

A FINANCIAL PRIMER

(Compiled by Carolyn Buttolph, May 1, 2021)
(Updated June 2022 based on the GHI FY 2021 Audit)

GENERAL

What is the mission of Goodwin Living?

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

What organizations are under the umbrella of GL?

Eight affiliates are operated by GL. Four are designated as the “Obligated Group” apparently because GHI is obligated to provide residents/members with services.

They are as follows:

Goodwin House Alexandria (GHA). Opened 1967.

Goodwin House Bailey’s Crossroads (GHBC) 1987.

Goodwin Living At Home (GLAH) Launched 2014.

Goodwin House Specialized Care (GHSC)

(For a fee, provides home health, hospice, palliative care for residents)

What are the other affiliates?

There are four other affiliates. The Boards of these affiliates include members of the of the GL Board of Trustees and top GHI management. Their financial

statements and budgets are separate from the Obligated Group's. These affiliates are:

Goodwin Living Foundation. Began operations in 1992 as a nonprofit organization. *(Supports the operations and objectives of GL through grants and financial support to residents. Also supports GL staff with grants for education and other assistance.)*

Goodwin House Development Corporation (GHDC). Formed in October 2001 as a for-profit organization. Granted nonprofit status by the IRS in March 2014. *(Supports and develops the expansion of GL.)*

Goodwin Home and Community Based Services (GHCBS). Formed in September 2019. *(Provides home health care, rehabilitation, palliative and hospice care.)*

Goodwin Community Services (GCS). Formed to provide management services to other nonprofit retirement communities. *(For a fee, provides management services to the Lewinsville Retirement Residence in McLean, an affordable housing community affiliated with the Presbyterian Church.)*

Are the "Obligated Groups" of GL financially sound?

Yes. In June 2022 Fitch Ratings Service reaffirmed GL's BBB+ rating saying it reflected "solid balance sheet and stable cash flow. Also mentioned: "Strong entrance fee generation, favorable investment earnings, and a reduction of debt through refinancing." (Occupancy in residential living at GHA and GHBC was near Budget Goals of 95%. But inflation and stock market declines may pose a challenge in the future.)

MONTHLY FEES

What fees are paid by residents?

A new resident will pay a substantial entry fee. This is typical for all Class A Continuing Care Retirement Communities. In addition, residents pay a monthly fee which is the major source of income to cover the community's operating expenses. Some resident services such as the Beauty Salon, catering and guest rooms have fees.

Are entry fees and monthly fees based on the financial information submitted by potential members as part of the application process?

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

Why does GL increase monthly fees?

Each year (in May, June and July) an operational budget is developed for the next fiscal year beginning October 1st. The goal is to balance income against expenses. If operational expenses increase, then monthly fees are increased to balance the budget. Often the monthly fee increase is more than the annual cost of living increase for Social Security. (See the table on the next page.)

MONTHLY FEES COMPARED TO SOCIAL SECURITY

GHBC Fiscal Year	GHI Fee Increase (percent)	COLA Increase (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	1.30
2022	3.75	5.90
Average 2008-2022	3.44	2.03

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 a lack of funds. 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 its money? What did it spend in FY 2021?

The Foundation depends on contributions from residents, family and friends of residents, and a variety of organizations that support its mission. As of September 30, 2021 the Foundation had \$20 million in net assets. During FY 2021 it provided \$476,080 in assistance to residents, spent \$788,741 on other program services and \$234,867 on fundraising. Contributions to the Foundation are tax deductible if deductions are itemized.

INVESTMENT FUNDS

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

A rising stock market in recent years has dramatically increased GL's Investment funds – boosting them to \$225 million in FY 2021. (See the table on the next page.)

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	\$ 181.3	\$ 3.643	\$ 5.526	\$ 6.832
2020	\$ 195.4	\$ 3.285	\$ 7.088	\$ 14.719
2021	\$ 225.3	\$ 2.535	\$ 17.433	\$ 38.149

- (1) This column includes (a) assets limited 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 “GL and Affiliates”, not just the obligated groups. Only the Foundation has a significant impact on the figures. In 2021 the Foundation reached \$20 million.

Where do investment funds come from?

At the end of FY 2021 GL assets in investment funds totaled \$225.3 million. Entrance fees paid by residents accounted for \$151.7 million or 67% of the total. Money earned from investments adds to the total. And some income may be received from miscellaneous sources.

Why does GL accumulate such large investment funds?

GL 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 services (nursing for instance) 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 the net cost of future services. (During the financial crisis of 2008 net assets dropped to minus \$11million.) Although the recovery in 2009 and subsequent years has been slow, the economy continues to grow. Our investment funds increased by \$29.9 million in 2021 and in the first quarter of FY 2022 were at a historic high. However, in June 2022 the financial impact of the pandemic, inflation, supply chain disruptions, the effects of the war in Ukraine, and a drop in the stock market present challenges as net assets decline.

Where does GL get money for capital expenditures?

Capital outlay funds come largely from accumulated entry fees paid by residents and from earnings on investments.

There is no designated reserve for capital expenditures. In a sense, all investment funds are “reserve funds.”

BONDS

Goodwin Living had approximately \$172.9 million in bond debt as of June 2022. This included \$50.4 million of series 2016B, and \$122 million in series 2022 direct placement bonds. The bonds are obligations of GL and secured by mortgages on its real estate and a gross receipts pledge. (Source: Fitch Ratings Service, June 6, 2022.)

In 2022 GL refinanced its Series 2015 Bonds and Series 2016 Bonds. This will result in an estimated savings of \$1.2-1.5 million annually over a 15-year period. The savings will be used to support GL’s living wage initiative, recruitment, and other areas of staff support. (Source: Chief Finance Officer Xan Smith in a report to the GL Finance Committee, February 17, 2022.)

BASIC FINANCIAL REPORTS

There are several basic reports which together provide a picture of GL finances.

Balance Sheet (Statement of Financial Position)

This is simply a listing of all assets and all liabilities at a particular time. (A key item is “Net Assets.”)

Statement of Operations.

The monthly accounting for all operational revenues and all expenses.

Statement of Cash Flows.

Cash Flow is the net amount of cash and cash-equivalents moving into and out of an organization. Positive cash flow indicates that liquid assets are increasing permitting an organization to pay its debts.

Budget for Capital Spending.

The operational budget provides funds for maintenance and repairs. There are instances when an asset can no longer be repaired and must be replaced. And there are times when a new asset is acquired. Each year a capital budget is developed to pay for these assets.

Independent Auditor's Report.

Contains audited financial statements. The Auditor's "Notes" are particularly interesting.

STRATEGIC PLANNING

When did GL adopt a Strategic Plan?

GL adopted a Strategic Plan in September 2018 and included seven priority areas: (1) Excellence in Everything We Do. (2) Product Diversity. (3) Economic Diversity. (4) Technology. (5) Talent (6) Dementia. (7) Governance.

What are some major projects underway?

- (1) Purchase of the Hermitage Northern Virginia, a rental-based Community offering Independent Living, Assisted Living, and Long-term Care. It is home to more than 100 residents, and is located across the street from GHA. It has 149 units. (Purchase from Pinnacle Living announced May 17, 2022.)
- (2) GL signed a contract for the future purchase of a six-acre plot of land in the City of Chantilly in Loudoun County. Called “Avonlea,” the plan is to build a 200-apartment rental property with a fully refundable entrance deposit for moderate income older adults. Plans include Independent Living, Assisted Living, and Memory units, but no Nursing units. It was announced in August 2021 and would open in 2025.
- (3) Goodwin Home and Community Based Services (GHCBS) was formed in September 2019 as a nonprofit corporation. In January 2020 it acquired the Virginian Home Health Services from the Temple Foundation. In September 2020 it purchased units of MedRehab Alliance LLC for \$75,000 and began operating the rehab facilities in GHA and GHBC. The latter acquisition more than doubled its 2020 revenues. In 2021 revenue was \$4,841,057 and expenses \$4,441,870. Net operating income was \$399,187 or 8.2%.

