Consolidated Financial Report

December 31, 2014

Masonic Villages of the Grand Lodge of Pennsylvania

INDEX

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Masonic Villages of the
Grand Lodge of Pennsylvania
Elizabethtown, Pennsylvania

We have audited the accompanying consolidated financial statements of the Masonic Villages of the Grand Lodge of Free and Accepted Masons of Pennsylvania and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Pennsylvania Acacia Insurance Company, Ltd., a wholly-owned subsidiary, which statements reflect total assets of $ 9,888,902 and $ 9,249,346 as of December 31, 2014 and 2013, respectively, and total revenues of $ 793,034 and $ 983,688, respectively, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Pennsylvania Acacia Insurance Company, Ltd., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

Board of Directors
Masonic Villages of the
Grand Lodge of Pennsylvania

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

Opinion

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Masonic Villages of the Grand Lodge of Free and Accepted Masons of Pennsylvania and subsidiaries as of December 31, 2014 and 2013 and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
April 27, 2015

MASONIC VILLAGES OF THE GRAND LODGE OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets:		
Cash and cash equivalents (Note 2)	$ 25,173,938	$ 26,417,877
Assets whose use is limited and that are required for current liabilities (Note 7)	2,602,437	2,493,676
Resident accounts receivable, net of estimated uncollectibles of $ 540,000 in 2014 and $ 406,000 in 2013 (Note 3)	7,375,993	6,484,339
Accounts receivable:		
Pennsylvania Masonic Youth Foundation	5,619	1,844
Masonic Charities Fund	30,575	18,001
The Masonic Library and Museum of Pennsylvania	184	421
Grand Lodge	53,306	-
Investment income receivable	1,835,723	2,310,470
Estimated third party settlements receivable (Note 17)	759,039	2,433,152
Inventory	2,122,341	1,824,801
Other current assets	2,247,773	1,462,721
Notes receivable (Note 5)	3,105,580	3,594,786
Contributions receivable (Note 4)	95,500	96,400
Total current assets	45,408,008	47,138,488
Contributions receivable, net of current portion (Note 4)	317,692	382,521
Loan receivable - Susquehanna-Wagman Associates, LLC	33,602	33,602
Assets whose use is limited, net of current portion (Note 7)	18,386,068	37,310,722
Minimum liquid reserve requirement (Notes 6, 24)	15,085,386	14,677,311
Investments (Note 6)	671,939,192	629,712,666
Property and equipment, net (Note 8)	342,471,581	319,238,893
Other Assets:		
Deferred costs, net (Note 9)	1,371,293	1,504,403
Other long-term assets	4,573	5,523
Total other assets	1,375,866	1,509,926
Collections (Note 1)	-	-
Total assets	$ 1,095,017,395	$ 1,050,004,129

LIABILITIES AND NET ASSETS	2014	2013
Current Liabilities:		
Current installments of long-term debt (Note 11)	$ 8,905,000	$ 8,675,000
Accrued expenses	14,315,902	13,455,117
Accounts payable:		
Trade	10,730,327	10,819,713
Grand Lodge	-	252
Deferred revenue from estates and trusts	32,554	40,176
Deposits - Residents	930,698	954,717
Deposits on unoccupied units	2,719,206	1,645,540
Annuities payable	3,498,814	1,206,216
Total current liabilities	41,132,501	36,796,731
Accrued pension costs (Note 16)	24,628,648	2,040,612
Annuities payable, net of current portion	17,359,599	6,142,706
Contributions payable (Note 21)	13,786,134	-
Deferred revenue from landfill settlement	47,500	57,500
Refundable fees	63,603,465	58,088,967
Deferred revenue from entrance fees	94,703,311	91,967,378
Interest rate swap agreements (Note 10)	27,269,755	22,908,000
Long-term debt, including unamortized premium of $ 794,051 in 2014 and $ 854,163 in 2013	185,744,051	194,709,163
Total liabilities	468,274,964	412,711,057
Net Assets:		
Unrestricted	333,462,627	349,831,827
Temporarily restricted	80,412,487	75,206,982
Permanently restricted	212,867,317	212,254,263
Total net assets	626,742,431	637,293,072
Total liabilities and net assets	$ 1,095,017,395	$ 1,050,004,129

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

MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Resident service revenue (Note 17)	$ 128,293,287	$ 124,251,060
Provision for bad debts	(293,250)	(262,673)
Net resident service revenue	128,000,037	123,988,387
Amortization of entrance fees	10,258,031	9,646,509
Other operating revenue	5,842,497	3,126,391
Investment income	9,729,404	11,171,145
Unrealized (depreciation) appreciation on interest rate swap agreements	(4,361,755)	12,004,253
Total operating revenues	149,468,214	159,936,685
Operating expenses:		
Wages, salaries, and benefits	95,014,318	92,855,272
Supplies	16,862,914	16,055,249
Purchased services	17,034,618	16,181,023
Energy and utilities	7,732,399	7,682,735
Depreciation and amortization	19,539,566	17,924,154
Interest	6,258,463	6,232,555
Other operating expenses	7,818,040	7,639,349
Total operating expenses	170,260,318	164,570,337
Loss from operations	(20,792,104)	(4,633,652)
Nonoperating gains (losses):		
Contributions, gifts, and bequests	10,101,215	4,720,704
Contributions from Pennsylvania Masonic Youth Foundation	21,399	13,100
Contributions from Grand Lodge permanently restricted net assets	1,158,811	1,267,203
Income from perpetual trusts held by third parties	1,767,589	1,694,608
Realized gains on sale of investments	17,601,948	27,015,117
Adjustment of actuarial liabilities of split-interest agreements	(1,695,318)	(586,165)
Loss on impairment of asset	-	(573,810)
Gain on disposal of property and equipment	21,250	46,528
Total nonoperating gains	28,976,894	33,597,285
Excess of revenues and gains over expenses and losses	8,184,790	28,963,633
Net assets released from restrictions:		
Satisfaction of program restrictions - Operations	6,128,288	5,192,339
Satisfaction of program restrictions - Purchase of property and equipment	853,705	154,458
Total net assets released from restrictions	6,981,993	5,346,797
Change in pension liability (Note 16)	(28,370,777)	25,582,508
Net unrealized (depreciation) appreciation on investments	(3,165,206)	20,007,369
(Decrease) increase in unrestricted net assets	$ (16,369,200)	$ 79,900,307

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

MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended December 31, 2014 and 2013

	2014				2013			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenues and Gains:								
Total operating revenues	$ 149,468,214	$ 149,468,214	$ -	$ -	$ 159,936,685	$ 159,936,685	$ -	$ -
Nonoperating investment income	91,891	-	91,891	-	105,654	-	105,654	-
Realized gains (losses) on sale of investments	29,875,974	17,601,948	12,216,050	57,976	44,526,848	27,015,117	17,778,357	(266,626)
Gain on sale of property and equipment	21,250	21,250	-	-	46,528	46,528	-	-
Contributions, gifts, and bequests	12,420,463	10,101,215	2,232,736	86,512	6,046,963	4,720,704	530,809	795,450
Contribution from Pennsylvania Masonic Youth Foundation	21,399	21,399	-	-	13,100	13,100	-	-
Contributions from Grand Lodge permanently restricted net assets	1,158,811	1,158,811	-	-	1,267,203	1,267,203	-	-
Income from perpetual trusts held by third parties	1,789,799	1,767,589	4,450	17,760	1,716,865	1,694,608	4,152	18,105
Total revenues and gains	194,847,801	180,140,426	14,545,127	162,248	213,659,846	194,693,945	18,418,972	546,929
Expenses and Losses:								
Unrestricted expenses	170,260,318	170,260,318	-	-	164,570,337	164,570,337	-	-
Loss on impairment of asset	-	-	-	-	573,810	573,810	-	-
Adjustment of actuarial assets and liabilities of split-interest agreements	1,678,729	1,695,318	(16,589)	-	570,056	586,165	(16,109)	-
Total expenses and losses	171,939,047	171,955,636	(16,589)	-	165,714,203	165,730,312	(16,109)	-
Excess of revenues and gains over expenses and losses	22,908,754	8,184,790	14,561,716	162,248	47,945,643	28,963,633	18,435,081	546,929
Net assets released from restrictions - Satisfaction of program restrictions	-	6,981,993	(7,264,191)	282,198	-	5,346,797	(5,471,797)	125,000
Change in pension liability (Note 16)	(28,370,777)	(28,370,777)	-	-	25,582,508	25,582,508	-	-
Net unrealized (depreciation) appreciation on investments	(5,088,618)	(3,165,206)	(2,092,020)	168,608	36,731,664	20,007,369	14,053,977	2,670,318
(Decrease) increase in net assets	(10,550,641)	(16,369,200)	5,205,505	613,054	110,259,815	79,900,307	27,017,261	3,342,247
Net assets at January 1	637,293,072	349,831,827	75,206,982	212,254,263	527,033,257	269,931,520	48,189,721	208,912,016
Net assets at December 31	$ 626,742,431	$ 333,462,627	$ 80,412,487	$ 212,867,317	$ 637,293,072	$ 349,831,827	$ 75,206,982	$ 212,254,263

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

MASONIC VILLAGES OF THE GRAND LODGE OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities and Nonoperating Gains:		
(Decrease) increase in net assets	$ (10,550,641)	$ 110,259,815
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	19,539,566	17,924,154
Bad debts	293,250	262,673
Bond premium amortization on 2006 bonds	(60,112)	(61,293)
Gain on disposal of property and equipment	(21,250)	(46,528)
Loss on impairment of asset	-	573,810
Amortization of entrance fees	(10,258,031)	(9,646,509)
Initial contributions recognized from split-interest agreements	(3,486,206)	(290,241)
Actuarial adjustment for split-interest agreements	1,678,729	570,056
Contributions restricted for long-term investments	(104,272)	(813,555)
Net realized and unrealized gains on long-term investments	(24,787,356)	(81,258,512)
Decrease (increase) in fair value of interest rate swap agreements	4,361,755	(12,004,253)
Decrease (increase) in receivables	1,383,744	(1,448,620)
(Increase) in other current assets and inventory	(1,082,592)	(374,261)
Increase in accounts payable and accrued expenses	771,147	1,578,776
Increase (decrease) in other current and noncurrent liabilities	37,121,666	(29,497,369)
Proceeds from entrance fees and deposits	26,032,390	30,867,393
Net cash provided by operating activities and nonoperating gains	40,831,787	26,595,536
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(42,617,894)	(32,146,944)
Decrease (increase) in assets whose use is limited	18,815,893	(34,861,610)
Proceeds from the sale of investments	28,221,570	33,245,136
Purchases of investments	(46,068,815)	(12,239,014)
Decrease in other long-term assets	950	1,450
Net cash used in investing activities	(41,648,296)	(46,000,982)

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

MASONIC VILLAGES OF THE GRAND LODGE OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Financing Activities:		
Refunds of entrance fees and deposits	$ (7,523,928)	$ (6,036,401)
Proceeds from contributions restricted for long-term investments	104,272	813,555
Proceeds from contributions under split-interest agreements	17,086,896	650,548
Net payments made on split-interest agreements	(1,409,670)	(1,102,975)
Decrease in deferred revenue from landfill settlement	(10,000)	(10,000)
Proceeds from 2013 bonds	-	39,025,000
Payments for bond issue costs	-	(191,100)
Principal payment on long-term debt	(8,675,000)	(7,125,000)
Net cash (used in) provided by financing activities	(427,430)	26,023,627
Net (decrease) increase in cash and cash equivalents	(1,243,939)	6,618,181
Cash and cash equivalents - Beginning of year	26,417,877	19,799,696
Cash and cash equivalents - End of year	$ 25,173,938	$ 26,417,877
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 7,334,550	$ 6,728,685
Cash paid during the year for income taxes	$ -	$ -

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

NOTE 1: Summary of Significant Accounting Policies

Organization

The Masonic Villages of the Grand Lodge of Pennsylvania (Masonic Villages) is a not-for-profit corporation. The Grand Lodge of Free and Accepted Masons of Pennsylvania (Grand Lodge) is the sole member of this not-for-profit corporation. Prior to January 1, 2013, Masonic Villages operated as an unincorporated unit of Grand Lodge known as Masonic Homes of the Grand Lodge of Free and Accepted Masons of Pennsylvania (Masonic Homes). Masonic Villages is considered the successor organization to Masonic Homes and has continued to operate Masonic Homes' services under the not-for-profit corporation since January 1, 2013. Masonic Villages provides various services in Pennsylvania at its campuses located in Elizabethtown, Warminster, Sewickley, Lafayette Hill, and Dallas. These campuses are referred to, collectively and individually, as "Masonic Villages" for marketing and business purposes.

Services provided at the Elizabethtown campus as of December 31, 2014 include:

1. a 439 bed nursing facility providing nursing care (Nursing Home)
2. 983 units of Retirement Living consisting of apartments and cottages
3. a 122 bed personal care facility (Personal Care)
4. a 40 bed home for disadvantaged children (Children's Home)
5. meeting and conference facilities
6. an Outreach program
7. an Adult Daily Living program
8. an 8 bed Residential care program (Residential Care) for developmentally disabled individuals
9. a farm.

As of December 31, 2014, services provided at the Warminster campus include a 28 bed nursing facility and 33 beds of personal care.

Services provided at the Sewickley campus include a 128 bed nursing facility, 60 beds of personal care, and 272 units of Retirement Living Apartments and Villas as of December 31, 2014.

As of December 31, 2014, services provided at the Lafayette Hill campus include a 60 bed nursing facility, 40 beds of personal care, and 98 units of Retirement Living Apartments.

Services provided at the Dallas campus include 83 units of Retirement Living Apartments and Cottages as of December 31, 2014.

Masonic Villages also provides significant financial support to the Pennsylvania Masonic Youth Foundation and The Masonic Library and Museum of Pennsylvania.

Principles of Consolidation

The consolidated financial statements include the financial statements of Masonic Villages and its wholly-owned subsidiaries, ILC Corp, Pennsylvania Acacia Insurance Company, Ltd. (PAIC), Acacia Services, LLC, and Ashlar Creative Solutions, LLC after elimination of all significant interrelated balances and transactions.

Assets Whose Use is Limited

Assets whose use is limited include assets held by trustees under an indenture agreement.

Resident Accounts Receivable

Accounts receivable for services provided to residents consists of amounts owed directly from residents on a private pay basis and amounts owed from third-party payors on behalf of residents. Receivables from third-party payors are recorded at established rates, net of contractual adjustments specific to each payor. Receivables from private pay residents are recorded at established rates. Receivables are considered to be past due when payments have not been received by Masonic Villages within 90 days of their contractually stated due date. The provision for uncollectible private pay resident accounts receivable is based on management's assessment of the collectability of individual receivables and the aggregate aging of all of the private pay resident accounts receivable. Losses are charged against the allowance for uncollectible private pay resident accounts receivable when management believes the un-collectability of a receivable is confirmed.

Inventory

Inventory consists of medical supplies and pharmaceutical products, livestock, and maintenance supplies and is valued at the lower of cost or market. Cost is determined on the first-in, first-out basis.

Notes Receivable and Allowance for Uncollectible Notes Receivable

Masonic Villages has provided short-term loans to residents entering its Retirement Living facilities. These loans are evidenced by a note which authorizes a judgment against the resident's property to effect loan satisfaction, and are recorded at the gross amount of the loan proceeds, reduced by an allowance for uncollectible notes receivable. Interest income from notes receivable is accrued on the straight-line method. Notes are considered to be due one year from the date of the note.

Nonaccrual notes receivable are those on which accrual of interest has ceased and where all previously accrued but not collected interest is reversed. Notes are placed on nonaccrual status when, in the opinion of management, full collection is doubtful. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income. While a note receivable is on nonaccrual status, subsequent cash payments received are either applied to outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collection of principal and interest.

The allowance for uncollectible notes receivable is evaluated on a regular basis by management and is based on historical experience, the nature and volume of the notes receivable portfolio, adverse conditions that may affect the borrower's ability to repay, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Notes are considered to be past due when principal and interest payments have not been received by Masonic Villages within 90 days of their contractually stated due date. Losses are charged against the allowance for uncollectible notes receivable when management believes the un-collectability of a note is confirmed.

NOTE 1: Summary of Significant Accounting Policies – Continued

Contributions Receivable

Contributions receivable recorded by Masonic Villages consist of charitable remainder unitrusts, charitable lead trusts, and promises to give.

Masonic Villages will be the recipient of specified funds over the terms of several charitable lead trusts and the remaining assets of several charitable remainder unitrusts upon the death of the beneficiaries. Contributions receivable are recorded at the net present value of the expected trust assets to be received based on the fair value of the trust assets, the contractual or risk-free rate of return (which ranges from 4.25% to 7.00%), and the life expectancy of the current beneficiary or term of the trust.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments and Investment Income

Masonic Villages carries investments at fair value. When available, fair value of the investments is determined using quoted market prices of a national securities exchange. In other instances fair value is determined using other observable market data or Masonic Villages' own assumptions. Contributed investments are initially valued at the quoted fair value on the date received, which is then treated as cost.

Investment income on borrowed funds held by a trustee and investment income from all other unrestricted investments are reported as operating revenues. Investment income and gains (losses) on investments of donor restricted funds are added to (deducted from) the appropriate donor restricted net assets.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value at the date of receipt. Masonic Villages reviews all disbursements greater than $ 1,000 for capitalization as property and equipment. Expenditures for repairs which extend the useful life of the assets are capitalized and routine maintenance and repair costs are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Estimated useful lives are: land improvements - 10 to 20 years, buildings and improvements - 20 to 40 years, and equipment - 3 to 20 years.

Deferred Financing Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method.

Collections

Masonic Villages owns collections of Masonic memorabilia, paintings, antique furniture, farm equipment, and other artifacts related to the history of Masonic Villages. These collections are located at the Elizabethtown, Pennsylvania campus. The collections, which were primarily acquired through contributions since Masonic Villages' inception, are not recognized as assets on the consolidated balance sheets. Contributed collection items are not recognized as revenue in the consolidated statements of changes in net assets.

Retirement Living - Entrance Fee Units

Entrance Fees - Fees paid by a resident upon entering into a resident agreement for Retirement Living, net of the portion thereof that is expected to be refundable to the resident based on refundable contract choice (refundable fees), are recorded as deferred revenue and are amortized to revenue using the straight-line method over the estimated remaining life expectancy of the resident. Contingent contracts are those that provide a minimum refund percentage greater than zero and state that re-occupancy is required prior to the payment of a refund. The refundable portion of a contingent contract is not amortized to revenue but remains as a liability until withdrawal.

Contractually Refundable Fees - Masonic Villages offers two types of contracts at its Elizabethtown, Dallas, Sewickley, and Lafayette Hill campuses. Under the terms of the first contract type, amounts refundable equal the contract amount less 5.00% for the first month of occupancy and 1.00% for each month of occupancy thereafter. As of January 1, 2014, new contracts for the Sewickley campus define amounts refundable as the contract amount less 6% for the first month of occupancy and 2% for each month of occupancy thereafter. Under the terms of the second contract type, amounts refundable equal 90% of the original contract amount whenever the resident chooses to permanently leave retirement living or the facility. In addition, a variation of the refundable contract type is available at the Dallas campus providing an annual 1% increase in the refundable percentage. At December 31, 2014 and 2013, entrance fees of approximately $ 63,603,000 and $ 58,089,000, respectively, were refundable to residents (excluding deposits on unoccupied units) under the terms of the refundable contracts.

Obligation to Provide Future Services - Masonic Villages annually calculates the present value of the net cost of future services to be provided to Retirement Living residents. Costs of future services for Retirement Living residents at the Elizabethtown and Lafayette Hill campuses include the meals, housekeeping, maintenance, and facility costs that are provided under the terms of the Elizabethtown and Lafayette Hill contracts. Costs of future services for Retirement Living residents at the Sewickley campus include the health care services, meals, housekeeping, maintenance, and facility costs that are provided under the terms of the Sewickley contract. Costs of future services for Retirement Living residents at the Dallas campus include the housekeeping, maintenance, and facility costs that are provided under the terms of the Dallas contract. The aggregate cost of future services is compared with the balance of deferred revenue from entrance fees and assets designated by Masonic Villages to pay the cost of health care services provided to Retirement Living residents at the Sewickley campus. If the present value of the net cost for future services and use of facilities exceeds the deferred revenue from entrance fees and designated assets, a liability will be recorded with a corresponding charge to expenses. Management's calculation resulted in an estimate of no liability for future services to be provided as of either December 31, 2014 or 2013, using discount rates of 7.00% each year.

These agreements are regulated by the Commonwealth of Pennsylvania Department of Insurance. Masonic Villages is required to maintain liquid reserves to cover the future costs associated with these agreements.

Resident Personal Funds

Masonic Villages receives and holds personal funds of certain residents as an agent of those residents. Cash and cash equivalents include resident personal funds totaling $ 930,698 and $ 954,717 as of December 31, 2014 and 2013, respectively.

Worker's Compensation Claims

For the years ended December 31, 2014 and 2013, Masonic Villages was insured for workers compensation claims in a large risk-large deductible program with a $ 350,000 deductible for each injury/disease and a $ 1,000,000 aggregate for each injury/disease. Premiums paid, net of any performance-based refunds, are recorded in wages, salaries, and benefits in the consolidated statements of operations.

Annuities Payable

Masonic Villages has several charitable gift annuity and charitable remainder unitrust arrangements with donors. Annuities payable are recorded at the net present value of the expected annuity payments based upon the amount of the contribution, the contractual rate of return (which ranges from 4.20% to 12.00%), and the life expectancy of the beneficiary of the annuity.

Bond Premium

Bond premium is amortized over the period the related long-term debt obligation is outstanding using the interest method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Masonic Villages has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Masonic Villages in perpetuity.

Support

Contributions received are measured at their fair values and are reported as an increase in net assets. Masonic Villages reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Gifts of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Masonic Villages reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Masonic Villages is the beneficiary under various wills and trust agreements. Amounts received from such sources are recorded when clear title is established and the proceeds are measurable.

Donated Services

A significant number of volunteers annually donate their services to Masonic Villages. Because the services provided do not require specialized skills, the value of these donated services is not reflected in the consolidated financial statements.

Resident Service Revenue

Masonic Villages' resident service revenue is earned from providing both health care and non-health care services. Health care programs include nursing care, personal care, hospice, medical supplies, pharmacy, and medical ancillary clinics. Non-health care programs include retirement living, the Children's Home, adult day care, the Residential Care program, home care, and wellness centers. Ordinary activities that are part of a resident's life at Masonic Villages also produce resident service revenue. These revenue producing activities include beauty and barber services, resident and guest meals, laundry, transportation, parking, and communications services.

Resident service revenue is recorded initially at the established rates. This amount is reduced by contractual adjustments and charity allowances to arrive at resident service revenue reported in the consolidated statement of operations.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments related to final settlements with third-party payors are included in net resident service revenue in the year in which such adjustments become known.

Charity Care

Charity care is provided to residents who have demonstrated the inability to pay and are not eligible for third-party reimbursement. Certain residents qualify for charity care upon admission or when their financial resources are depleted. Because Masonic Villages provides charity care to residents who are unable to pay for these services, it is not reported as resident service revenue.

Consolidated Statements of Operations Earnings Measurement

Masonic Villages' income (loss) from operations includes all unrestricted revenue from the provision of health care and residential services, operating revenue from incidental activities such as the farm, investment income, changes in the fair value of derivative instruments, and expenses incurred in the performance of these activities. Non-operating gains and losses are excluded from the loss from operations.

Consolidated Statements of Changes in Net Assets Earnings Measurement

Masonic Villages utilizes the excess (deficiency) of revenues and gains over expenses and losses to measure its annual earnings. The excess of revenues and gains over expenses and losses includes revenues and expenses from program activities, contributions, investment income, realized gains (losses) from the sale of investments, and changes in the fair value of derivative instruments. The net unrealized appreciation (depreciation) on investments and changes in the minimum pension obligation are excluded from the excess (deficiency) of revenues and gains over expenses and losses.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments (i.e. money market funds) with original maturities of three months or less, excluding amounts classified as assets whose use is limited.

Income Taxes

Masonic Villages is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 509(a) of the Code.

Generally accepted accounting principles require organizations to disclose significant tax positions that are subject to uncertainty about the merits of the position taken or the amount of the position that may ultimately be sustained upon examination by the taxing authorities. The effects of tax positions are recognized in financial statements if, in the opinion of management, the tax position would more likely than not be sustained upon an examination by the taxing authorities, including the resolution of any applicable appeals or litigation. Masonic Villages' most significant tax position is that it is exempt from payment of federal and state income taxes. Accordingly, Masonic Villages has not reported any income tax expense in the statements of operations and the statements of changes in net assets for the years ended December 31, 2014 and 2013. Masonic Villages has not recorded liabilities for income taxes or unrecognized income tax benefits in the balance sheets as of December 31, 2014 and 2013. The tax years subsequent to 2010 may be subject to review by federal, state, and local taxing authorities.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Financial Instruments

Derivative financial instruments used by Masonic Villages consist of pay-fixed, receive variable interest rate swap agreements. The purpose of these interest rate swap agreements is to limit Masonic Villages' exposure to interest rate changes on its variable-rate debt.

Disclosure about Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, short-term investments, investment securities, resident accounts receivable, notes receivable, deposits, long-term debt, and interest rate swaps.

The fair value of cash and cash equivalents are deemed to be the same as their carrying value. The fair value of resident accounts receivable equals their carrying value, since they are stated net of estimated uncollectible amounts. The fair value of the long-term debt is determined based on the quoted market price of the long-term debt at the consolidated balance sheet date. The fair values of interest rate swap agreements are based on quoted market prices if available or valuation techniques which consider the present value of estimated expected future cash flows. Disclosure of additional fair values is contained in the following notes.

NOTE 2: Cash and Cash Equivalents

Masonic Villages holds cash and cash equivalents that have been restricted by donors for certain purposes. Masonic Villages is not permitted to use restricted cash and cash equivalents for general operations. The components of Masonic Villages' cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

	2014	2013
Available for operations	$ 21,604,951	$ 21,221,507
Retirement living escrow funds	922,800	3,181,006
Held for residents deposits	930,698	954,717
Total unrestricted	23,458,449	25,357,230
Temporarily restricted	1,715,489	1,060,647
	$ 25,173,938	$ 26,417,877

NOTE 3: Resident Accounts Receivable

Masonic Villages' resident accounts receivable consists of amounts owed from individuals, insurance companies, and government agencies. As of December 31, 2014 and 2013, Masonic Villages' aggregate resident accounts receivable over 90 days past due totaled $ 1,073,040 and $ 988,352, respectively.

Masonic Villages' resident accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of resident accounts receivable, Masonic Villages evaluates its past history and identifies trends for each of its major sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with private pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), Masonic Villages records a provision for bad debts in the period of service on the basis of past experience, which indicates that many private pay residents are unable or unwilling to pay the portion of the bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The changes in the allowance for uncollectible accounts receivable for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Allowance at January 1	$ 406,000	$ 256,000
Provision for bad debts	293,250	262,673
Accounts receivable written off, net of recoveries	(159,250)	(112,673)
Allowance at December 31	$ 540,000	$ 406,000

NOTE 4: Contributions Receivable

Contributions receivable consisted of the following as of December 31, 2014 and 2013:

	2014	2013
Charitable lead annuity trusts	$ 362,918	$ 390,329
Promises to give	50,274	88,592
Total contributions receivable	413,192	478,921
Less:		
Current portion of charitable lead annuity trusts	44,000	44,000
Current portion of promises to give	51,500	52,400
Noncurrent portion	$ 317,692	$ 382,521

Promises to give consist of the following as of December 31, 2014 and 2013:

	2014	2013
Promises to give before unamortized discount and allowance for uncollectibles	$ 51,500	$ 91,400
Unamortized discount	(1,226)	(2,808)
Allowance for uncollectibles	-	-
Net promises to give	$ 50,274	$ 88,592

The schedule of payments to be received from promises to give as of December 31, 2014 is as follows:

2015	$ 51,500

The discount rates used for promises to give received during the years ended December 31, 201 and 2013 were 2.17% and 3.03%, respectively.

NOTE 5: Notes Receivable

Notes receivable with Masonic Villages' Retirement Living residents totaled $ 3,105,580 and $ 3,594,786, as of December 31, 2014 and 2013, respectively. Interest was charged at rates ranging from 0% to 5% per annum. Notes receivable over 90 days past due, included in the aforementioned totals, were $ 354,501 and $ 164,744 as of December 31, 2014 and 2013, respectively. There was no notes receivable on nonaccrual status as of December 31, 2014 and 2013. Based on management's evaluation of the notes receivable portfolio, no provision for uncollectible notes receivable is required.

NOTE 6: Investments

Certain investments are pooled with related organizations and are referred to as "Consolidated Fund" investments. Consolidated Fund investments and certain short-term investments are administered by sixteen different investment management firms and held in safekeeping by JPMorgan Chase Bank, N. A. Approximately 90% of the pooled investments are attributable to the Masonic Villages.

The following table summarizes total Consolidated Fund investments held in safekeeping at JPMorgan Chase Bank, N. A.:

At December 31, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Domestic stocks	$ 130,008,906	$ 42,346,706	$ 2,486,606	$ 169,869,006
International stocks	33,862,627	5,440,956	2,288,327	37,015,256
U.S. Government and Agency bonds	10,770,041	635,696	6,549	11,399,188
Domestic corporate bonds	84,893,533	729,994	988,538	84,634,989
Municipal bonds	8,927,056	324,248	68,986	9,182,318
Mutual funds - Equity securities	168,820,157	54,676,589	3,250,274	220,246,472
Exchange traded funds	80,655,245	4,347,227	2,222,370	82,780,102
Limited partnership - International investments	524,729	195,685	36,839	683,575
Mortgage backed securities	19,164,058	518,656	78,201	19,604,513
Asset backed securities	21,766,361	1,392,650	132,989	23,026,022
Demand notes	601,352	31,592	-	632,944
Real estate investment trusts	438,021	144,839	23,571	559,289
Money market funds	22,979,708	-	-	22,979,708
Total Consolidated Fund	$ 583,411,794	$ 110,784,838	$ 11,583,250	$ 682,613,382

At December 31, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Domestic stocks	$ 117,698,829	$ 39,932,307	$ 644,846	$ 156,986,290
International stocks	28,776,405	6,689,492	285,396	35,180,501
U.S. Government and Agency bonds	10,363,895	-	467,887	9,896,008
Domestic corporate bonds	92,890,405	1,170,211	1,884,562	92,176,054
Municipal bonds	8,244,693	90,951	595,657	7,739,987
Mutual funds - Equity securities	138,690,877	55,072,963	3,123	193,760,717
Collective investment fund - Hedge funds	375,229	-	26,697	348,532
Exchange traded funds	86,097,779	4,074,290	1,584,149	88,587,920
Limited partnership - International investments	674,208	149,281	33,351	790,138
Mortgage backed securities	23,069,214	370,569	278,560	23,161,223
Asset backed securities	24,797,180	1,341,581	249,817	25,888,944
Demand notes	601,352	31,202	-	632,554
Real estate investment trusts	694,160	54,373	31,048	717,485
Money market funds	32,712,154	1	7	32,712,148
Total Consolidated Fund	$ 565,686,380	$ 108,977,221	$ 6,085,100	$ 668,578,501

NOTE 6: Investments – Continued

At December 31, 2014 and 2013, Masonic Villages' investments consisted of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Money Market Funds	$ 9,298,053	$ 9,298,053	$ 8,085,973	$ 8,085,973
Consolidated Fund	319,321,449	357,001,975	309,103,636	349,809,277
Other investments	108,009	102,167	411,307	451,403
Real estate	422,000	396,034	420,000	267,000
State Street Bank & Trust	280,994	280,994	162,638	162,638
National Financial Services LLC	29,191,800	29,137,536	-	-
Charles Schwab Institutional	181,583	177,563	191,765	192,347
Wells Fargo Bank Common Trust Funds	398,278	436,500	408,774	456,318
Total Unrestricted	359,202,166	396,830,822	318,784,093	359,424,956
Money Market Funds	516,072	516,072	1,121,634	1,121,634
Consolidated Fund	207,381,778	244,214,787	199,505,185	238,369,939
Other investments	-	-	97,418	157,692
BNY Mellon Financial Dreyfus Money Market Fund	60,157	60,157	60,157	60,157
Perpetual Trusts Held by Third Parties	24,051,912	45,402,740	24,073,379	45,255,599
Total Restricted	232,009,919	290,193,756	224,857,773	284,965,021
	$ 591,212,085	$ 687,024,578	$ 543,641,866	$ 644,389,977

Masonic Villages' investments are presented on the balance sheets in the following categories as of December 31, 2014 and 2013:

	2014	2013
Minimum liquid reserve requirement	$ 15,085,386	$ 14,677,311
Investments at fair value	671,939,192	629,712,666
	$ 687,024,578	$ 644,389,977

Total return on Masonic Villages' investments for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Operating investment income - Unrestricted	$ 9,729,404	$ 11,171,145
Nonoperating investment income - Temporarily restricted	91,891	105,654
Total investment income	9,821,295	11,276,799
Realized gains on sale of investments	29,875,974	44,526,848
Net unrealized (depreciation) appreciation on investments	(5,088,618)	36,731,664
	$ 34,608,651	$ 92,535,311

NOTE 6: Investments – Continued

Masonic Villages has designated portions of its unrestricted Consolidated Fund investments to use for specific programs or functions. The composition of Masonic Villages' designated investments as of December 31, 2014 and 2013 is as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Masonic Villages Reserve Fund	$ 174,312,947	$ 199,124,448	$ 175,330,980	$ 202,374,239
Masonic Temple Preservation Fund	11,418,721	12,713,083	11,091,908	12,489,412
Children's Home Fund	7,614,527	8,146,194	6,595,415	7,166,803
Charitable Gift Annuity Reserve Fund	12,141,105	13,418,282	11,881,769	13,247,441
C. Austin Buck Gift Annuity Administration	2,507,590	2,507,590	-	-
Masonic Eastern Star Homes Building and Improvement Fund	862,938	778,582	827,889	747,166
Warminster Building and Improvement Fund	2,932,793	2,710,844	2,758,119	2,548,758
Masonic Eastern Star Endowment Fund	1,334,826	1,202,764	1,280,682	1,154,232
Dallas Retirement Living Fund	1,811,675	1,934,497	1,694,928	1,826,717
Sewickley Retirement Living Fund	93,635,520	101,708,597	87,497,505	96,041,977
Lafayette Hill General Fund	9,652,324	10,384,493	8,943,558	9,722,848
Lafayette Hill Minimum Reserve Fund	1,776,334	1,900,312	1,690,788	1,823,634
Pennsylvania Acacia Insurance Company	8,696,871	9,843,169	8,006,030	9,202,081
	$ 328,698,171	$ 366,372,855	$ 317,599,571	$ 358,345,308

During the year ended December 31, 2014, Masonic Villages entered into a unique single-life charitable gift annuity agreement with a donor. This unique agreement required establishment of a separate investment portfolio to fund the annuity payments Masonic Villages will make to the beneficiary of the charitable gift annuity agreement. These investments are held in safekeeping by the custodian, National Financial Services, LLC (NFS). The investment portfolio is administered by the investment manager, Mill Creek Capital Advisors, LLC. The composition of this separate investment portfolio as of December 31, 2014 is as follows:

	Cost	Fair Value
Corporate bonds	$ 4,747,756	$ 4,740,219
Asset-backed securities	3,256,549	3,247,986
Mutual funds - Fixed income	2,770,134	2,736,682
U.S. Treasury and agency securities	2,613,418	2,619,335
Equity exchange traded funds	4,501,296	4,508,536
Mutual funds - Equity	334,483	316,614
Money market funds	10,968,164	10,968,164
	$ 29,191,800	$ 29,137,536

The Consolidated Fund investment policy includes specific guidance on the maximum amount that each organization participating in the Consolidated Fund may withdraw from its Consolidated Fund investments each year. The maximum amount that may be withdrawn and spent is equal to a percentage of the three-year average fair value of a participating organization's Consolidated Fund investments. The investment policy permits withdrawals from unrestricted investments in excess of the spending maximum. For the years ended December 31, 2014 and 2013, the spending percentage recommended by the Grand Lodge Committee on Finance and elected by the Trustees of the Consolidated Fund was 5.00%. Masonic Villages reports the cumulative excess of the restricted spending maximum over amounts withdrawn from restricted Consolidated Fund investments as temporarily restricted net assets.

NOTE 6: Investments – Continued

Masonic Villages' performance in comparison with the spending maximum amounts is summarized in the following table:

	Unrestricted	Permanently Restricted	Total
Masonic Villages' Consolidated Fund spending maximum amount for 2014	$ 16,395,238	$ 10,107,322	$ 26,502,560
Amounts withdrawn from Consolidated Fund	18,367,182	9,854,388	28,221,570
Excess (deficiency) of spending maximum amount over amounts withdrawn	$ (1,971,944)	$ 252,934	$ (1,719,010)

	Unrestricted	Permanently Restricted	Total
Masonic Villages' Consolidated Fund spending maximum amount for 2013	$ 15,806,393	$ 9,707,339	$ 25,513,731
Amounts withdrawn from Consolidated Fund	23,761,870	9,483,266	33,245,136
Excess (deficiency) of spending maximum amount over amounts withdrawn	$ (7,955,477)	$ 224,073	$ (7,731,405)

NOTE 7: Assets Whose Use is Limited

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31, 2014 and 2013, is set forth below.

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Under indenture agreement held by trustee - Cash and short-term investments	$ 20,988,505	$ 20,988,505	$ 39,804,398	$ 39,804,398
Less current portion	2,602,437	2,602,437	2,493,676	2,493,676
	$ 18,386,068	$ 18,386,068	$ 37,310,722	$ 37,310,722

NOTE 8: Property and Equipment

A summary of property and equipment at December 31, 2014 and 2013 follows:

	2014	2013
Land	$ 5,086,717	$ 4,996,354
Land improvements	16,908,451	15,052,168
Buildings and improvements	361,646,837	347,900,038
Equipment	205,814,519	185,919,794
	589,456,524	553,868,354
Less accumulated depreciation	280,584,223	261,494,638
	308,872,301	292,373,716
Construction in progress	33,599,280	26,865,177
Property and equipment, net	$ 342,471,581	$ 319,238,893

NOTE 8: Property and Equipment - Continued

Depreciation expense for the years ended December 31, 2014 and 2013 was $ 19,406,456 and $ 17,797,229, respectively.

NOTE 9: Deferred Costs

A summary of deferred costs at December 31, 2014 and 2013 follows:

	2014	2013
Financing costs for various long-term debt issues	$ 1,610,191	$ 1,716,627
Costs to upgrade Elizabethtown Borough wastewater treatment plant	1,056,000	1,056,000
	2,666,191	2,772,627
Less accumulated amortization	(1,294,898)	(1,268,224)
	$ 1,371,293	$ 1,504,403

Amortization expense related to deferred costs totaled $ 133,110 and $ 126,925 for the years ended December 31, 2014 and 2013, respectively.

NOTE 10: Interest Rate Swap Agreements

On July 1, 1999, Masonic Villages entered into an interest rate swap agreement on the 1999 Bonds with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA). This agreement expires on July 1, 2034. Wells Fargo Bank, NA exchanged a fixed rate of 4.5925% on the outstanding principal of the 1999 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 1999 Bonds.

On September 7, 2001, Masonic Villages entered into an interest rate swap agreement on the 2001 Bonds with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA). This agreement expires September 7, 2031. Wells Fargo Bank, NA exchanged a fixed rate of 4.085% on the outstanding principal of the 2001 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 2001 Bonds.

On September 7, 2001, Masonic Villages entered into a forward interest rate swap agreement with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA) on variable rate bonds that were issued during 2002 (2002 Bonds). This agreement expires May 1, 2032. Wells Fargo Bank, NA exchanged a fixed rate of 4.190% on the outstanding principal of the 2002 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 2002 Bonds.

On May 22, 2003, the Masonic Villages entered into an interest rate swap agreement on the 2004 Bonds with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA). This agreement expires on November 19, 2019. Wells Fargo Bank, NA exchanged a fixed rate of 3.75% on the outstanding principal of the 2004 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 2004 Bonds.

The variable interest rates on all four of Masonic Villages' interest rate swap agreements are determined using 67% of the London Interbank Offered Rate (LIBOR). The variable interest rates on the 1999 Bonds, the 2001 Bonds, the 2002 Bonds, and the 2004 Bonds are determined by the remarketing agent based on the Securities Industry and Financial Markets Association (SIFMA) index, adjusted for market demand.

On April 1, 2008, the Lancaster County Hospital Authority issued Variable Rate Demand/Fixed Rate Health Center Revenue bonds (Masonic Homes Project), Series 2008 (2008 Bonds) for $ 144,950,000. The proceeds of the 2008 Bonds were used to completely refund the outstanding principal of the 1999 Bonds, the 2001 Bonds, the 2002 Bonds, and the 2004 Bonds. Masonic Villages received the proceeds of the 2008 Bonds in four separate series that corresponded to the outstanding principal amount and repayment schedules of each of the refunded bond series. Series A of the 2008 Bonds ($ 37,420,000) replaced the 2001 Bonds. Series B of the 2008 Bonds ($ 34,725,000) replaced the 2002 bonds. Series C of the 2008 Bonds ($ 29,550,000) replaced the 2004 Bonds. Series D of the 2008 Bonds ($ 43,255,000) replaced the 1999 Bonds. The new bonds were structured in four separate series to correspond to outstanding principal amounts and repayment schedules of the four refunded bond issues. This approach enabled the interest rate swap agreements to continue to be used with the new variable rate demand bonds.

The interest rate swaps are recognized as an asset or liability on the consolidated balance sheets at their fair value. Changes in fair value are recorded as a change in unrealized appreciation or depreciation on the consolidated statements of operations and the consolidated statements of changes in net assets. As of December 31, 2014 and 2013, the fair values of Masonic Villages' interest rate swap agreements were as follows:

	2014	2013
Liabilities:		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	$ (12,169,477)	$ (9,938,415)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(6,956,678)	(5,684,538)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	(6,922,930)	(5,639,854)
2004 Bonds / 2008 Bonds (Series C) interest rate swap agreement	(1,220,670)	(1,645,193)
	$ (27,269,755)	$ (22,908,000)

At both December 31, 2014 and 2013, the accumulated derivative loss which had been reported outside of the performance indicator was:

	2014	2013
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	$ (7,215,803)	$ (7,215,803)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(3,359,207)	(3,359,207)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	(3,510,225)	(3,510,225)
	$ (14,085,235)	$ (14,085,235)

By using derivative instruments, Masonic Villages is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes Masonic Villages and, therefore, creates a repayment risk for Masonic Villages. When the fair value of a derivative contract is negative, Masonic Villages owes the counterparty and, therefore, it has no repayment risk. Masonic Villages minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high quality counterparties that are reviewed periodically by Masonic Villages' management.

NOTE 10: Interest Rate Swap Agreements - Continued

At December 31, 2014 and 2013, the net payments associated with the terms of the swap agreements totaled:

Fixed rate payments	2014	2013
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	$ 1,713,692	$ 1,761,338
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	1,262,333	1,309,311
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	1,201,831	1,244,430
2004 Bonds / 2008 Bonds (Series C) interest rate swap agreement	609,492	702,893
Total fixed rate payments	4,787,348	5,017,972
Variable rate payments		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	(38,777)	(48,587)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(32,106)	(40,637)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	(29,802)	(37,642)
2004 Bonds / 2008 Bonds (Series C) interest rate swap agreement	(15,784)	(23,791)
Total variable rate payments	(116,469)	(150,657)
Net payments to interest rate swap provider	$ 4,670,879	$ 4,867,315

NOTE 11: Long-Term Debt

On December 19, 2013, the Lancaster County Hospital Authority issued Health Center Revenue Bonds (Masonic Villages Project), Series 2013 (2013 Bonds) for $ 39,025,000. The proceeds of the 2013 Bonds will be used for the renovations of resident rooms and common spaces in the nursing facility at the Elizabethtown campus and the construction of an apartment building containing 60 retirement living entrance fee units at the Lafayette Hill campus. Some bond proceeds were also used to pay the issuance costs of the 2013 Bonds. The fixed interest rate assigned to each year's principal amount results in an average interest rate for the entire issue of 2.59%.

All of Masonic Villages' outstanding bonds are secured by a pledge of Masonic Villages' gross revenues. A summary of long-term debt at December 31, 2014 and 2013 follows:

	2014	2013
Lancaster County Hospital Authority (Series of 1996) - variable rate demand/fixed rate bonds, maturing through 2027	$ 13,340,000	$ 14,120,000
Lancaster County Hospital Authority (Series of 2006) - 4.00% to 5.00% bonds, maturing through 2036	33,320,000	34,180,000
Lancaster County Hospital Authority (Series of 2008) - variable rate demand bonds, maturing through 2034	109,430,000	115,205,000
Lancaster County Hospital Authority (Series of 2013) - variable rate demand bonds, maturing through 2038	37,765,000	39,025,000
Total long-term debt	193,855,000	202,530,000
Add premium on 2006 bonds payable	794,051	854,163
Less current installments of long-term debt	(8,905,000)	(8,675,000)
	$ 185,744,051	$ 194,709,163

NOTE 11: Long-Term Debt - Continued

Under the terms of the bond purchase agreements with the Lancaster County Hospital Authority, the Masonic Villages is required to maintain certain deposits with the Trustee. Such deposits are included with assets whose use is limited in the consolidated financial statements. The loan agreements place limits on the incurrence of additional borrowing and require that the Masonic Villages satisfy certain measures of financial performance as long as the debt is outstanding. For the years ended December 31, 2014 and 2013, Masonic Villages met the minimum debt service coverage ratio contained in the loan agreements.

The 2006 Bonds maturing on and after November 1, 2017 are subject to redemption, at the option of the Authority and at the direction of Masonic Villages, any time after November 1, 2016. Any such redemption will be at a redemption price equal to 100% of the principal amount plus interest accrued through the redemption date.

A schedule of principal repayments on long-term debt for the next five years and thereafter follows:

Bond Series	2015	2016	2017	2018	2019	Thereafter	Total
1996	$ 810,000	$ 845,000	$ 875,000	$ 910,000	$ 945,000	$ 8,955,000	$ 13,340,000
2006	895,000	930,000	970,000	1,010,000	1,050,000	28,465,000	33,320,000
2008 (A)	1,235,000	1,285,000	1,345,000	1,400,000	1,460,000	23,390,000	30,115,000
2008 (B)	1,075,000	1,120,000	1,170,000	1,220,000	1,270,000	22,485,000	28,340,000
2008 (C)	2,615,000	2,720,000	2,840,000	2,950,000	3,065,000	-	14,190,000
2008 (D)	1,115,000	1,175,000	1,230,000	1,295,000	1,360,000	30,610,000	36,785,000
2013	1,160,000	1,190,000	1,220,000	1,250,000	1,285,000	31,660,000	37,765,000
	$ 8,905,000	$ 9,265,000	$ 9,650,000	$ 10,035,000	$ 10,435,000	$ 145,565,000	$ 193,855,000

The fair value of Masonic Villages' total outstanding bonds, based on quoted market prices, at December 31, 2014 and 2013 was approximately $ 195,485,000 and $ 203,265,000, respectively.

A summary of interest costs on borrowed funds and investment income on funds held by the Trustee under the bond purchase agreement during the years ended December 31, 2014 and 2013 follows:

2014	Capitalized	Interest Expense	Investment Income	Total
Bond premium amortization	$ -	$ (60,112)	$ -	$ (60,112)
Interest cost	1,055,755	1,765,685	-	2,821,440
Net payments to interest rate swap provider	-	4,670,879	-	4,670,879
Interest cost of borrowed funds capitalized for assets constructed with internal funds	117,989	(117,989)	-	-
Investment income - Funds held by Trustee	(48,948)	-	(118,424)	(167,372)
	$ 1,124,796	$ 6,258,463	$ (118,424)	$ 7,264,835
2013				
Bond premium amortization	$ -	$ (61,293)	$ -	$ (61,293)
Interest cost	-	1,842,446	-	1,842,446
Net payments to interest rate swap provider	-	4,867,315	-	4,867,315
Interest cost of borrowed funds capitalized for assets constructed with internal funds	415,913	(415,913)	-	-
Investment income - Funds held by Trustee	-	-	(118,668)	(118,668)
	$ 415,913	$ 6,232,555	$ (118,668)	$ 6,529,800

NOTE 11: Long-Term Debt - Continued

Masonic Villages and PNC Bank, NA (PNC) entered a Continuing Covenants Agreement on December 19, 2013 for PNC to directly purchase all outstanding principal of the 2013 Bonds. Under the terms of this agreement, PNC will hold the outstanding principal of the 2013 Bonds as an investment asset for a minimum of ten years. On August 29, 2013, Masonic Villages entered a Continuing Covenants Agreement with Wells Fargo Bank, NA (Wells Fargo) for Wells Fargo to directly purchase all outstanding principal of the 1996 Bonds and 2008 Bonds, Series A, B, and C. Under the terms of these agreements, Wells Fargo will hold the outstanding principal of the 1996 Bonds and the 2008 Bonds, Series A, B, and C as an investment asset for a minimum of five years. These agreements with Wells Fargo replaced previous agreements with three-year terms that were initiated in 2010. On August 23, 2013, J.P. Morgan Chase Bank, NA., agreed to provide a letter of credit to support the 2008 Bonds, Series D issued through the Lancaster County Hospital Authority. This letter of credit has a five-year term. The 2006 Bonds are the only long-term debt without credit enhancement as of December 31, 2014.

NOTE 12: Endowments

Masonic Villages' endowment consists of several individual funds established for a variety of purposes. Masonic Villages' endowment includes both donor-restricted endowment funds and funds designated by Masonic Villages' Board of Directors to function as an endowment. Net assets associated with endowment funds, including funds designated by Masonic Villages' Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Commonwealth of Pennsylvania has not adopted the Uniform Prudent Management of Institutional Funds Act of 2006. Guidance for the administration of endowment funds in Pennsylvania is provided in Act 141, which was passed by the Pennsylvania legislature in 1998. Under Act 141, Pennsylvania not-for-profit organizations are permitted to elect an annual amount that may be used from their endowment funds based on an annual spending rate between 2% and 7%. Act 141 permits the spending of accumulated principal and income from an endowment fund if the amount withdrawn is less than or equal to the annually elected percentage. Masonic Villages' interpretation of Act 141 classifies interest income, dividends, and capital appreciation earned by donor-restricted endowment fund investments as temporarily restricted activity. All interest income, dividends, and capital appreciation in excess of the annual spending amount are reported as temporarily restricted net assets available to be spent in subsequent years. Masonic Villages intends to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Masonic Villages classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Masonic Villages in a manner consistent with the standard of prudence described by Act 141.

Masonic Villages considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Masonic Villages, the purpose of the donor-restricted endowment fund, satisfaction of specific donor instructions, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of Masonic Villages, and the investment policy of the Consolidated Fund.

Masonic Villages has invested substantially all of its endowment assets in the Consolidated Fund. The Trustees of the Consolidated Fund have adopted an investment policy and strategies to achieve the greatest return possible for the amount of risk assumed by the Consolidated Fund. Under this policy, assets are invested in a manner intended to produce results that exceed the Consumer Price Index by 4.0% for the entire Consolidated Fund. There are also goals established for categories of fixed income and equity investments within the Consolidated Fund to meet or exceed the performance of appropriate generally recognized financial indices. Actual returns in any year may vary from these goals.

To satisfy the long-term rate-of-return objectives of the organizations participating in the Consolidated Fund, the Trustees of the Consolidated Fund rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Consolidated Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Consolidated Fund investment policy includes specific guidance on the maximum amounts that each participating organization may withdraw from its Consolidated Fund investments each year. The maximum amount that may be withdrawn and spent is equal to a percentage of the three-year average fair value of a participating organization's Consolidated Fund investments. This approach is consistent with the provisions of Act 141. For the years ended December 31, 2014 and 2013, the spending percentage elected by the Trustees of the Consolidated Fund was 5.00%. In establishing this policy, the Trustees of the Consolidated Fund considered the long-term expected return on the endowment funds of the organizations participating in the Consolidated Fund.

Endowment net assets consisted of the following as of December 31, 2014 and 2013:

	2014	2013
Board designated endowment funds	$ 1,206,425	$ 1,158,770
Donor restricted endowment funds, temporarily restricted portion	74,317,431	69,815,327
Donor restricted endowment funds, permanently restricted portion	167,464,577	166,998,664
	$ 242,988,433	$ 237,972,761

NOTE 12: Endowments – Continued

The changes in endowment net assets for the years ended December 31, 2014 and 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2013	$ 1,006,240	$ 43,411,368	$ 166,157,048	$ 210,574,656
Investment return:				
Investment income	21,257	4,410,701	-	4,431,958
Realized gains	80,375	17,523,856	-	17,604,231
Unrealized appreciation	70,752	13,842,534	-	13,913,286
Total investment return	172,384	35,777,091	-	35,949,475
Contributions and bequests	-	-	650,223	650,223
Income from perpetual trust held by third party	-	-	18,105	18,105
Transfers from unrestricted and temporarily restricted funds	-	-	125,000	125,000
Proceeds from liquidation of outside trusts	-	-	48,288	48,288
Appropriation of endowment assets for expenditure	(19,854)	(9,373,132)	-	(9,392,986)
December 31, 2013	1,158,770	69,815,327	166,998,664	237,972,761
Investment return:				
Investment income	18,762	3,821,326	-	3,840,088
Realized gains	54,144	12,044,674	-	12,098,818
Unrealized depreciation	(5,612)	(2,067,176)	-	(2,072,788)
Total investment return	67,294	13,798,824	-	13,866,118
Contributions and bequests	-	700	86,512	87,212
Income from perpetual trust held by third party	-	-	17,760	17,760
Transfers from unrestricted and temporarily restricted funds	-	-	282,198	282,198
Proceeds from liquidation of outside trusts	-	-	79,443	79,443
Appropriation of endowment assets for expenditure	(19,639)	(9,297,420)	-	(9,317,059)
Endowment net assets at December 31, 2014	$ 1,206,425	$ 74,317,431	$ 167,464,577	$ 242,988,433

The amounts reported as appropriation of temporarily restricted endowment assets for expenditure consist of two components. Income from donor restricted endowments recognized as unrestricted investment income in the statement of operations totaled $ 3,765,601 and $ 4,342,457, respectively, for the years ended December 31, 2014 and 2013. Amounts withdrawn from the endowments and reported as satisfaction of program restrictions in the statements of operations and changes in net assets for the years ended December 31, 2014 and 2013 totaled $ 5,531,819 and $ 5,030,675, respectively.

NOTE 13: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2014 and 2013:

	2014	2013
Support of Masonic Villages and its activities	$ 2,251,414	$ 2,107,217
Support of Children's Home and its activities	3,839,174	3,311,109
Support of Residential program for developmentally disabled individuals	153,624	131,041
Scholarship awards	1,972,540	1,804,868
General operations of the organization	66,100,679	62,461,092
Total endowment funds	74,317,431	69,815,327
Support of Masonic Villages and its activities	1,159,083	1,112,313
Support of Children's Home and its activities	109,678	87,294
Building renovations and construction projects	302,200	254,394
Care and support of eligible Retirement Living residents	2,066,531	2,124,240
Scholarship awards	448,142	527,439
General operations of the organization	2,009,422	1,285,975
	6,095,056	5,391,655
Total temporarily restricted funds	$ 80,412,487	$ 75,206,982

NOTE 14: Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following purposes at December 31, 2014 and 2013:

	2014	2013
Investment in perpetuity, the investment income from which is expendable to support:		
Support of Masonic Villages and its activities	$ 2,703,365	$ 2,703,015
Support of Children's Home and its activities	9,903,404	9,546,504
Support of Residential program for developmentally disabled individuals	407,516	404,494
Scholarship awards	1,318,029	1,318,029
General operations of the organization	153,132,263	153,026,622
Total endowment funds	167,464,577	166,998,664
General operations of the organization	45,402,740	45,255,599
Total perpetual trusts held by third parties	45,402,740	45,255,599
	$ 212,867,317	$ 212,254,263

NOTE 15: Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors. The amounts released during the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Purpose restrictions accomplished:		
Support of Masonic Villages and its activities	$ 14,684	$ 8,655
Support of Children's Home and its activities	208,899	88,782
Support of Residential Care and its activities	2,870	4,947
General operations of the organization	5,589,666	5,076,772
Care and support of eligible Retirement Living residents	520,171	56,256
Scholarship awards	74,196	81,927
Satisfaction of restrictions - Operations	6,410,486	5,317,339
Satisfaction of restrictions - Purchase of property and equipment	853,705	154,458
	$ 7,264,191	$ 5,471,797

During the years ended December 31, 2014 and 2013, assets totaling $ 282,198 and $ 125,000, respectively, were transferred from the unrestricted Charitable Gift Annuity Reserve Fund into the permanently restricted endowment fund in accordance with donor restrictions. These assets were transferred upon the deaths of the donors and the corresponding termination of charitable gift annuity arrangements.

NOTE 16: Retirement Plans

Masonic Villages and Grand Lodge have a noncontributory defined benefit pension plan covering substantially all employees. The benefits are based on achieving a minimum of five years of service and the employee's average annual compensation for the five highest consecutive years of service. The employer contributions to the Plan are determined annually by the Grand Lodge Committee on Finance within limits established by the Employee Retirement Income Security Act (ERISA) of 1974. Masonic Villages contributed $ 5,200,000 to the Plan during the years ended December 31, 2014 and 2013. Contributions provide for benefits earned to date as well as benefits expected to be earned in the future.

In September 2010, the Administrators of the Pension Plan and the Grand Lodge Committee on Finance adopted an amendment to the noncontributory defined benefit pension plan. The amendment resulted in ceasing all benefit accruals as of December 31, 2010. Grand Lodge and Masonic Villages will continue to make cash contributions to the defined benefit pension plan until the plan's assets equal or exceed the projected benefit obligation. When this occurs, the defined benefit pension plan will be terminated and annuity contracts will be purchased from insurance companies to provide the guaranteed retirement income for eligible employees. The plan may also be amended and lump sum payments issued to certain participants. The goal of the Administrators of the Pension Plan is to fully fund and terminate the defined benefit plan within the next two years. The Administrators of the Pension Plan also adopted a resolution to implement a defined contribution retirement plan effective January 1, 2011. The new defined contribution retirement plan, which is funded by contributions from both the employer and employees, replaced the defined benefit pension plan.

NOTE 16: Retirement Plans - Continued

Generally accepted accounting principles require an employer to recognize the over-funded or under-funded status of a defined benefit post-retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. An employer must measure the funded status of a plan as of the date of its year-end statement of financial position. The measurement date requirement has been met, since the fiscal year of the noncontributory defined benefit pension plan is already consistent with the Masonic Villages' fiscal year. The recognition of the change in the accrued pension liability is reported separately from net periodic pension expense. The net change in the accrued pension liability reported in the statement of activities for the years ended December 31, 2014 and 2013 consists of the following:

	2014	2013
Amortization of net gain	$ -	$ 1,396,101
Net actuarial gain (loss)	(28,370,777)	24,186,407
	$ (28,370,777)	$ 25,582,508

The estimated amount that will be amortized from unrestricted net assets into net periodic pension expense in 2015 is $ 1,478,000.

NOTE 16: Retirement Plans - Continued

The following table sets forth the Masonic Villages' share of plan obligations and plan assets and amounts recognized in the consolidated financial statements at and for the years ended December 31, 2014 and 2013:

	2014	2013
Change in projected benefit obligation for service rendered to date:		
Projected benefit obligation at January 1	$ 102,245,000	$ 117,775,000
Service cost	315,769	297,063
Interest cost	5,156,593	4,788,691
Actuarial (gain) loss	27,870,636	(17,037,316)
Settlements	(208,514)	(486,659)
Expenses paid	(345,333)	(287,849)
Benefits paid	(3,122,151)	(2,803,930)
Projected benefit obligation at December 31	131,912,000	102,245,000
Change in plan assets, primarily stocks and bonds:		
Plan assets at fair value at January 1	100,204,388	85,801,766
Actual return on plan assets	5,554,962	12,781,060
Employer contributions	5,200,000	5,200,000
Settlements	(208,514)	(486,659)
Expenses paid	(345,333)	(287,849)
Benefits paid	(3,122,151)	(2,803,930)
Plan assets at fair value at December 31	107,283,352	100,204,388
Projected benefit obligation in excess of plan assets at December 31	$ (24,628,648)	$ (2,040,612)
Accrued pension cost at December 31	$ (24,628,648)	$ (2,040,612)
Accumulated benefit obligation at December 31	$ 131,912,000	$ 102,245,000
Net pension cost for 2014 and 2013 includes the following components:		
Service cost - Benefits earned during the year	$ 315,769	$ 297,063
Interest cost on projected benefit obligation	5,156,593	4,788,691
Expected return on plan assets	(6,055,103)	(5,631,969)
Net amortization and deferrals	-	1,396,101
Net periodic pension cost	$ (582,741)	$ 849,886
Benefits paid	$ 3,122,151	$ 2,803,930

The following assumptions were used in determining the actuarial present value of the projected benefit obligation and the long-term rate of return on assets:

	2014	2013
Weighted discount rate	5.15%	4.10%
Rate of compensation increase	0.00%	0.00%
Long-term rate of return on assets	6.00%	6.50%

The overall expected long-term rate of return on assets assumption (6.00%) is based upon the defined benefit pension plan's past investment performance and the general economic conditions at the time the annual pension calculations are prepared. The defined benefit pension plan's investment objective is to achieve the greatest return possible for the amount of risk assumed. To achieve this objective, the defined benefit pension plan's investment policy establishes target asset allocation percentages and permissible ranges of asset allocations between equity securities and fixed income securities. The goal to fully fund and terminate the defined benefit pension plan within the next two years resulted in significant changes to the investment strategy. In 2011, the defined benefit pension plan adopted a liability driven investment strategy focused on accumulating the assets necessary to terminate the plan. The target percentages for the years ended December 31, 2014 and 2013 were 30% in equity securities and 70% in fixed income and cash equivalents, with a permissible additional range of 30% for equity securities and 30% for fixed income securities. There are additional target allocations established for subcategories of potential investments within the equity and fixed income categories. These targets and ranges are periodically reviewed by the administrators of the defined benefit pension plan and adjusted when necessary to meet changes in financial market conditions and future benefit payment requirements.

The investments in the defined benefit pension plan as of December 31, 2014 consisted of approximately 25% in equity securities, 63% in fixed income securities, and approximately 12% in cash equivalents. As of December 31, 2013, the investments in the defined benefit pension plan consisted of approximately 52% in equity securities, 45% in fixed income securities, and approximately 3% in cash equivalents.

The defined benefit pension plan measures the fair value of its investments in accordance with generally accepted accounting principles. Generally accepted accounting principles for fair value measurements are described in Note 23.

NOTE 16: Retirement Plans – Continued

The fair values of the defined benefit pension plan's investments (including Grand Lodge's share) measured on a recurring basis are as follows:

At December 31, 2014	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	$ 2,906,462	$ 2,906,462	$ -	$ -
Energy	125,350	125,350	-	-
Financial	933,411	933,411	-	-
Health care	270,792	270,792	-	-
Industrials	1,854,373	1,854,373	-	-
Information technology	233,038	233,038	-	-
Materials	257,962	257,962	-	-
Telecommunications services	336,569	336,569	-	-
Transportation	219,597	219,597	-	-
Total domestic and international common stocks	7,137,554	7,137,554	-	-
U.S. Government securities	9,840,121	-	9,840,121	-
Asset backed securities	19,474,410	-	19,474,410	-
Mortgage backed securities	13,081,950	-	13,081,950	-
Corporate debt:				
Aa credit rating	258,878	-	258,878	-
A credit rating	1,136,637	-	1,136,637	-
Bbb credit rating	734,151	-	734,151	-
Unrated	15,021,399	-	15,021,399	-
Total corporate debt	17,151,065	-	17,151,065	-
Registered investment companies:				
Fixed income fund	2,630,887	-	2,630,887	-
Total registered investment companies	2,630,887	-	2,630,887	-
Exchange traded funds	20,688,651	20,688,651	-	-
Municipal bonds:				
Unrated	6,991,099	-	6,991,099	-
Total municipal bonds	6,991,099	-	6,991,099	-
Demand notes	146,064	-	146,064	-
Money market funds	15,624,642	-	15,624,642	-
	$ 112,766,443	$ 27,826,205	$ 84,940,238	$ -

NOTE 16: Retirement Plans – Continued

At December 31, 2013	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	$ 4,957,566	$ 4,957,566	$ -	$ -
Energy	935,803	935,803	-	-
Financial	2,554,611	2,554,611	-	-
Health care	684,728	684,728	-	-
Industrials	3,846,404	3,846,404	-	-
Information technology	374,230	374,230	-	-
Materials	937,229	937,229	-	-
Telecommunications services	626,553	626,553	-	-
Transportation	408,482	408,482	-	-
Total domestic and international common stocks	15,325,606	15,325,606	-	-
U.S. Government securities	5,738,779	-	5,738,779	-
Asset backed securities	10,646,581	-	10,646,581	-
Mortgage backed securities	11,015,726	-	11,015,726	-
Corporate debt:				
Aa credit rating	555,377	-	555,377	-
A credit rating	1,593,105	-	1,593,105	-
Bbb credit rating	903,883	-	903,883	-
B credit rating	300,113	-	300,113	-
Unrated	8,451,657	-	8,451,657	-
Total corporate debt	11,804,135	-	11,804,135	-
Registered investment companies:				
Domestic equity growth funds	2,782,862	2,782,862	-	-
Fixed income fund	2,545,954	-	2,545,954	-
Total registered investment companies	5,328,816	2,782,862	2,545,954	-
Exchange traded funds	39,012,598	39,012,598	-	-
Municipal bonds:				
Unrated	2,937,090	-	2,937,090	-
Total municipal bonds	2,937,090	-	2,937,090	-
Demand notes	145,974	-	145,974	-
Money market funds	4,214,503	-	4,214,503	-
	$ 106,169,808	$ 57,121,066	$ 49,048,742	$ -

NOTE 16: Retirement Plans – Continued

The following benefit payments are expected to be made from the Masonic Villages portion of the defined benefit pension plan during the years ending December 31:

2015	$ 3,595,000
2016	3,907,000
2017	4,264,000
2018	4,629,000
2019	5,001,000
2020 through 2024	30,637,000
	$ 52,033,000

Masonic Villages will make an estimated contribution of approximately $ 5,200,000 to the defined benefit pension plan during the year ending December 31, 2015.

In addition to the noncontributory defined benefit plan, Masonic Villages sponsors a retirement plan established under Section 403 (b) of the Internal Revenue Code. This retirement plan is available to substantially all Masonic Villages' employees and is funded by contributions made by employees and Masonic Villages to a third party administrator. Annual contributions by the employees are subject to maximum limits established by federal legislation. Masonic Villages made contributions to the defined contribution retirement plan totaling $ 2,689,352 and $ 2,372,149 during the years ended December 31, 2014 and 2013, respectively. Masonic Villages also incurred administrative costs related to the defined contribution retirement plan totaling $ 10,372 and $ 10,786 during the years ended December 31, 2014 and 2013, respectively.

In April 2012, Masonic Villages established a new noncontributory retirement plan under Section 457 (b) of the Internal Revenue Code. This retirement plan is available to certain senior management employees of Masonic Villages and is funded solely by contributions made by employees to a third party administrator. Annual contributions by the employees are subject to maximum limits established by federal legislation. Accumulated assets of this noncontributory retirement plan are included in Masonic Villages' investments with a corresponding liability reported in accrued expenses on the balance sheets. Masonic Villages incurred administrative costs related to this noncontributory retirement plan totaling $ 3,900 for each of the years ended December 31, 2014 and 2013.

NOTE 17: Resident Service Revenue

Masonic Villages has agreements with third-party payors that provide for reimbursement to the Masonic Villages at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the billings at established rates for services and amounts reimbursed by third-party payors. Masonic Villages' major third-party payors are Medicare and Medicaid.

For the years ended December 31, 2014 and 2013, services rendered to Medicare program beneficiaries were reimbursed on a prospective payment system or fee schedule, depending on the medical services provided. Under the prospective payment system, Masonic Villages is reimbursed according to the beneficiaries' acuity level and services provided. Under the fee schedule, Masonic Villages is reimbursed the lesser of its charge or the allowable amount per the fee schedule.

Services rendered to Medicaid program beneficiaries are reimbursed based on a prospective case-mix payment system. Under this system, nursing facilities are categorized into peer groups based on geographic location and number of certified beds. The Commonwealth of Pennsylvania's Department of Human Services (Department) establishes per diem rates to reimburse nursing facilities using peer group data adjusted for each individual facility's resident acuity.

NOTE 17: Resident Service Revenue - Continued

In January 2005, the Department implemented a nursing facility assessment program for nursing facilities operating in Pennsylvania. Under this program, the Department collects an assessment from nursing facilities operating in Pennsylvania based on each facility's assessment days. The payments received by the Department from this quarterly assessment are used to obtain federal matching funds to maintain reimbursement for those nursing facilities participating in the Medicaid program. Masonic Villages recognized nursing assessment costs of $ 1,725,774 and $ 1,768,733 for the years ended December 31, 2014 and 2013, respectively. Nursing assessment costs are reported as a component of other operating expenses by Masonic Villages in the consolidated statements of operations. Masonic Villages recognized increased Medicaid reimbursement of $ 3,070,512 and $ 3,204,725 from the nursing assessment program for the years ended December 31, 2014 and 2013, respectively. Increased Medicaid reimbursement from the nursing assessment program is reported as a component of contractual adjustments under third party programs. The amount of additional reimbursement recognized as an estimated third party settlement receivable at December 31, 2014 and 2013 was $ 759,039 and $ 2,433,152, respectively.

Masonic Villages recognizes resident service revenue associated with services provided to residents who have third party coverage on the basis of contractual rates for the services rendered. For uninsured private pay residents that qualify for charity care, Masonic Villages recognizes revenue on the basis of its standard rates for services provided, reduced by the estimated portion of the standard rate the resident is unable to pay. The estimated portion of the standard rate the resident is unable to pay is recognized as a charity care allowance. For uninsured private pay residents that do not qualify for charity care, Masonic Villages recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a portion of Masonic Villages' uninsured private pay residents that do not qualify for charity care will be unable or unwilling to pay for the services provided. Masonic Villages records a provision for bad debts related to these uninsured private pay residents in the period the services are provided.

Masonic Villages' major payor sources consist of the Medicaid and Medicare programs, other third party payors (primarily commercial insurance and managed care organizations), and private pay individuals. Resident service revenue, net of contractual and charity care allowances provided (but before the provision for bad debts), recognized in the consolidated statements of operations for the years ended December 31, 2014 and 2013 from these major payor sources is as follows:

	2014			
	Medicare and Medicaid	Other Third Party Payors	Private Pay	Total
Gross resident service revenue	$ 48,095,286	$ 20,533,777	$ 95,977,510	$ 164,606,573
Less provisions for:				
Contractual adjustments under third party reimbursement programs	14,829,339	11,065,759	-	25,895,098
Charity care allowances	-	-	10,418,188	10,418,188
Net resident service revenue, before provision for bad debts	$ 33,265,947	$ 9,468,018	$ 85,559,322	$ 128,293,287

NOTE 17: Resident Service Revenue – Continued

	2013			
	Medicare and Medicaid	Other Third Party Payors	Private Pay	Total
Gross resident service revenue	$ 43,993,352	$ 19,057,724	$ 93,480,466	$ 156,531,542
Less provisions for:				
Contractual adjustments under third party reimbursement programs	12,239,308	9,831,307	-	22,070,615
Employee health care/wellness	-	-	52	52
Charity care allowances	-	-	10,209,815	10,209,815
Net resident service revenue, before provision for bad debts	$ 31,754,044	$ 9,226,417	$ 83,270,599	$ 124,251,060

NOTE 18: Charity Care and Community Service

Masonic Villages' mission has been to provide services to residents, regardless of their ability to pay, who have medical, social, or financial need.

Masonic Villages provides services to adult individuals who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Criteria considered in Masonic Villages' charity care policy include the income and net worth of the adult individuals applying for charity care. Adult individuals applying for charity care must also be determined to be ineligible for reimbursement from applicable government programs for the services to be provided. Charity care may be provided to qualifying adult individuals for Personal Care, Retirement Living, Residential Care, and certain medical and nonmedical ancillary services. All services provided in the Children's Home are provided as charity care.

Masonic Villages maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges forgone based on established rates for the services and supplies furnished under its charity care policy. Charges forgone for charity care are excluded from net resident service revenue recorded by Masonic Villages. The cost to provide charity care is estimated on an annual basis for each service area providing charity care. Estimated charity care costs for an individual service area are determined by multiplying the individual service area's forgone charges by the ratio of the individual service area's direct and allocated indirect expenses to its gross charges. Masonic Villages' aggregate estimated cost of providing charity care is the sum of the charity care costs calculated for the individual service areas.

Charges forgone for charity care and the estimated costs of providing charity care for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Charges forgone	$ 10,418,188	$ 10,209,867
Estimated cost to provide charity care	$ 8,923,072	$ 8,839,968

Masonic Villages has received contributions restricted for the care and support of Retirement Living residents eligible for charity care. These contributions are recorded as temporarily restricted net assets and periodically released from restriction to subsidize charges forgone to provide charity care to Retirement Living residents. Net assets released from donor restriction to subsidize charity care provided to Retirement Living residents totaled $ 520,171 and $ 56,256 for the years ended December 31, 2014 and 2013, respectively.

Masonic Villages also participates in the Medicare and Medical Assistance programs which make payment for services provided to financially eligible residents at rates which are less than the cost of such services. Management estimates the unpaid costs of these programs are approximately $ 8,040,000 and $ 8,087,000 in 2014 and 2013, respectively.

Masonic Villages conducts two programs that benefit people not residing at the Elizabethtown campus. The Home Assistance program (Home Assistance) provides financial resources and other services to Pennsylvania Masons and their families in need. Home Assistance is provided in two forms: charity care and temporary assistance. The cost of providing Home Assistance totaled $ 43,209 and $ 37,109 for the years ended December 31, 2014 and 2013, respectively. Masonic Villages has also established an Outreach program (Outreach) to assist individuals in their communities. People contacting Outreach receive information about various aspects of long-term care, including government programs available, selecting a long-term care facility, insurance, transportation, and counseling. The cost of Outreach totaled $ 1,843 and $ 1,514 for the years ended December 31, 2014 and 2013, respectively.

During 2014 and 2013, Masonic Villages permitted its meeting and conference facilities to be used by several not-for-profit organizations, including the Pennsylvania Masonic Youth Foundation and the Elizabethtown Area School District. Masonic Villages received no rental fees for the use of the meeting and conference facilities. The cost of providing this service to these organizations totaled approximately $ 208,000 and $ 192,000 for the years ended December 31, 2014 and 2013, respectively.

Masonic Villages made contributions of cash, promises to give, and in-kind services to not-for-profit organizations in the communities it serves. For the years ended December 31, 2014 and 2013, these contributions totaled $ 108,254 and $ 102,831, respectively. Masonic Villages also awarded scholarships to several individuals. Individuals receiving scholarships included graduating high school students based on academic achievement, financial need, and community service. Scholarships for child day care services were awarded for pre-school age children whose families met certain financial need criteria as specified in the Pennsylvania Educational Improvement Tax Credit program. Scholarship payments totaled $ 83,300 and $ 110,861 for the years ended December 31, 2014 and 2013.

NOTE 19: Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a natural basis in the consolidated statements of operations. The following table summarizes operating expenses on a functional basis for the years ended December 31, 2014 and 2013.

	2014	2013
Program Services:		
Nursing Care	$ 55,558,142	$ 52,877,113
Medical Ancillary Clinics	5,928,934	5,467,212
Pharmacy	4,666,823	4,226,038
Personal Care	8,368,758	8,323,699
Retirement Living	40,734,424	40,185,385
Children's Home	2,036,812	2,081,387
Adult Daily Living Center	290,176	294,750
Residential Care Program	273,958	274,743
Hospice	2,119,532	1,814,693
Wellness Center	949,850	949,401
Home Care Services	679,718	680,364
Community Services	185,311	194,449
Child Day Care Center	2,050,291	1,943,402
Conference Facilities	2,496,450	2,451,150
Contributions to Affiliates	2,639,371	2,408,997
Employee Housing and Rental Property	1,271,305	1,087,847
Farm	1,313,687	1,428,892
Communications Services	572,196	564,968
Admissions and Resident Services	1,922,235	1,927,662
Support Services	4,029,318	4,033,848
Maintenance	7,773,620	7,789,897
Food Services	5,276,164	5,171,326
Total program services expense	151,137,075	146,177,223
Management and general - Administration	18,132,070	16,851,798
Fundraising - Gift Planning	991,173	1,541,316
	$ 170,260,318	$ 164,570,337

NOTE 20: Transactions with Affiliated Organizations

Contributions from Affiliated Organizations

Masonic Villages receives contributions from certain Grand Lodge permanently restricted net assets. The contributions are made from trusts established by the donors to benefit needy Masons, widows, and children. Contributions were received by Masonic Villages from the following trusts for the years ended December 31, 2014 and 2013:

	2014	2013
Thomas Ranken Patton Contingency Fund	$ 605,253	$ 614,817
Thomas Ranken Patton Masonic Institution for Boys	72,929	73,725
Thomas Ranken Patton Memorial Charity Fund	437,640	438,000
Henry C. and Anna C. Ellis Trust	19,534	13,763
Joseph W. Murray Memorial Fund	15,220	15,386
Gertrude M. Flack Scholarship Fund	-	55,756
Nelson Herst Scholarship Fund	-	55,756
Charles W. Jackson McClary Memorial Fund #1	8,235	-
	$ 1,158,811	$ 1,267,203

The Pennsylvania Masonic Youth Foundation contributed $ 21,399 and $ 13,100 to Masonic Villages for the years ended December 31, 2014 and 2013, respectively. These contributions represent the proceeds from contributions received by the Pennsylvania Masonic Youth Foundation restricted for the purchase of furniture for the conference facilities used by the Pennsylvania Masonic Youth Foundation and owned by Masonic Villages. Masonic Villages purchased the furniture as part of a remodeling project for the conference facilities. Since Masonic Villages incurred the cost to purchase the assets identified by the donor, the Pennsylvania Masonic Youth Foundation elected to reimburse Masonic Villages with the proceeds from the contributions, thereby fulfilling the donor's request.

These contributions from Grand Lodge and the Pennsylvania Masonic Youth Foundation are included in non-operating gains for the years ended December 31, 2014 and 2013.

Contributions to Affiliated Organizations

Masonic Villages made contributions to the following related 501(c)(3) charitable organizations

	2014	2013
Pennsylvania Masonic Youth Foundation	$ 513,984	$ 502,034
The Masonic Library and Museum of Pennsylvania	2,124,960	1,906,559
	$ 2,638,944	$ 2,408,593

These contributions consisted of cash, the use of Masonic Villages' facilities, and donated services provided by Masonic Villages' employees. These annual contributions to the Pennsylvania Masonic Youth Foundation and the operation of the Children's Home support Masonic Villages' mission to improve the welfare of children.

Masonic Villages made contributions totaling $ 2,124,960 to The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) for the year ended December 31, 2014. These contributions consisted of cash payments of $ 2,113,387 and donated services provided by Masonic Villages' employees with a cost of $ 11,573.

Masonic Villages made contributions totaling $ 1,906,559 to The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) for the year ended December 31, 2013. These contributions consisted of cash payments of $ 1,893,611 and donated services provided by Masonic Villages' employees with a cost of $ 12,948.

Administrative and Program Service Expenses

For the years ended December 31, 2014 and 2013, Masonic Villages' employees provided human resources, accounting, and information technology services to Grand Lodge under an expense reimbursement arrangement with Masonic Villages. Masonic Villages' costs for these services allocated to Grand Lodge for the years ended December 31, 2014 and 2013 were $ 10,943 and $ 11,957, respectively. Reimbursement received for these costs is included in other operating revenue on the consolidated statements of operations.

During the years ended December 31, 2014 and 2013, Masonic Villages' employees provided human resources, accounting, fundraising, and information technology services to the Masonic Library and Museum under a contribution arrangement with Masonic Villages. Masonic Villages' costs for these services contributed to the Masonic Library and Museum totaled $ 11,573 and $ 12,948 for 2014 and 2013, respectively, and are included in operating expenses on the consolidated statements of operations.

Masonic Villages' employees also provided accounting, fundraising, and information technology services to the Pennsylvania Masonic Youth Foundation under a contribution arrangement with Masonic Villages. Masonic Villages' costs for these services contributed to the Pennsylvania Masonic Youth Foundation for the years ended December 31, 2014 and 2013 were $ 21,044 and $ 16,335, respectively. These costs are included in operating expenses on the consolidated statements of operations.

During 2014 and 2013, Masonic Villages' employees provided fundraising services to the Masonic Charities Fund under an expense reimbursement arrangement with Masonic Villages. Masonic Villages' cost for these services allocated to the Masonic Charities Fund for the years ended December 31, 2014 and 2013 were $ 56,978 and $ 57,151, respectively, and are included in other operating revenue on the consolidated statements of operations.

For the years ended December 31, 2014 and 2013, Masonic Villages' employees provided administrative and program services to the Pennsylvania Masonic Youth Foundation. Masonic Villages' costs for these services contributed to the Pennsylvania Masonic Youth Foundation for the years ended December 31, 2014 and 2013 were $ 359,247 and $ 361,503, respectively. These costs are included in operating expenses on the consolidated statements of operations.

Use of Facilities

The Pennsylvania Masonic Youth Foundation conducts most of its activities at conference facilities owned by Masonic Villages. The use of these conference facilities was provided to the Pennsylvania Masonic Youth Foundation under a contribution arrangement with Masonic Villages. Masonic Villages' costs for the use of the conference facilities contributed to the Pennsylvania Masonic Youth Foundation for the years ended December 31, 2014 and 2013 were $ 130,390 and $ 120,419, respectively. These costs are included in operating expenses on the consolidated statements of operations.

NOTE 21: Split-Interest Agreements

Masonic Villages has entered into several split-interest agreements with donors. These split-interest agreements include charitable gift annuities, charitable remainder unitrusts, charitable lead trusts, and perpetual trusts held by third parties. Under split-interest agreements, a donor makes an initial gift to a trust or directly to Masonic Villages in which Masonic Villages has a beneficial interest. Donated assets are maintained by a trust or Masonic Villages and distributions are made to a beneficiary or beneficiaries during the term of the agreement. At the end of the agreement's term, any remaining assets covered by the agreement are distributed to Masonic Villages.

Assets received under split-interest agreements are recorded at the fair value of the assets on the date received. Liabilities to beneficiaries are recorded at the net present value of expected payments based upon the amount of the contribution, any contractual rate of return, and the life expectancy of the beneficiary. Contribution revenue is classified as either unrestricted or temporarily restricted based on the existence of any donor imposed conditions in the split-interest agreement.

As of December 31, 2014 and 2013, the fair value of assets recognized under split-interest agreements by Masonic Villages, consisting principally of cash and investments, was as follows:

	2014	2013
Perpetual trusts held by third parties	$ 45,402,740	$ 45,255,599
Charitable gift annuities	42,555,818	13,247,441
Charitable remainder unitrusts	614,063	648,665
	$ 88,572,621	$ 59,151,705

Contribution revenues recognized by Masonic Villages under split-interest agreements for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Unrestricted -		
Charitable gift annuities	$ 3,486,206	$ 290,241
Permanently restricted -		
Perpetual trusts held by third parties	-	145,227
Total unrestricted and restricted	$ 3,486,206	$ 435,468

Masonic Villages is an income beneficiary of several perpetual trusts held by third parties. Distributions of income are made at the discretion of the trustees. Income distributed to the Masonic Villages by perpetual trusts held by third parties amounted to $ 1,789,799 and $ 1,716,865 for the years ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2014, Masonic Villages entered into a single-life charitable gift annuity agreement with a donor in which the donor specified that his designee had the power to direct the disposition of 90% of the residual assets at the conclusion of the annuity to qualified charitable organizations. Masonic Villages will be the recipient of the remaining 10% of the residual assets. The present value of the estimated 90% of the residual assets subject to the power of appointment at the conclusion of the annuity totaled $ 13,786,134 as of December 31, 2014. This amount is recognized as a charitable remainder payable to others on the consolidated balance sheet.

NOTE 22: Loss on Impairment of Asset

During the year ended December 31, 2013, Masonic Villages recognized a loss on the impairment of a deferred asset totaling $ 573,810. This amount represented accumulated architect and engineering fees for several prospective building designs for the Lafayette Hill campus that had been recorded as a deferred asset prior to 2013. These costs were incurred from 2005 through 2012 as different concepts were considered for expansion of the Lafayette Hill campus' capacity for retirement living services. In 2013, a design for a 60-unit building was selected. Once this decision was made, all costs for design work that would not apply to the new building and had been recorded as a deferred asset were considered impaired. Accordingly, these accumulated architect and engineering fees were recognized as a nonoperating loss for the year ended December 31, 2013.

NOTE 23: Fair Value Measurements

Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

Level 1 – Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states, and political subdivisions and certain corporate, asset backed securities, swap agreements, and internally developed values with little uncertainty.

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement including the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and internally developed values with significant uncertainty.

NOTE 23: Fair Value Measurements – Continued

As described in Note 6, Masonic Villages' most significant investment is its share of the Consolidated Fund. The fair values of the Consolidated Fund's assets measured on a recurring basis as of December 31, 2014 and 2013 are as follows:

At December 31, 2014	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	$ 63,521,299	$ 63,403,566	$ 117,733	$ -
Energy	10,058,824	10,058,824	-	-
Financial	31,764,575	31,764,575	-	-
Health care	7,371,090	7,371,090	-	-
Industrials	54,152,041	54,049,646	102,395	-
Information technology	8,629,448	8,512,589	116,859	-
Materials	16,151,168	16,151,168	-	-
Transportation	8,773,579	8,773,579	-	-
Telecommunications services	6,462,238	6,462,238	-	-
Total domestic and international common stocks	206,884,262	206,547,275	336,987	-
U.S. Government securities	11,399,188	-	11,399,188	-
Domestic corporate bonds:				
Aa credit rating	3,208,160	-	3,208,160	-
A credit rating	5,212,629	-	5,212,629	-
Bb credit rating	568,445	-	568,445	-
Bbb credit rating	10,136,485	-	10,136,485	-
Unrated	65,509,270	-	65,509,270	-
Total domestic corporate bonds	84,634,989	-	84,634,989	-
Municipal bonds:				
Unrated	9,182,318	-	9,182,318	-
Total municipal bonds	9,182,318	-	9,182,318	-
Mutual funds - Equity securities	220,246,472	168,370,191	51,876,281	-
Exchange traded funds	82,780,102	82,780,102	-	-
Limited partnership - International	683,575	-	-	683,575
Mortgage backed securities	19,604,513	-	19,604,513	-
Asset backed securities	23,026,022	-	23,026,022	-
Demand notes	632,944	-	632,944	-
Real estate investment trusts	559,289	559,289	-	-
Money Market funds	22,979,708	-	22,979,708	-
	$ 682,613,382	$ 458,256,857	$ 223,672,950	$ 683,575

NOTE 23: Fair Value Measurements – Continued

At December 31, 2013	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	$ 54,577,801	$ 54,577,801	$ -	$ -
Energy	9,847,293	9,847,293	-	-
Financial	32,013,002	32,013,002	-	-
Health care	5,812,706	5,812,706	-	-
Industrials	45,206,266	45,206,266	-	-
Information technology	7,710,437	7,704,276	6,161	-
Materials	14,808,635	14,808,635	-	-
Transportation	7,065,746	7,065,746	-	-
Telecommunications services	11,631,181	11,631,181	-	-
Utilities	3,493,724	3,493,724	-	-
Total domestic and international common stocks	192,166,791	192,160,630	6,161	-
U.S. Government securities	9,896,008	-	9,896,008	-
Domestic corporate bonds:				
Aa credit rating	6,069,765	-	6,069,765	-
A credit rating	16,299,988	-	16,299,988	-
B credit rating	889,995	-	889,995	-
Bb credit rating	935,592	-	935,592	-
Bbb credit rating	14,930,129	-	14,930,129	-
Unrated	53,050,585	-	53,050,585	-
Total domestic corporate bonds	92,176,054	-	92,176,054	-
Municipal bonds:				
Unrated	7,739,987	-	7,739,987	-
Total municipal bonds	7,739,987	-	7,739,987	-
Mutual funds - Equity securities	193,760,717	164,314,594	29,446,123	-
Collective investment fund - Hedge funds	348,532	-	-	348,532
Exchange traded funds	88,587,920	88,587,920	-	-
Limited partnership - International	790,138	-	-	790,138
Mortgage backed securities	23,161,223	-	23,161,223	-
Asset backed securities	25,888,944	-	25,888,944	-
Demand notes	632,554	-	632,554	-
Real estate investment trusts	717,485	717,485	-	-
Money Market funds	32,712,148	-	32,712,148	-
	$ 668,578,501	$ 445,780,629	$ 221,659,202	$ 1,138,670

NOTE 23: Fair Value Measurements – Continued

The Consolidated Fund has investments in certain financial instruments whose fair values are determined using significant unobservable inputs. This feature may limit the ability of the Consolidated Fund to liquidate these financial instruments quickly if necessary. Financial instruments whose fair values are determined using significant unobservable inputs and their redemption features are as follows as of December 31, 2014 and 2013:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
At December 31, 2014				
Limited partnership - International	$ 683,575	$ -	Quarterly	45 Days
	$ 683,575	$ -		

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
At December 31, 2013				
Collective investment fund - Hedge fund	$ 348,532	$ -	Quarterly	45 Days
Limited partnership - International	790,138	-	Quarterly	45 Days
	$ 1,138,670	$ -		

The redemption restrictions for these financial instruments are included in the contracts with the investment management firms responsible for these investments. The Consolidated Fund started the process of completely redeeming its collective investment fund – hedge funds in early 2009. The Consolidated Fund expects liquidations of special investment funds created from the redemption process will occur over the next several years at the fair value reported as of December 31, 2014.

Changes in the Consolidated Fund's investments in financial instruments whose fair values are determined using significant unobservable inputs were as follows for the years ended December 31, 2014 and 2013:

	Total	Collective Investment Fund - Hedge Funds	Limited Partnership - International
Fair value at January 1, 2013	$ 24,907,866	$ 348,532	$ 24,559,334
Realized gains	7,408,135	-	7,408,135
Unrealized losses	(5,940,452)	-	(5,940,452)
Sales	(25,236,879)	-	(25,236,879)
Fair value at December 31, 2013	1,138,670	348,532	790,138
Realized gains (losses)	23,010	(23,465)	46,475
Unrealized gains	69,613	26,697	42,916
Sales	(547,718)	(351,764)	(195,954)
Fair value at December 31, 2014	$ 683,575	$ -	$ 683,575

NOTE 23: Fair Value Measurements – Continued

As described in Note 6, Masonic Villages established a separate investment portfolio during the year ended December 31, 2014 as part of a charitable gift annuity agreement with a donor. The fair values of this separate investment portfolio's assets measured on a recurring basis as of December 31, 2014 are as follows:

	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	$ 4,740,219	$ -	$ 4,740,219	$ -
Asset-backed securities	3,247,986	-	3,247,986	-
Mutual funds - Fixed income	2,736,682	2,736,682	-	-
U.S. Treasury and agency securities	2,619,335	-	2,619,335	-
Equity exchange traded funds	4,508,536	4,508,536	-	-
Mutual funds - Equity	316,614	316,614	-	-
Money market funds	10,968,164	-	10,968,164	-
	$ 29,137,536	$ 7,561,832	$ 21,575,704	$ -

The fair values of Masonic Villages' assets are measured using different techniques. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values of perpetual trusts held by third parties are measured by applying known beneficiary percentages to the fair values of the trust's assets which consists of a combination of actively traded securities and other securities which are valued using significant other observable inputs. When unable to obtain a fair value for a perpetual trust, the fair value is estimated by calculating the present value of income received from the trust under a reasonable rate of return percentage. Fair value for the contribution receivable from a beneficial interest in a charitable lead annuity trust is determined by calculating the present value of the annuity using published life expectancy tables and a 4.25% discount rate. Fair values for the contributions receivable from beneficial interests in several charitable remainder unitrusts are determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and discount rates ranging from 6.50% to 7.00%. Fair values for unconditional promises to give are determined by calculating the present value of the future cash flows expected to be received, using the stated terms of the promises to give and discount rates ranging from 1.84% to 3.83%.

NOTE 23: Fair Value Measurements – Continued

The fair values of assets measured on a recurring basis as of December 31, 2014 and 2013 are as follows:

	Fair Value	Quote Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2014				
Investments (excluding Consolidated Fund)				
Money Market Funds	$ 9,874,282	$ 9,874,282	$ -	$ -
Other investments	29,239,703	7,663,999	21,575,704	-
Real Estate	396,034	-	396,034	-
Equity Funds	458,557	458,557	-	-
Common Trust Funds	436,500	-	436,500	-
Perpetual Trusts Held by Third Parties	45,402,740	-	45,402,740	-
Contributions receivable - Charitable lead annuity trusts	362,918	-	362,918	-
Contributions receivable - Promises to give	50,274	-	-	50,274
	$ 86,221,008	$ 17,996,838	$ 68,173,896	$ 50,274
At December 31, 2013				
Investments (excluding Consolidated Fund)				
Money Market Funds	$ 9,267,764	$ 9,267,764	$ -	$ -
Other investments	609,095	609,095	-	-
Real Estate	267,000	-	267,000	-
Equity Funds	354,985	354,985	-	-
Common Trust Funds	456,318	-	456,318	-
Perpetual Trusts Held by Third Parties	45,255,599	-	45,255,599	-
Contributions receivable - Charitable lead annuity trusts	390,329	-	390,329	-
Contributions receivable - Charitable remainder unitrusts	88,592	-	-	88,592
	$ 56,689,682	$ 10,231,844	$ 46,369,246	$ 88,592

The changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Fair value as of January 1	$ 88,592	$ 125,343
Cash payments received	(39,900)	(39,000)
Actuarial adjustment of fair value based on remaining terms of promises to give and risk-free interest rates	1,582	2,249
Fair value as of December 31	$ 50,274	$ 88,592

The fair values of Masonic Villages' liabilities are measured using different techniques. Fair values for annuities payable resulting from charitable gift annuity agreements and charitable remainder unitrust agreements with donors are determined by calculating the present value of the annuity using published life expectancy tables and the contractual discount rates. Fair values for interest rate swap agreements are determined based on the terms of each agreement and proprietary valuation techniques of Wells Fargo Bank, NA, which consider the present value of estimated expected future cash flows.

NOTE 23: Fair Value Measurements – Continued

The fair values of liabilities measured on a recurring basis as of December 31, 2014 and 2013 are as follows:

	Fair Value	Quote Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2014				
Annuities payable	$ 20,858,413	$ -	$ 20,858,413	$ -
Contributions payable	13,786,134	-	13,786,134	-
Interest rate swap agreements	27,269,755	-	27,269,755	-
	$ 61,914,302	$ -	$ 61,914,302	$ -
At December 31, 2013				
Annuities payable	$ 7,348,922	$ -	$ 7,348,922	$ -
Interest rate swap agreements	22,908,000	-	22,908,000	-
	$ 30,256,922	$ -	$ 30,256,922	$ -

NOTE 24: Minimum Liquid Reserve Requirement

Masonic Villages is licensed as a continuing care provider by the Commonwealth of Pennsylvania's Insurance Department (Insurance Department). In accordance with this licensure, Masonic Villages must establish and maintain certain minimum liquid reserves. Masonic Villages' minimum liquid reserve amount equals the greater of the next twelve months long-term debt service (Debt Service Method) or 10% of the operating expenses excluding depreciation (Operating Expense Method). Masonic Villages' governing body, the Board of Directors, has designated a portion of the Masonic Villages Reserve Fund to satisfy this minimum liquid reserve requirement. On October 31, 1996, the Insurance Department approved this approach to compliance with the minimum reserve requirement. The minimum required reserve amounts calculated under the two methods were as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Operating Expense Method		
Operating expenses	$ 170,260,318	$ 164,570,337
Less: Depreciation expense	19,406,456	17,797,229
Cash expenses for minimum liquid reserve	150,853,862	146,773,108
Percentage of cash expenses to be held in reserve	10%	10%
Minimum liquid reserve requirement under Operating Expense Method	$ 15,085,386	$ 14,677,311
Debt Service Method		
Interest expense	$ 6,258,463	$ 6,232,555
Principal payments	8,675,000	7,125,000
Minimum liquid reserve requirement under Debt Service Method	$ 14,933,463	$ 13,357,555

NOTE 24: Minimum Liquid Reserve Requirement-Continued

The fair value of the Masonic Villages Reserve Fund at December 31, 2014 and 2013 totaled $ 199,124,448 and $ 202,374,239, respectively. Masonic Villages met the minimum liquid reserve required by the Insurance Department for the years ended December 31, 2014 and 2013.

NOTE 25: Subsequent Events

Masonic Villages has evaluated events and transactions subsequent to December 31, 2014 through April 27 2015, the date these financial statements were issued. Based on the definitions and requirements of generally accepted accounting principles, Masonic Villages has identified the following events that have occurred subsequent to December 31, 2014 and through April 27, 2015, that require recognition or disclosure in the financial statements:

On February 12, 2015, the Lancaster County Hospital Authority issued Fixed Rate Health Center Revenue Bonds (Masonic Villages Project), Series 2015 (2015 Bonds) for $ 44,195,000, plus a premium above the principal amount of $ 5,350,009. The proceeds of the 2015 Bonds and the premium were used to advance refund the outstanding principal of the Series of 2006 Bonds (2006 Bonds) and refund the 2008 Bonds (Series C), and to pay the cost of terminating the interest rate swap agreement corresponding to the principal repayment schedule of the 2008 Bonds (Series C). Some proceeds of the 2015 Bonds were also used to pay the issuance costs of the 2015 Bonds.

The refunding transaction will reduce Masonic Villages' aggregate debt service payments by approximately $ 6,456,000 through November 2036. Masonic Villages will recognize an economic gain or present value savings of approximately $ 3,933,000 over the life of the 2015 Bonds. The aggregate accounting loss on the refunding of the 2006 Bonds and 2008 Bonds (Series C) of $ 2,526,525 will be recorded as an operating expense of Masonic Villages for the year ending December 31, 2015.

NOTE 26: Commitments and Contingencies

Masonic Villages has signed contracts for various construction projects approximating $ 78,715,000. Approximately $ 65,565,000 has been paid or accrued on these contracts as of December 31, 2014.

Masonic Villages is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Masonic Villages' financial position.

During the year ended December 31, 2008, Masonic Villages negotiated an agreement with the Elizabethtown Area School District (School District), Elizabethtown Borough (Borough), West Donegal Township (Township), and Lancaster County (County) for annual payments in lieu of taxes for all properties located at the Elizabethtown campus. This agreement became effective in 2008 and will expire on June 30, 2029. The agreement includes a specific annual payment schedule for lieu of tax payments to the School District, the Borough, the Township, and the County for the 20-year term of the agreement. The agreement also contains provisions for an annual contribution of $ 15,000 from Masonic Villages to the School District's Education Foundation. Masonic Villages will also annually fund up to six $ 2,500 college scholarships for qualified students from the School District. Masonic Villages paid $ 1,250,306 and $ 1,243,225, respectively, in lieu of tax payments under this agreement for the years ended December 31, 2014 and 2013. For the year ending December 31, 2015, Masonic Villages' commitment under the agreement is approximately $ 1,260,000.

During the year ended December 31, 2004, Masonic Villages negotiated an agreement with Aleppo Township (Aleppo), the Quaker Valley School District (Quaker Valley), and the County of Allegheny (Allegheny) for annual payments in lieu of taxes for certain tax-exempt properties at the Sewickley campus. This agreement became effective in 2004 and will expire December 31, 2024. The agreement includes a specific annual payment schedule for lieu of tax payments to Aleppo, Quaker Valley, and Allegheny for the 21-year term of the agreement. The agreement also includes provisions for an annual contribution from Masonic Villages to the Sewickley Public Library. Masonic Villages is also required to fund annually a minimum amount for college scholarships for Quaker Valley students. Masonic Villages paid $ 792,272 and $ 780,631, respectively, under this agreement for the years ended December 31, 2014 and 2013. For the year ending December 31, 2015 Masonic Villages' commitment under the agreement is approximately $ 802,000.

Masonic Villages' Lafayette Hill campus has two agreements with Whitemarsh Township (Whitemarsh) for annual payments in lieu of taxes for the tax-exempt Masonic Villages property. The first agreement, for gross receipts tax, requires a minimum annual payment to Whitemarsh of $ 10,000, adjusted for an inflation factor based on the Consumer Price Index for the Philadelphia region. The second agreement, for real estate taxes, requires an annual payment to Whitemarsh based on the assessed value of the Lafayette Hill campus and Whitemarsh's current millage rate. Masonic Villages paid Whitemarsh $ 45,612 and $ 45,456 under these two agreements for the years ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2012, Masonic Villages negotiated an agreement with Dallas Township, Dallas Area School District, and Luzerne County for annual payments in lieu of taxes for certain tax-exempt properties at the Dallas campus. This agreement became effective retroactive to 2011 and will expire December 31, 2030. The agreement includes a specific payment schedule for lieu of tax payments to Dallas Township, Dallas Area School District, and Luzerne County for the 20-year term of the agreement. The agreement also includes provisions for an annual contribution from Masonic Villages to Dallas Township to support the local fire and ambulance organizations. Masonic Villages paid $ 34,087 under this agreement for the years ended December 31, 2014 and 2013. For the year ending December 31, 2015, Masonic Villages' commitment under the agreement is approximately $ 34,000.

Masonic Villages entered into an agreement to invest the debt service reserve fund for the 2006 Bonds in November 2006. This agreement is a Debt Service Reserve Guaranteed Investment Contract with Bank of America, NA. This agreement requires Masonic Villages to invest $ 2,524,015, which is on deposit in the 2006 Bonds' Debt Service Reserve Fund, with Bank of America, NA. The money invested pursuant to this agreement earns interest at a rate of 5.23% through the maturity of the contract on November 1, 2036. The investments that collateralize the debt service reserve fund are held in custody of US Bank for the benefit of Masonic Villages, beginning on January 9, 2012. This agreement was terminated in February 2015 as part of the transaction described in Note 25.

On February 28, 1997, Masonic Villages entered an Agreement of Remediation (Agreement) with Waste Management Disposal Services of Pennsylvania, Inc. (Waste Management). The Agreement concerns remediation of an inactive landfill site adjacent to the Elizabethtown campus. A secondary well was contaminated with manganese believed to have been caused by the inactive landfill site. Under the Agreement, Waste Management will pay Masonic Villages a total of $ 300,000 for costs to be incurred by Masonic Villages during the remediation process. It is anticipated the remediation process may require thirty years to complete. In April 1997, Masonic Villages received a payment totaling $ 150,000 to be used for costs incurred during the first fifteen years of the remediation process. This payment has been recorded as deferred revenue and is amortized, using the straight-line method, as a reduction of the related operating expenses incurred by Masonic Villages. An additional payment of $ 75,000 was received by Masonic Villages in 1998, to be used for costs incurred during the second fifteen years of the remediation process. Waste Management also agreed to reimburse Masonic Villages for the cost of drilling a new well. Two new wells were installed in 2000 to replace the existing water supply and the costs associated with installation were reimbursed by Waste Management.

NOTE 27: Risk

Financial instruments which subject the Masonic Villages to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments (i.e. certificates of deposit), fixed income securities, common stocks, and resident accounts receivable.

Masonic Villages typically maintains cash and cash equivalents which, at times, exceed $ 250,000, in banks. Cash and cash equivalents and certain short-term investments are insured by the Federal Deposit Insurance Corporation up to a limit of $ 250,000 per bank. Fixed income securities and common stocks are uninsured.

Masonic Villages grants credit to its residents and other third-party payors, primarily Medicare, Medical Assistance, and various commercial insurance companies. Masonic Villages maintains reserves for potential credit losses and such losses have historically been within management's expectations.

Masonic Villages' investments are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

NOTE 28: Other Matters

On January 1, 2013, Masonic Homes transferred all of its operations, assets and liabilities to Masonic Villages, a separate not-for-profit corporation. Grand Lodge is the sole member of this not-for-profit corporation. Masonic Villages will continue to operate Masonic Homes' services under the not-for-profit corporation. Masonic Villages incurred costs related to the incorporation during the year ended December 31, 2013 totaling $ 49,131. These costs consisted primarily of legal expenses ($ 22,152), licensing fees ($ 3,023), and outside services to change signage ($ 23,956). These costs are included in purchased services in the statement of operations for the year ended December 31, 2013.

NOTE 29: Reclassifications

Certain items in the 2013 financial statements have been reclassified to conform to the 2014 presentation.