Cedars

Creative, Productive, Joyous Lives

Cedars Financial Overview

Finally, we have the time to do a deeper dive into Cedars financials with the primary goal of making sure everyone goes significantly up the learning curve in understanding how our financials are structured and determined. While trying to understand the ins and outs of our financials can be a bit humbling—don't worry, they are, in fact, complex.

To better understand our financials, we came up with four areas of exploration:

1. First, an overview of Cedars budgets, how they are developed and their primary components.
2. Second, a closer look at how our state reimbursement rates are determined and any issues related to receiving them.
3. An overview of our HUD funds—including a brief history of their role at Cedars and how the system works for us year to year.
4. And last, a further explanation of how we currently separate, manage and allocate our assets.

We certainly can answer questions as we proceed, but we need to keep our eye on the clock. At the end of our allotted time, we can determine which areas we might want to explore and discuss more at subsequent board meetings. But, again, the retreat is an opportunity to spend more time gaining a deeper understanding of our finances. And, as a reminder, one of the Board's chief responsibilities is the financial oversight of the organization—so it would be a good idea to understand how they all work.

Taking just a brief step back,

General Goals

Our four big picture financial related goals are to:

a. Balance our annual operating budgets of approximately $12 million

b. Secure Legacy (planned) gifts to enhance long term financial stability (not sustainability, since that would be close to impossible given our state reimbursements)
c. Generate resources and utilize reserves to address deferred maintenance and current capital needs of about $500,000 annually
d. Generate resources to increase staff compensation as much as possible.

A few Assumptions and some context:

Cedars provides services that are considered “entitlements” by the state for services such as basic room, board, and a day program for every client. All government funding (state reimbursements, Social Security, HUD reimbursements, etc.) for these services account for $10.5 million or 85% of the revenue in our operating budget.

Staff compensation including benefits and taxes makes up the lion’s share of the expenses in our operating budget of about 81%.

Cedars raises approximately $700,000 in donations and grants every year plus utilizes draws from the endowment and quasi-endowment of approximately $400,000 to balance the operating budget.

In addition, we use legacy gifts, in part, to fund our annual $500,000 capital budget to address deferred maintenance and current capital needs. For context, in the past Cedars raised approximately $200,000 plus random Legacy gifts each year to balance its operating budget and, where feasible, address deferred maintenance—sometimes even drawing down a line of credit to do so.

Things that are generally NOT reimbursed by the State and for which we raise funds include:

- The 4-person Health and Wellness Department
- Activities and Volunteer Coordination
- The 4-person Facilities and Safety Department
- Most all administrative positions (Human Resources, the Finance Department, the Development Department, the Executive Director, Associate Executive Director, Executive Project Manager, Administrative Support positions)
- ANY and ALL capital improvements (from rugs to roofs)
- Additional compensation (overtime, which is substantial, and bonuses
- Sometimes annual wage increases - there are no guaranteed mechanisms for annual wage increases built into the rate system for any positions. Except in pat past when the minimum wage increases.

Some Financial Implications:

Because there are approximately 145 staff members working an average of 650 hours per day at Cedars, if we raise each person's compensation by $1/hour, Cedars would have to raise about $237,000 (650 hours x 365 days a year X $1) plus about $24,000 in taxes and workers compensation (w/c) insurance for a total of $261,000. While that would be challenging to do once, in reality we would have to raise that amount compounded by inflation every year into the future in addition to the amount we currently raise.

Also, to each person's hourly rate, Cedars benefits are generally considered to be very good (including health insurance, vacation days, sick days, etc.), which add something like $4.00 per hour to each hour worked. Cedars incurs another $3.00 per hour for taxes and w/c insurance.

Cedars wage increases over the years have been sporadic (largely due to very erratic and often infrequent reimbursement rate increases from the state). But wage increases—even if sometimes modest—have been very consistent for the last 7-10 years–a good trend, which we need to continue.

To help supplement Cedars annual operating and capital budgets but especially to help secure Cedars financial future, our development efforts over the last decade have increased the number of families and friends who have stated their intention to include Cedars in their estate plans from approximately 7-8 individuals to currently 86 members of our Legacy Circle. (and a goal of increasing to 95 by the end of this fiscal year). While some may be very small gifts, some will certainly be significant. And just doing the math—we should average receiving about 2/year.

Cedars has done much much better in recent years applying for grants, primarily from select foundations. However, it is important to realize that foundations almost never help with annual operating costs and no foundation will simply give funds to help increase staff compensation - they are interested in funding one-time projects that are very time limited (1-3 years) while increasing compensation would extend virtually in perpetuity. In addition to several donor advised funds gifts and a few smaller gifts from family foundations; several foundations have been supportive:

- The Marin Community Foundation ($2 million for the campus reconstruction)
- The Bothin Foundation—has given about $60,000 towards a few capital projects
- Helpers Community Foundation--$250,000 towards the TAC dining hall plus another approx $150,000 toward annual projects,
- The Rabb Foundation—given about $75,000 towards a few different projects

The very best way to dramatically increase the odds of receiving a foundation grant is if you know someone on the Foundation's Board. It is more art than science.

Cedars has done an extremely good job balancing our operating budgets over the years.

As far as creating and managing our budgets:

We operate on a zero-based budget—meaning we essentially start from scratch each year. If there is an annual surplus, it goes into reserves. If there is an annual deficit, we would use reserves to meet financial obligations. Those are the board's decisions.

Our process is:

- Each year in late Spring, all managers receive their past year's budgets.
- They review them and communicate to the Finance Dept any recommended changes for the ensuing fiscal year.
- We compile all that information, review it, and consider which items are the highest priority to include in a draft budget to the finance committee.
- The Finance Committee reviews the draft budget, which includes detailed explanations for any significant changes from prior years.
- The budget is revised based on the Finance Committees recommendations and then the Finance Committee reviews the revised budget and presents it to the Board for approval at the September Board meeting—prior to the beginning of our October 1 fiscal year. Our goal is to attempt to present all assumptions to the finance committee and board that drive the numbers—so that someone understands how those numbers were developed—they can certainly question an assumption (residential vacancy rates) but not the #s.

I believe staff has earned the trust of both the Finance Committee and, in turn, the Board, and it has really paid off.

At each board meeting, we present a summary of:

- The original approved budget
- The Income and Expenses to date and variances from the approved budget
- A Revised Projection for year-end Income and Expenses with explanations for any changes.

Our goal is always to provide comprehensive explanations for any major line-item changes in the budget. Members may question an assumption, but hopefully not the math.

HUD

HUD and MHA are additional funding we receive for low income housing – HUD is federal $$ and MHA comes via the county. Because of the regulator requirements related to receiving federal $$ we routinely get audited by HUD, which is a fairly rigorous audit.

Because HUD homes need to have separate legal entities, Cedars has three corporations in addition to the main Cedars Corporation. These three corporations own five homes and rent the rooms directly to the residents living in those homes via a tenant agreement.

There are two kinds of Tenant agreements that we have with low-income residents. Both are identified as vouchers

For HUD –each “voucher” is tied to a house and can only be used at that location

For MHA – each voucher is tied to a person and when the person leaves, the voucher goes with them so Cedars losses that funding. We started in the year 2000 with 18 vouchers and only have 7 left because of residents moving within Cedars and outside of Cedars. Even though we only have a few vouchers left – the house is still considered a low-income house and all residents must be low income or we do not receive any voucher $$

For the MHA vouchers we do not need a separate corporation

I am going to concentrate on the HUD vouchers because we have more of those.

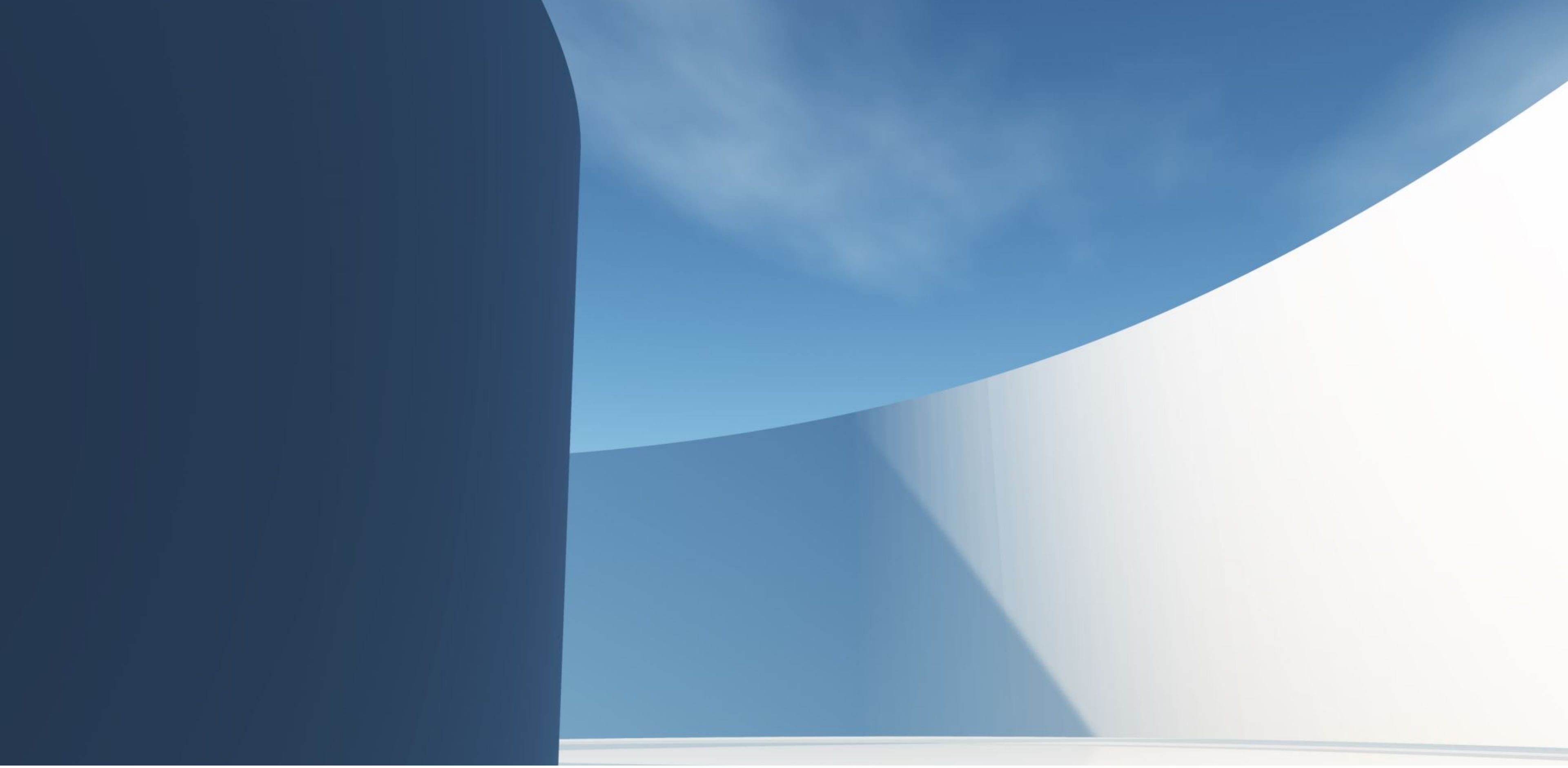
HUD vouchers are for a specific monthly amount and differ by corporation. We have two different levels of funding from HUD - MHH5 is a higher monthly rent because it includes the payoff of a loan D&L do not. D&L’s loans are forgiven if we keep the properties as HUD homes for 40 years (so in 16 years or in 2038) Each corporation is responsible for asking for increases and there are a lot of restrictions on the increases and a lot of documentation required to receive an increase.

D&L generally run at a profit and MHH5 at a loss so we ask for a monthly rent increase every year for MHH5. The operations for these three corporations are included in the consolidated report for Cedars.

For a resident to qualify to receive a HUD voucher and be a resident at the 5 HUD homes the resident needs to be qualified as “low income” KC is the one that works on this with the resident and their families.

Once an individual is accepted - the Satellite corporations receive a portion of the tenants “rent” from HUD. This amount differs depending on the income and worth of the individual. The remaining portion of the rent is technically the responsibility of the resident, but because Cedars receives a monthly fee for residents generally from GGRC that includes board – Cedars pays the remaining rental portion to the satellite corporations.

MHA reimbursements work generally the same although there is no separate entity to pay the remaining portion of rent to.



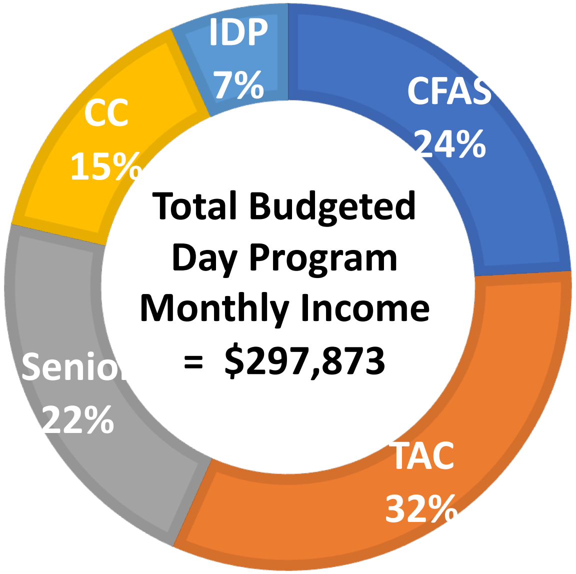
Regional Center Income Methodology and Impact on Cedars

Day Program Monthly Income

Day Program	Reimbursement Rate	(x) Attendance	Budgeted Monthly Program Income
CFAS	$90.41/pp/day	794	$ 71,804
TAC	$86.45/pp/day	1,122	$ 97,025
Senior	$100.80/pp/day	648	$ 65,308
CC	$77.22/pp/day	564	$ 43,575
IDP	$100.80/pp/day	200	$ 20,160
			$ 297,873

Notes:

- Attendance = Full Time Equivalents (FTEs) multiplied by Average Days per Month (20.9)
- Rates are either set by DDS or "negotiated" with RC but are capped at a certain rate
- Rates are not regularly adjusted for inflation, etc.

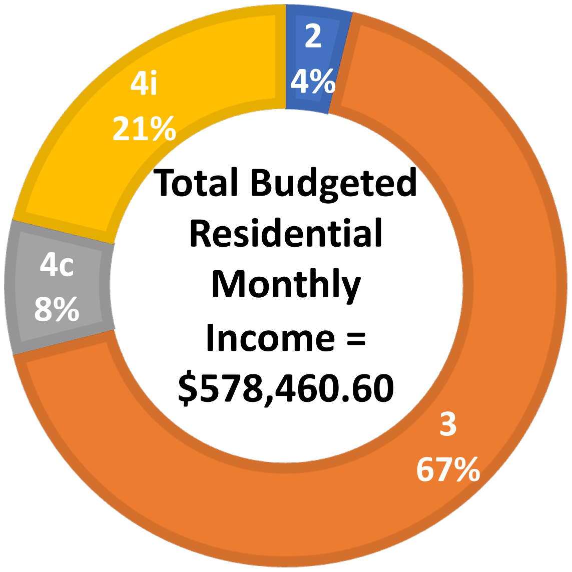


Residential Monthly Income

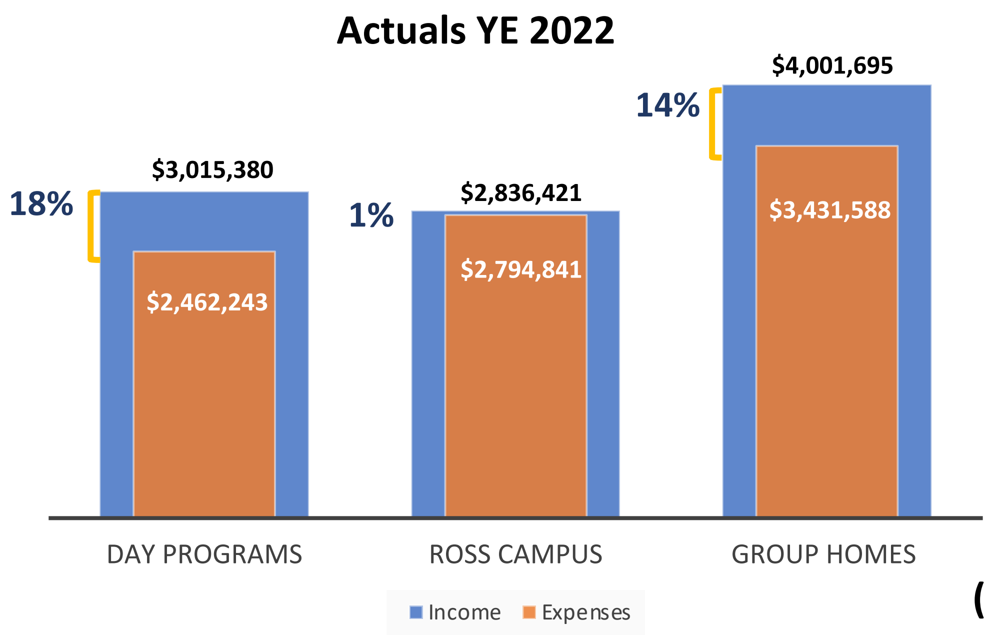
Level of Care	Reimbursement Rate (GGRC + SSI)	(x) of Residents	Monthly Income
L2	$4,445.40/pp/mo	5	$ 22,227.00
L3	$6,026.40/pp/mo	64.5	$ 388,702.80
L4c	$7,468.40/pp/mo	6	$ 44,810.40
L4i	$11,156.40/pp/mo	11	$ 122,720.40
			$ 578,460.60

Notes:

- Budgeted vacancies is 2.5
- 2 private pay (not included)
- Rates are set by DDS
- Staffing hours are fixed and vary by Level of Care – L2 (least hours) to L4i (most hours)
- Rates are not regularly adjusted for inflation, etc.

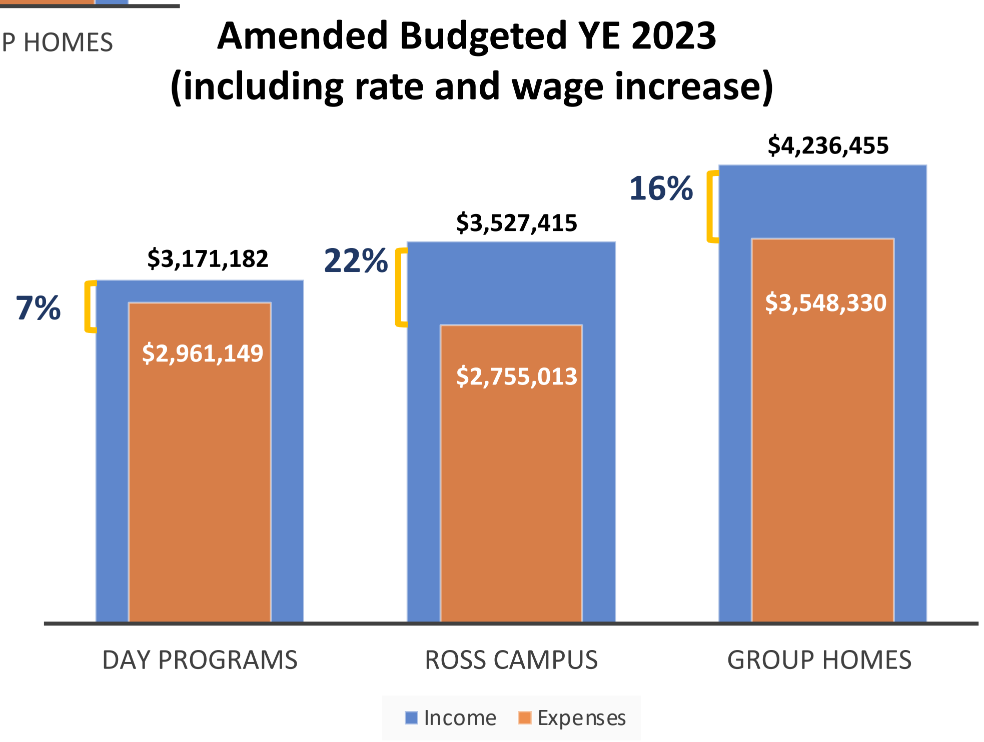


Impact of Rate Study and Wage Increase on Net Operating Income (Margins)

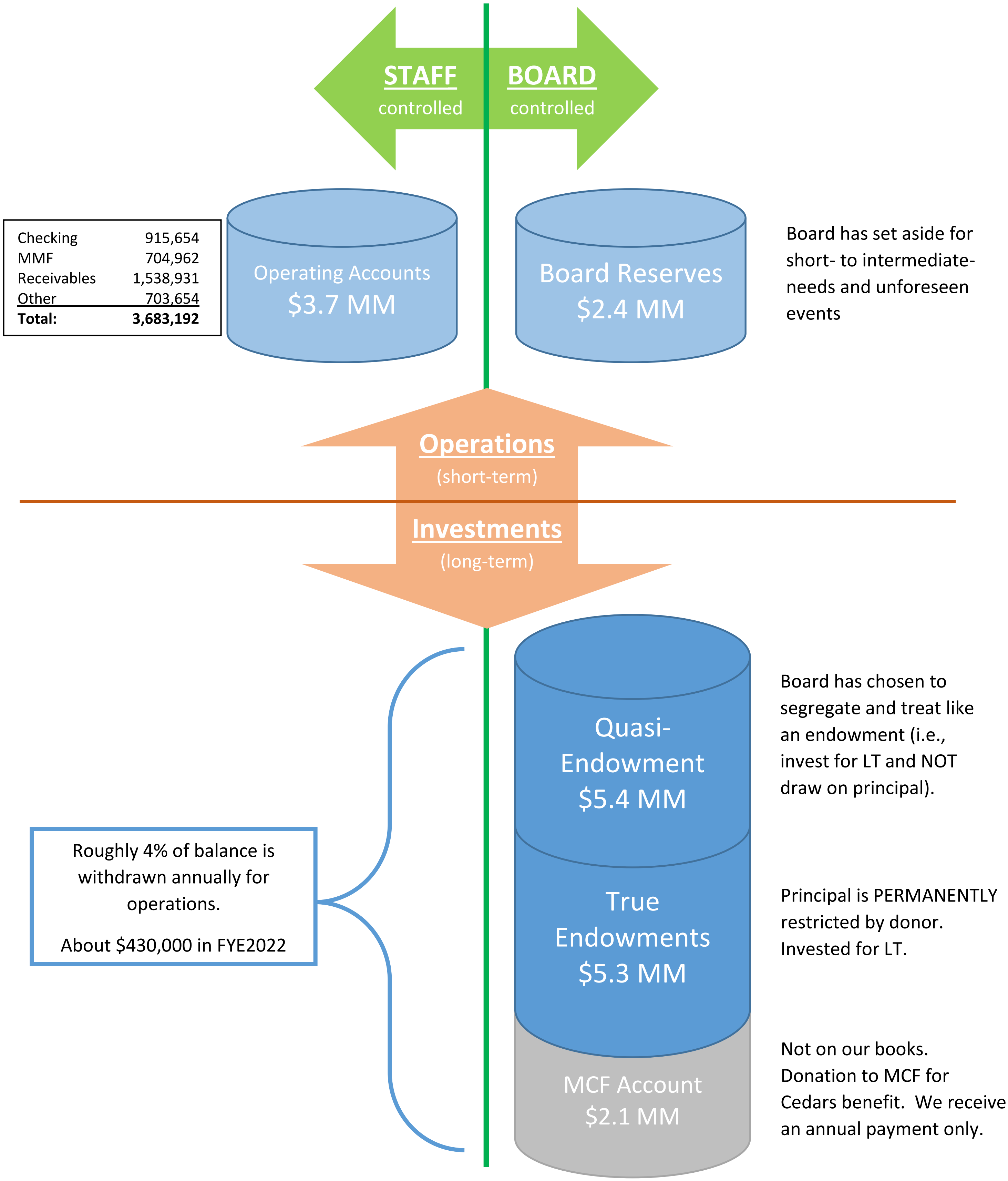


Notes:

- Does not include depreciation, administrative expenses, health and wellness, fundraising income and expenses which are some of the expenses not covered by RC funding
- Margins for DPs and Ross shift due to rate and wage increases



Cedars Cash, Short-Term Assets, and Investments as of 9/30/2022



Cedars Cash, Short-Term Assets and Investment Accounts
9/30/2022

9/30/22 Value	Purpose	Accounts/Investments	Details
Operating Accounts $3.7MM	• Day-to-day cash flow needs • Annual budgetary needs	Checking accounts and money market funds plus non-cash items	Unrestricted cash = $1.6MM Receivables = $1.4MM Remainder include deposits, restricted cash, etc.
Board Reserves $2.4MM	• Short to intermediate needs • Unforeseen events • Near-term initiatives (3-5 yrs.)	Money market funds and other high-quality, short-term investments	Also referred to as "Capital and Operating Reserves" Allocated by board and FC Target amount = at least ~3 years' capital needs
Endowments $12.8MM	• Produce stable income for the organization, ***in perpetuity*** • 4% of average value is drawn each year to fund operations and capital needs	Stocks and bonds (roughly 65%/35%)	Quasi-Endowment ($5.4MM) allocated by board to act like an endowment Peterson Endowment ($5.2MM) donated with restrictions by the Peterson family General Endowment ($0.1MM) donated as endowed gift MCF Account ($2.1MM) donated to MCF restricted to Cedars

Notes:

- The Board allocates funds to Board Reserves and/or the Quasi-Endowment as cash surpluses accumulate from donations, bequests, asset sales, and operating income. Bequests and asset sales have been the primary source of funds for the quasi-endowment.
- Donors can also make donations directly to endowments.
- Investment Policy Statement outlines policies and procedures for endowments and quasi-endowments.
- In the past, Quasi-Endowment has also been referred to as "Long-Term Reserves" or "Long-Term Investment Reserves".
- MCF Account is not on our books; held at Marin Community Foundation for Cedars benefit. MCF makes annual distributions to Cedars based on their spending rules.