't GHI have any savings in reserve?

All of GHI investment funds serve as a reserve. Further, a new elevator (or similar large expenditure) would come out of the capital budget, not the operational budget. Funds for the capital budget come from investment funds or from income earned by the investments.

Where are independent auditors' reports maintained?

Each year, Goodwin House publishes a Disclosure Statement. All new residents are given a current copy. Other residents may request copies from GHBC Marketing. Electronic copies are available from GHI. The auditors' reports constitute the last 40+ pages of a very thick document.

## BONDS

What is the situation with the issuance of new bonds by GHI?

In 2005 GHI borrowed from the Alexandria Redevelopment and Housing Authority to finance improvement to GHA. In 2007 GHI borrowed from the Fairfax County Economic Development Authority to finance the building of the Health and Wellness Center and the Pointe at GHBC.

A decade later, interest rates had declined. GHI had the opportunity to refinance. Thus, Series 2015 bonds were issued (for about \$70 million) to retire the 2005 bonds and to fund improvements and additions to GHA. Also, Series 2017 bonds were issued (for about \$140 million) to retire the 2007 bonds.

It is estimated that this will save about \$20 million. These savings will appear as a reduced interest expense over a span of years.

Will these savings have any impact on the fees paid by residents?

GHI has not disclosed its plans, but these savings will probably not have any impact on fees paid by residents.

## THE FOUNDATION

### What is the Foundation?

The Goodwin House Foundation is separate from all other affiliates. The Foundation supports the operations and objectives of GHI through grants and financial support. A major role of the Foundation is to help residents of GHA and GHBC who become financially distressed – no one has ever had to leave because of lack of funds.

### Are some residents financially pressed?

Yes. The Foundation recently reported that 25 residents (GHA and GHBC combined) receive some financial support. Some support may be on a one-time basis to meet an emergency. Other support may be on a continuing basis.

### Potential residents of GHA and GHBC must submit financial data for review. After admission, why do some residents need assistance from the Foundation?

All potential residents/members submit medical and financial information. It may appear that adequate financial resources exist. However, finances may erode with the passage of time. Pensions and annuities may not be adjusted for inflation or, if adjusted, increases may not keep pace with expenses.

### If a resident needs financial help, what is the process?

If in need of help, a resident should contact a social worker who will meet with the resident and review the financial situation. If appropriate, the social worker will help prepare requests for financial assistance from the Foundation. Proceedings are handled in confidence.

### Where does the Foundation get its money?

The Foundation depends upon contributions from residents, families and friends of residents, and a variety of organizations interested in its role. Except for salaries of its staff, the Foundation does not receive any funds from GHI.

Currently, the Foundation has \$14 million in assets. If ever these financial resources of the Foundation are exhausted, it is the stated intent of GHI to furnish financial support.

## GOODWIN HOUSE DEVELOPMENT CORPORATION (GHDC)

### What is the Goodwin House Development Corporation?

More than a decade ago, GHI created a separate subsidiary (GHDC) to support and develop expansion (a third facility, for example). Subsequently, monies were earmarked for GHDC (although these monies still remain in the general fund). About \$22 million are currently earmarked for GHDC.

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At present, management seems to lean towards building an “affordable” third facility located in the northern Virginia area. GHI may be searching for partners (pharmacies, banks, etc.) to develop a complete community. The pandemic, however, has delayed action in this direction.

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At one time, GHI and GHDC were involved in an effort to acquire an existing facility located in Fairfax County. Although this did not occur, there are related developments. What follows is background.

About seven years ago, the possibility arose that expansion might be achieved with purchase of the Virginian, a facility similar to GHA/GHBC. The Temple Foundation operated the Virginian, but the building and land were owned by the heirs to the estate which originally founded the facility. These heirs decided to sell the building and land. The Temple Foundation made a offer to buy, but it was rejected. At that point, the Board of the Temple Foundation resigned.

Several officers and Trustees of GHI volunteered to serve (without pay) as an interim Board of the Temple Foundation. They also tried to negotiate with the heirs, but all offers were rejected. In 2019, the building and land were sold to another buyer. Apparently all contracts with residents were also conveyed. The purchaser then arranged for yet another firm to manage the facility.

Separate from these transactions the Temple Foundation continued to operate home care, rehabilitation, palliative and hospice care. These services are located in rented quarters on the premises of the Virginian and were always available to residents of the Virginian. However, the majority of business involved the greater community.

In 2019, GHI attempted to purchase these services to fill out the newly formed Goodwin House Home and Community Based Services (GHHCBS). However, complications arose and only Virginian Home Health Services (VHHS, about thirty employees) was secured. Rehabilitation, palliative and hospice care continue to be operated by the Temple Foundation.

GOODWIN HOUSE HOME AND  
COMMUNITY BASED SERVICES  
(GHHCBS)

What is GHHCBS?

In late 2019, GHI formed a new subsidiary, GHHCBS, outside of the obligated group. This corporation's purpose is to supply home health care, rehabilitation, palliative and hospice care to the general community.

In early 2020, GHI entered into an agreement with the Temple Foundation under which VHHS (Virginian Home Health Services) was conveyed to GHHCBS together with a cash payment to fund the expense and support of the home health operation. This line of business is in the process of a name change to Goodwin House Home Health, a department under GHHCBS.

GHHCBS is similar to Goodwin House Specialized Care (GHSC) which is an obligated group supplying similar services to residents of GHA and GHBC. In addition to the difference in those served, another distinguishing feature is that employees of GHHCBS are mostly contract employees while those of GHSC are salaried.

Note: GHSC supplies home health care as well as palliative and hospice care, but rehabilitation services are supplied to residents of GHA and GHBC by a contractor, Flagship. Quite recently GHI and Flagship entered into an agreement whereby Flagship will assist GHI to recruit and train the necessary staff to supply rehabilitation.

Both GHHCBS as well as GHSC are organizations in flux.