

Audited  
Financial  
Statements

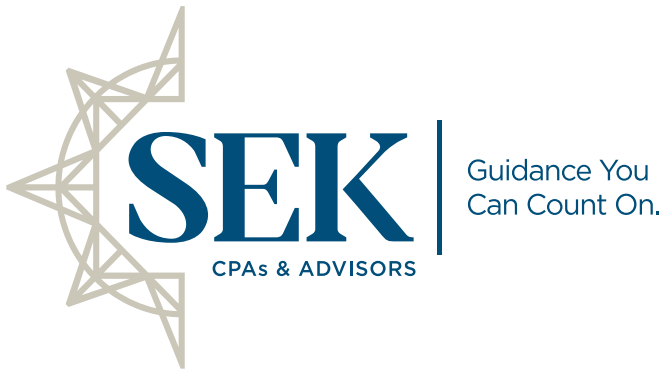
December 31,  
2019

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**MASONIC VILLAGES  
OF THE GRAND LODGE  
OF PENNSYLVANIA**

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## ***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 Masonic Villages of the Grand Lodge of Pennsylvania (a not-for-profit organization) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, functional expenses, 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 \$ 13,615,615 and \$ 11,623,415 as of December 31, 2019 and 2018, respectively, and total revenues of \$ 2,132,609 and \$ 993,186, 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 Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries as of December 31, 2019 and 2018, 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.

### **Adoption of New Accounting Standards**

As discussed in Note 2 to the consolidated financial statements, the Organization adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) related to lease accounting and contributions received and contributions made. Our opinion is not modified with respect to these matters.

*Smith Elliott Kearn & Company, LLC.*

Carlisle, Pennsylvania  
April 24, 2020

**MASONIC VILLAGES OF THE  
GRAND LODGE OF PENNSYLVANIA  
CONSOLIDATED BALANCE SHEETS**

**December 31, 2019 and 2018**

ASSETS	<u>2019</u>	<u>2018</u>	LIABILITIES AND NET ASSETS	<u>2019</u>	<u>2018</u>
Current Assets:			Current Liabilities:		
Cash and cash equivalents (Note 4)	\$ 26,555,620	\$ 24,322,470	Current installments of long-term debt (Note 13)	\$ 8,830,000	\$ 10,575,000
Assets whose use is limited and that are required for current liabilities (Note 9)	2,752,206	2,671,517	Accrued expenses	16,043,760	14,654,607
Resident accounts receivable, net of estimated uncollectibles of \$ 1,177,000 in 2019 and \$ 1,144,000 in 2018 (Note 5)	7,095,562	6,483,286	Accounts payable:		
Accounts receivable:			Trade	10,515,976	9,221,118
Pennsylvania Masonic Youth Foundation	2,065	11,107	Masonic Charities Fund	9,677	6,226
Grand Lodge	40,041	77,652	Deferred revenue from estates and trusts	42,803	37,265
The Masonic Library and Museum of Pennsylvania	9,249	4,279	Deposits - Residents	852,673	847,167
Investment income receivable	1,347,051	1,376,779	Deposits on unoccupied units	3,778,571	2,724,272
Estimated third party settlements receivable (Note 18)	1,608,327	2,002,828	Annuities payable	899,439	929,871
Inventory	2,562,995	2,396,540	Total current liabilities	<u>40,972,899</u>	<u>38,995,526</u>
Other current assets	3,064,145	2,642,429			
Notes receivable (Note 7)	1,120,801	2,092,695	Annuities payable, net of current portion	4,997,211	4,758,993
Contributions receivable (Note 6)	<u>164,904</u>	<u>107,544</u>	Deferred revenue from landfill settlement	-	7,500
Total current assets	<u>46,322,966</u>	<u>44,189,126</u>	Refundable fees	105,186,116	99,307,878
Contributions receivable, net of current portion (Note 6)	<u>307,345</u>	<u>292,789</u>	Deferred revenue from entrance fees	124,240,604	117,277,557
Minimum liquid reserve requirement (Notes 8, 24)	<u>19,183,284</u>	<u>17,972,053</u>	Interest rate swap agreements (Note 12)	18,018,008	15,908,986
Investments (Note 8)	<u>729,786,173</u>	<u>650,901,876</u>	Long-term debt, net (Note 13)	<u>168,600,453</u>	<u>177,826,444</u>
Note receivable - Grand Lodge (Note 21)	<u>542,846</u>	<u>542,846</u>	Total liabilities	<u>462,015,291</u>	<u>454,082,884</u>
Property and equipment, net (Note 10)	<u>410,998,690</u>	<u>389,590,367</u>			
Other Assets:			Net Assets		
Deferred costs, net (Note 11)	158,400	211,200	Without donor restrictions	417,057,331	361,108,627
Other long-term assets	<u>2,323</u>	<u>2,323</u>	With donor restrictions	<u>328,229,405</u>	<u>288,511,069</u>
Total other assets	<u>160,723</u>	<u>213,523</u>	Total net assets	<u>745,286,736</u>	<u>649,619,696</u>
Collections (Note 1)	<u>-</u>	<u>-</u>	Total liabilities and net assets	<u>\$ 1,207,302,027</u>	<u>\$ 1,103,702,580</u>
Total assets	<u>\$ 1,207,302,027</u>	<u>\$ 1,103,702,580</u>			

*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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Resident service revenue (Note 18)	\$ 154,818,744	\$ 147,397,335
Provision for bad debts	(456,524)	(340,425)
Net resident service revenue	<u>154,362,220</u>	<u>147,056,910</u>
Amortization of entrance fees	13,517,287	13,114,346
Other operating revenue	6,861,086	6,929,186
Investment income	<u>14,290,806</u>	<u>13,399,786</u>
Total operating revenues	<u>189,031,399</u>	<u>180,500,228</u>
Operating expenses:		
Wages, salaries, and benefits	114,549,810	110,861,964
Supplies	22,109,623	21,099,281
Purchased services	20,641,251	19,233,581
Energy and utilities	8,135,789	8,017,982
Depreciation and amortization	26,845,259	26,392,963
Interest	6,389,202	6,512,505
Other operating expenses	7,794,274	7,827,098
Cybersecurity incident remediation costs	685,121	-
Settlement loss on pension plan termination	-	21,162,377
Total operating expenses	<u>207,150,329</u>	<u>221,107,751</u>
Loss from operations before change in fair value of derivative financial instruments	<u>(18,118,930)</u>	<u>(40,607,523)</u>
Unrealized (depreciation) appreciation on interest rate swap agreements	<u>(2,109,022)</u>	<u>3,222,401</u>
Loss from operations	<u>(20,227,952)</u>	<u>(37,385,122)</u>
Nonoperating gains (losses):		
Contributions, gifts, and bequests	6,596,720	5,473,051
Contributions from Masonic Charities Fund	4,168	11,834
Contributions from Grand Lodge net assets with donor restrictions	845,037	1,365,784
Income from perpetual trusts held by third parties	2,190,382	1,730,427
Realized gains on sale of investments	16,242,962	25,365,492
Adjustment of actuarial liabilities of split-interest agreements	(467,359)	(229,930)
Loss on disposal of property and equipment	<u>(121,845)</u>	<u>(33,591)</u>
Total nonoperating gains	<u>25,290,065</u>	<u>33,683,067</u>
Excess (deficiency) of revenues and gains over expenses and losses	<u>5,062,113</u>	<u>(3,702,055)</u>
Net assets released from restrictions:		
Satisfaction of program restrictions - Operations	6,386,637	6,906,749
Satisfaction of program restrictions - Purchase of property and equipment	292,521	584,681
Total net assets released from restrictions	<u>6,679,158</u>	<u>7,491,430</u>
Change in pension liability (Note 17)	<u>-</u>	<u>18,945,047</u>
Net unrealized appreciation (depreciation) on investments	<u>44,207,433</u>	<u>(52,746,619)</u>
Increase (decrease) in net assets without restrictions	<u>\$ 55,948,704</u>	<u>\$ (30,012,197)</u>

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

**MASONIC VILLAGES OF THE  
GRAND LODGE OF PENNSYLVANIA  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
Years Ended December 31, 2019 and 2018**

	<b>2019</b>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Wages, salaries, and benefits	\$ 97,078,547	\$ 16,121,110	\$ 1,350,153	\$ 114,549,810
Supplies	21,820,747	253,973	34,903	22,109,623
Purchased services	13,495,294	6,921,325	224,632	20,641,251
Energy and utilities	7,772,062	357,639	6,088	8,135,789
Depreciation and amortization	25,459,980	1,384,421	858	26,845,259
Interest	6,161,053	228,149	-	6,389,202
Other operating expenses	7,643,555	4,619	146,100	7,794,274
Cybersecurity incident remediation costs	-	685,121	-	685,121
Total operating expenses	<u>\$ 179,431,238</u>	<u>\$ 25,956,357</u>	<u>\$ 1,762,734</u>	<u>\$ 207,150,329</u>

	<b>2018</b>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Wages, salaries, and benefits	\$ 94,757,045	\$ 14,819,757	\$ 1,285,162	\$ 110,861,964
Supplies	20,860,022	206,847	32,412	21,099,281
Purchased services	12,872,022	6,141,544	220,015	19,233,581
Energy and utilities	7,631,004	376,878	10,100	8,017,982
Depreciation and amortization	24,601,143	1,790,880	940	26,392,963
Interest	6,270,432	242,073	-	6,512,505
Other operating expenses	7,687,608	(8,793)	148,283	7,827,098
Settlement loss - Pension plan termination	18,403,295	2,508,698	250,384	21,162,377
Total operating expenses	<u>\$ 193,082,571</u>	<u>\$ 26,077,884</u>	<u>\$ 1,947,296</u>	<u>\$ 221,107,751</u>

*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, 2019 and 2018**

	<b>2019</b>			<b>2018</b>		
	<b>Total</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>
<b>Revenues and Gains:</b>						
Total operating revenues	\$ 189,031,399	\$ 189,031,399	\$ -	\$ 180,500,228	\$ 180,500,228	\$ -
Unrealized (depreciation) appreciation on interest rate swap agreements	(2,109,022)	(2,109,022)	-	3,222,401	3,222,401	-
Nonoperating investment income	173,215	-	173,215	180,202	-	180,202
Realized gains on sale of investments	26,287,888	16,242,962	10,044,926	41,964,113	25,365,492	16,598,621
Contributions, gifts, and bequests	8,813,659	6,596,720	2,216,939	8,753,122	5,473,051	3,280,071
Contribution from Masonic Charities Fund	4,168	4,168	-	11,834	11,834	-
Contributions from Grand Lodge net assets with donor restrictions	845,037	845,037	-	1,365,784	1,365,784	-
Income from perpetual trusts held by third parties	2,212,609	2,190,382	22,227	1,735,936	1,730,427	5,509
<b>Total revenues and gains</b>	<b>225,258,953</b>	<b>212,801,646</b>	<b>12,457,307</b>	<b>237,733,620</b>	<b>217,669,217</b>	<b>20,064,403</b>
<b>Expenses and Losses:</b>						
Operating expenses	207,150,329	207,150,329	-	221,107,751	221,107,751	-
Loss on disposal of property and equipment	121,845	121,845	-	33,591	33,591	-
Adjustment of actuarial liabilities of split-interest agreements	454,503	467,359	(12,856)	215,335	229,930	(14,595)
<b>Total expenses and losses</b>	<b>207,726,677</b>	<b>207,739,533</b>	<b>(12,856)</b>	<b>221,356,677</b>	<b>221,371,272</b>	<b>(14,595)</b>
 Excess (deficiency) of revenues and gains over expenses and losses	 17,532,276	 5,062,113	 12,470,163	 16,376,943	 (3,702,055)	 20,078,998
 Net assets released from restrictions - Satisfaction of program restrictions						
For use in operations	-	6,386,637	(6,386,637)	-	6,906,749	(6,906,749)
For capital purchases	-	292,521	(292,521)	-	584,681	(584,681)
<b>Total net assets released from restrictions</b>	<b>-</b>	<b>6,679,158</b>	<b>(6,679,158)</b>	<b>-</b>	<b>7,491,430</b>	<b>(7,491,430)</b>
 Decrease in pension liability	 -	 -	 -	 18,945,047	 18,945,047	 -
 Net unrealized appreciation (depreciation) on investments	 78,134,764	 44,207,433	 33,927,331	 (90,817,779)	 (52,746,619)	 (38,071,160)
 Increase (decrease) in net assets	 95,667,040	 55,948,704	 39,718,336	 (55,495,789)	 (30,012,197)	 (25,483,592)
 Net assets at January 1	 649,619,696	 361,108,627	 288,511,069	 705,115,485	 391,120,824	 313,994,661
 Net assets at December 31	 <b>\$ 745,286,736</b>	 <b>\$ 417,057,331</b>	 <b>\$ 328,229,405</b>	 <b>\$ 649,619,696</b>	 <b>\$ 361,108,627</b>	 <b>\$ 288,511,069</b>

*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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities and Nonoperating Gains:		
Increase (decrease) in net assets	\$ 95,667,040	\$ (55,495,789)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	26,845,259	26,392,963
Amortization of deferred financing costs	129,415	125,561
Bad debts	456,524	340,425
Bond premium amortization	(525,407)	(578,310)
Loss on disposal of property and equipment	121,845	33,591
Amortization of entrance fees	(13,517,287)	(13,114,346)
Initial contributions recognized from split-interest agreements	(557,994)	(342,105)
Actuarial adjustment for split-interest agreements	454,503	215,335
Contributions restricted for long-term investments	(2,239,166)	(3,285,580)
Net realized and unrealized (gains) losses on long-term investments	(104,422,652)	48,853,666
Decrease (increase) in fair value of interest rate swap agreements	2,109,022	(3,222,401)
(Increase) decrease in receivables	(602,888)	706,499
Increase in other current assets and inventory	(588,171)	(180,279)
Increase (decrease) in accounts payable and accrued expenses	2,687,462	(2,610,491)
Increase (decrease) in other current and noncurrent liabilities	1,065,343	(16,125,382)
Proceeds from entrance fees and deposits	<u>37,100,506</u>	<u>48,792,902</u>
Net cash provided by operating activities and nonoperating gains	<u>44,183,354</u>	<u>30,506,259</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(48,322,625)	(32,346,723)
(Increase) decrease in assets whose use is limited	(80,689)	10,138,869
Decrease in notes receivable	971,894	627,230
Increase in note receivable from Grand Lodge	-	(542,846)
Proceeds from the sale of investments	35,021,337	46,523,610
Purchases of investments	(10,694,213)	(35,000,841)
Decrease in other long-term assets	<u>-</u>	<u>1,650</u>
Net cash used in investing activities	<u>(23,104,296)</u>	<u>(10,599,051)</u>

*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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows from Financing Activities:		
Refunds of entrance fees and deposits	\$ (10,741,934)	\$ (12,169,885)
Proceeds from contributions restricted for long-term investments	2,239,166	3,285,580
Proceeds from contributions under split-interest agreements	1,046,037	557,601
Net payments made on split-interest agreements	(806,677)	(841,517)
Decrease in deferred revenue from landfill settlement	(7,500)	(10,000)
Principal payment on long-term debt	<u>(10,575,000)</u>	<u>(10,145,000)</u>
Net cash used in financing activities	<u>(18,845,908)</u>	<u>(19,323,221)</u>
Net increase in cash and cash equivalents	2,233,150	583,987
Cash and cash equivalents - Beginning of year	<u>24,322,470</u>	<u>23,738,483</u>
Cash and cash equivalents - End of year	<u>\$ 26,555,620</u>	<u>\$ 24,322,470</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 7,441,892</u>	<u>\$ 7,784,597</u>
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

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

**MASONIC VILLAGES OF THE  
GRAND LODGE OF PENNSYLVANIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

**NOTE 1: Summary of Significant Accounting Policies**

Organization

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, 2019 include a 453 bed nursing facility providing nursing care (Nursing Home), 1,103 units of Retirement Living consisting of apartments and cottages, a 135 bed personal care facility (Personal Care), a 40 bed home for disadvantaged children (Children's Home), and an 8 bed Residential care program (Residential Care) for developmentally disabled individuals. In addition to these residential services, the Elizabethtown location also offers an Adult Daily Living program, an Outreach program, and hospice, home health care and home care services. The Elizabethtown location also includes meeting and conference facilities and a farm.

As of December 31, 2019, services provided at the Warminster campus include a 43 bed nursing facility and 19 beds of personal care.

Services provided at the Sewickley campus include a 128 bed nursing facility, 62 beds of personal care, and 282 units of Retirement Living Apartments and Villas as of December 31, 2019. In addition to these residential services, the Sewickley location also offers home care services.

As of December 31, 2019, services provided at the Lafayette Hill campus include a 60 bed nursing facility, 40 beds of personal care, and 158 units of Retirement Living Apartments.

Services provided at the Dallas campus include 83 units of Retirement Living Apartments and Cottages as of December 31, 2019.

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, Pennsylvania Acacia Insurance Company, Ltd., Acacia Services, LLC, Ashlar Creative Solutions, LLC, and Ashlar Home Health and Hospice Services, LLC after elimination of all significant interrelated balances and transactions.

## **NOTE 1: Summary of Significant Accounting Policies – Continued**

### 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 uncollectability 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 2.17% 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 investments without donor restrictions are reported as operating revenues. Investment income and gains (losses) on investments with donor restrictions are added to (deducted from) the appropriate net assets with donor restrictions.

### 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.

## **NOTE 1: Summary of Significant Accounting Policies – Continued**

### 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. Some of Masonic Villages' Retirement Living resident agreements are contingent contracts because they include certain minimum guaranteed refund amounts to the residents.

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, 2019 and 2018, entrance fees of approximately \$ 105,186,000 and \$ 99,308,000, 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 who qualify for life care 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. If the present value of the net cost for future services and use of facilities exceeds the deferred revenue from entrance fees, 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, 2019 or 2018, using a discount rate of 5.00% for 2019 and 2018.

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.

## **NOTE 1: Summary of Significant Accounting Policies – Continued**

### 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 \$ 852,673 and \$ 847,167 as of December 31, 2019 and 2018, respectively.

### Worker's Compensation Claims

For the year ended December 31, 2019, Masonic Villages was insured for workers compensation claims in a large risk-large deductible program with a \$ 500,000 deductible for each injury/disease and a \$ 1,650,000 aggregate for each injury/disease. For the year ended December 31, 2018, Masonic Villages was insured for workers compensation claims in a large risk-large deductible program with a \$ 500,000 deductible for each injury/disease and a \$ 1,550,000 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 11.70%), 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 effective interest method.

### Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are those available for use in general operations and may be used at the discretion of management and the Board of Directors. The Board of Directors may designate net assets to fulfill certain purposes and remove designations from net assets at their discretion.

Net assets with donor restrictions include donor restrictions that may be temporary or where the donor has specified that resources be maintained in perpetuity. Net assets with temporary donor restrictions may be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the stipulated purpose for which the resource has been restricted has been fulfilled, when a stipulated time has elapsed, or both.

### 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support without donor restrictions.

## **NOTE 1: Summary of Significant Accounting Policies – Continued**

### Support - Continued

Gifts of goods and equipment are reported as support without donor restrictions 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 support with donor restrictions. 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

Resident service revenue is reported at the amount that reflects the consideration Masonic Villages expect to receive in exchange for the services provided. These amounts are due from residents or third-party payors, including health insurers and government programs, and may include variable consideration for retroactive revenue adjustments under reimbursement programs. This consideration is recorded initially at Masonic Villages' established rates for the services, reduced when appropriate by contractual adjustments and charity allowances, to arrive at resident service revenue reported in the consolidated statement of operations.

Performance obligations are determined based on the nature of the services provided. Resident service fee revenue is recognized as performance obligations are satisfied. The performance obligations inherent within the services Masonic Villages provides are typically satisfied within specific measurable time periods or through the delivery of a service that is immediately consumed by a customer.

Nursing care, personal care, retirement living, and the residential care program for developmentally disabled individuals are considered to be senior living residency services. Under the senior living residency agreements, services are provided to residents for a stated daily or monthly fee. Masonic Villages has determined that the senior living services included under the daily or monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time.

In addition to senior living residency services, Masonic Villages also offers several ancillary service programs which include adult day care, child day care, home care, home health care and hospice services. Masonic Villages enters into contracts to provide these ancillary services. Each service provided under these contracts is capable of being distinct. Accordingly, these services are considered individual and separate performance obligations which are satisfied as services are provided and revenue is recognized as services are provided.

Masonic Villages also provides goods and services to residents and non-residents that do not require specific contracts. This includes certain medical ancillary services, pharmacy, wellness center, beauty and barber services, meals, laundry, transportation, parking, and communications services. These goods and services are typically provided in a retail setting, where the performance obligations are satisfied, and the revenue recognized once the goods and services have been delivered to or consumed by the customer.



## **NOTE 1: Summary of Significant Accounting Policies – Continued**

### Resident Service Revenue - Continued

Masonic Villages' admissions process for senior living residency services includes a credit assessment of the prospective resident and obtaining an understanding of available third-party reimbursement from health insurers and government programs for the prospective resident. These evaluations typically occur prior to the provision of services. Acceptance of the prospective resident's credit status and applicable coverage from third party payors may require Masonic Villages to accept discounts from established billing rates. These discounts for senior living residency services represent explicit price concessions to the transaction price and are recorded as a reduction from resident service revenue.

Masonic Villages receives a significant portion of its revenue from Medicare, Medicaid and other third-party payors that receive discounts from established billing rates. Settlements with third party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing services. Masonic Villages estimates the transaction price based on terms of the contract with the payor, correspondence with the payor, and historical payment trends. Retroactive adjustments are recognized in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2019 and 2018. Laws and regulations governing Medicare, Medicaid, and other third-party programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

### *Financing Component*

Masonic Villages has elected the practical expedient allowed under generally accepted accounting principles for revenue recognition and does not adjust the promised amount of consideration from residents or third-party payors for the effects of a significant financing component due to Masonic Villages' expectation that the period between the time the service is provided to a resident and the time the resident or third-party payor pays for the service will be one year or less. Masonic Villages also enters into Retirement Living contracts which provide for payments at the time of inception and are amortized to revenue using the straight-line method over the estimated remaining life expectancy of the individual contract holders. In these instances, the financing component is not deemed to be significant to the contract.

### *Contract Costs*

Masonic Villages has applied the practical expedient allowed under generally accepted accounting principles for contracts with customers. As a result, all incremental contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that Masonic Villages would have recognized is one year or less.

### Charity Care

Charity care is provided to residents who have demonstrated the inability to pay and who are not eligible for third party reimbursement. Residents who meet Masonic Villages' criteria for charity care are provided services without charge or at amounts less than established rates. Certain residents qualify for charity care upon admission or when their financial resources are depleted. Therefore, Masonic Villages has determined it has provided implicit price concessions to these residents. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to residents and the amounts Masonic Villages expects to collect based on its collection history with those residents. These implicit price concessions are recorded as charity care allowances. Because Masonic Villages provides charity care to residents who are unable to pay for these services, it is not reported as resident service revenue.

## **NOTE 1: Summary of Significant Accounting Policies – Continued**

### Consolidated Statements of Operations Earnings Measurements

Masonic Villages' statement of operations includes two performance indicators to measure operating earnings. The loss from operations before change in fair value of derivative financial instruments serves as an intermediate performance indicator. The loss from operations before change in fair value of derivative financial instruments includes all revenue without donor restrictions from the provision of health care and residential services, operating revenue from incidental activities such as the farm, investment income, and expenses incurred in the performance of these activities. Unrealized appreciation on interest rate swap agreements and non-operating gains and losses are excluded from this intermediate performance indicator.

The final performance indicator is the loss from operations. The loss from operations includes all revenue without donor restrictions from the provision of health care and residential services, operating revenue from incidental activities such as the farm, investment income, expenses incurred in the performance of these activities, and changes in the fair value of derivative financial instruments. 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 (deficiency) 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 and files a Form 990, "Return of Organization Exempt from Income Tax". Pennsylvania Acacia Insurance Company, Ltd. and Ashlar Home Health and Hospice Services, LLC are both single member, tax-exempt corporations. Acacia Services, LLC and Ashlar Creative Solutions, LLC are both single member, for-profit limited liability organizations and are considered disregarded entities for income tax purposes.

## **NOTE 1: Summary of Significant Accounting Policies – Continued**

### Income Taxes – Continued

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, 2019 and 2018. Masonic Villages has not recorded liabilities for income taxes or unrecognized income tax benefits in the balance sheets as of December 31, 2019 and 2018. The Organization's Form 990 is generally subject to examination for a period of three years after the returns are filed.

### 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: Change in Accounting Principles**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, "Leases (Topic 842)" (ASU 2016-02). The update increases transparency and comparability among organizations by recognizing right-of-use (ROU) assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Masonic Villages made payments totaling \$260,670 and \$165,742 under leasing arrangements for the years ended December 31, 2019 and 2018, respectively. Masonic Villages implemented ASU 2016-02 for the year ended December 31, 2019. Due to the immateriality of Masonic Villages' leasing transactions, the implementation of ASU 2016-02 did not require a restatement of net assets or any adjustments to the presentation in these financial statements.

**NOTE 2: Change in Accounting Principles – Continued**

In June 2018, the FASB issued Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958), “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made” (ASU 2018-08). The update improves guidance about whether a transfer of assets is an exchange transaction or a contribution and whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as an exchange (reciprocal) transaction subject to other guidance. ASU 2018-08 also improves the guidance for distinguishing between conditional and unconditional contributions on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. Masonic Villages implemented ASU 2018-08 for the year ended December 31, 2019. The implementation of ASU 2018-08 did not require a restatement of net assets or any adjustments to the presentation in these financial statements.

**NOTE 3: Liquidity and Availability**

Financial assets available for general expenditure without donor or other restrictions limiting their use within one year consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents available for operations	\$ 19,577,160	\$ 20,867,011
Investment income receivable		
without donor restrictions	353,385	371,650
Resident accounts receivable	7,095,562	6,483,286
Accounts receivable - Grand Lodge	40,041	77,652
Accounts receivable - Pennsylvania		
Masonic Youth Foundation	2,065	11,107
Accounts receivable - The Masonic Library		
and Museum of Pennsylvania	9,249	4,279
Estimated third party settlements receivable	1,608,327	2,002,828
Notes receivable	1,120,801	2,092,695
Investment without donor restrictions	<u>422,077,248</u>	<u>381,906,042</u>
	<u>\$ 451,883,838</u>	<u>\$ 413,816,550</u>

Under Masonic Villages’ liquidity management strategy, financial assets are structured to be available as expenditures, liabilities and other obligations become due. Masonic Villages also invests cash in excess of daily requirements in short-term investments. Investments without donor restrictions are subject to an annual spending policy that is described in Note 8. Although Masonic Villages does not intend to spend from its investments without donor restrictions in excess of the maximum spending policy limit, amounts from these investments could be made available, if necessary.

**NOTE 4: 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Available for operations	\$ 19,577,160	\$ 20,867,011
Retirement Living escrow deposits	4,189,200	913,615
Held for residents deposits	<u>852,673</u>	<u>847,167</u>
Total without donor restrictions	24,619,033	22,627,793
With donor restrictions	<u>1,936,587</u>	<u>1,694,677</u>
	<u>\$ 26,555,620</u>	<u>\$ 24,322,470</u>

**NOTE 5: Resident Accounts Receivable**

Masonic Villages' resident accounts receivable consists of amounts owed from individuals, insurance companies, and government agencies. As of December 31, 2019 and 2018, Masonic Villages' aggregate resident accounts receivable over 90 days past due totaled \$ 1,946,780 and \$ 1,635,757, 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, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Allowance at January 1	\$ 1,144,000	\$ 1,093,000
Provision for bad debts	456,524	340,425
Accounts receivable written off, net of recoveries	<u>(423,524)</u>	<u>(289,425)</u>
Allowance at December 31	<u>\$ 1,177,000</u>	<u>\$ 1,144,000</u>

**NOTE 6: Contributions Receivable**

Contributions receivable consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Charitable lead annuity trusts	\$ 305,070	\$ 355,118
Promises to give	<u>167,179</u>	<u>45,215</u>
Total contributions receivable	<u>472,249</u>	<u>400,333</u>
Less:		
Current portion of charitable lead annuity trusts	62,904	62,904
Current portion of promises to give	<u>102,000</u>	<u>44,640</u>
Noncurrent portion	<u>\$ 307,345</u>	<u>\$ 292,789</u>

Promises to give consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 172,000	\$ 46,604
Unamortized discount	<u>(4,821)</u>	<u>(1,389)</u>
Net promises to give	<u>\$ 167,179</u>	<u>\$ 45,215</u>

The schedule of payments to be received from promises to give as of December 31, 2019 is as follows:

2020	\$ 102,000
2021	<u>70,000</u>
	<u>\$ 172,000</u>

The discount rates used for promises to give received during the years ended December 31, 2019 and 2018 were 1.92% and 2.68%, respectively.

**NOTE 7: Notes Receivable**

Notes receivable with Masonic Villages' Retirement Living residents totaled \$ 1,120,801 and \$ 2,092,695 as of December 31, 2019 and 2018, respectively. Interest was charged at rates ranging from 0% to 5% per annum. Notes receivable outstanding beyond their due date, included in the aforementioned totals, were \$ 324,191 and \$ 0 as of December 31, 2019 and 2018, respectively. There were no notes receivable on nonaccrual status as of December 31, 2019 and 2018. Based on management's evaluation of the notes receivable portfolio, no provision for uncollectible notes receivable is required.

**NOTE 8: 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 89% 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.:

<b><u>At December 31, 2019</u></b>	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Domestic stocks	\$ 166,939,724	\$ 60,967,291	\$ 4,091,826	\$ 223,815,189
International stocks	44,996,414	5,831,097	2,772,831	48,054,680
U.S. Government and Agency bonds	20,131,791	248,466	72,901	20,307,356
Domestic corporate bonds	111,035,734	3,899,355	374,493	114,560,596
Municipal bonds	8,707,133	521,863	84,350	9,144,646
Mutual funds - Equity securities	62,680,116	9,802,217	11,734	72,470,599
Exchange traded funds	176,308,999	15,060,635	84,534	191,285,100
Mortgage backed securities	28,199,401	463,115	110,530	28,551,986
Asset backed securities	29,840,949	244,800	178,644	29,907,105
Real estate investment trusts	342,089	-	29,556	312,533
Private equity investments	8,888,366	1,386,558	-	10,274,924
Demand notes	400,772	1,195	-	401,967
Money market funds	40,073,961	-	-	40,073,961
Total Consolidated Fund	<u>\$ 698,545,449</u>	<u>\$ 98,426,592</u>	<u>\$ 7,811,399</u>	<u>\$ 789,160,642</u>

<b><u>At December 31, 2018</u></b>	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Domestic stocks	\$ 149,777,973	\$ 37,402,957	\$ 13,475,607	\$ 173,705,323
International stocks	38,577,356	2,086,957	5,881,453	34,782,860
U.S. Government and Agency bonds	13,411,818	325,148	-	13,736,966
Domestic corporate bonds	103,045,897	195,266	3,057,615	100,183,548
Municipal bonds	5,954,798	96,988	232,348	5,819,438
Mutual funds - Equity securities	89,588,065	6,669,388	2,100,654	94,156,799
Exchange traded funds	177,952,310	-	15,343,549	162,608,761
Limited partnership - International investments	44,396	28,120	-	72,516
Mortgage backed securities	28,759,779	87,104	487,293	28,359,590
Asset backed securities	30,986,075	210,887	344,349	30,852,613
Real estate investment trusts	587,845	71,615	62,399	597,061
Private equity investments	7,445,903	551,786	-	7,997,689
Demand notes	425,512	698	-	426,210
Money market funds	49,556,083	-	-	49,556,083
Total Consolidated Fund	<u>\$ 696,113,810</u>	<u>\$ 47,726,914</u>	<u>\$ 40,985,267</u>	<u>\$ 702,855,457</u>

**NOTE 8: Investments – Continued**

At December 31, 2019 and 2018, Masonic Villages' investments consisted of the following:

	<b>2019</b>		<b>2018</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Money Market Funds	\$ 6,599,435	\$ 6,599,435	\$ 5,972,021	\$ 5,972,021
Consolidated Fund	387,000,557	415,477,813	391,570,819	375,934,021
Lincoln Financial Group	969,669	969,669	732,426	732,426
Mill Creek Capital Advisors, LLC	<u>978,237</u>	<u>1,052,834</u>	<u>506,048</u>	<u>787,266</u>
Total Without Donor Restrictions	<u>395,547,898</u>	<u>424,099,751</u>	<u>398,781,314</u>	<u>383,425,734</u>
Money Market Funds	418,174	418,174	826,711	826,711
Consolidated Fund	248,630,032	279,992,125	242,674,089	244,297,153
Real estate	391,007	391,007	391,007	391,007
Perpetual Trusts Held by Third Parties	<u>24,756,274</u>	<u>44,068,400</u>	<u>24,809,500</u>	<u>39,933,324</u>
Total With Donor Restrictions	<u>274,195,487</u>	<u>324,869,706</u>	<u>268,701,307</u>	<u>285,448,195</u>
	<u>\$ 669,743,385</u>	<u>\$ 748,969,457</u>	<u>\$ 667,482,621</u>	<u>\$ 668,873,929</u>

Masonic Villages' investments are presented on the balance sheets in the following categories as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Minimum liquid reserve requirement	\$ 19,183,284	\$ 17,972,053
Investments at fair value	<u>729,786,173</u>	<u>650,901,876</u>
	<u>\$ 748,969,457</u>	<u>\$ 668,873,929</u>



**NOTE 8: Investments – Continued**

Masonic Villages has designated portions of its Consolidated Fund investments without donor restrictions to use for specific programs or functions. The composition of Masonic Villages' designated investments as of December 31, 2019 and 2018 is as follows:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Masonic Villages Reserve Fund	\$ 143,606,560	\$ 158,792,568	\$ 158,726,205	\$ 157,428,448
Masonic Temple Preservation Fund	12,957,584	14,017,622	12,799,357	12,369,018
Children's Home Fund	6,281,070	6,598,292	6,351,368	5,948,795
Ilgen Trust	13,175,483	13,661,489	12,742,623	11,774,511
Charitable Gift Annuity Reserve Fund	7,966,156	8,582,691	8,876,718	8,593,461
Warminster Building and Improvement Fund	2,407,923	2,277,772	2,277,816	1,909,636
Masonic Eastern Star Endowment Fund	1,667,290	1,527,427	1,614,678	1,312,557
Elizabethtown Retirement Living Fund	28,003,021	28,564,540	26,488,979	24,056,830
Dallas Retirement Living Fund	2,568,897	2,688,960	2,425,947	2,264,231
Sewickley Retirement Living Fund	133,458,851	141,372,554	125,943,185	119,041,930
Lafayette Hill Funds	29,043,895	30,409,427	27,436,739	25,616,390
Pennsylvania Acacia Insurance Company	12,410,902	13,530,499	11,826,252	11,557,199
	<u>\$ 393,547,632</u>	<u>\$ 422,023,841</u>	<u>\$ 397,509,867</u>	<u>\$ 381,873,006</u>

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 investments without donor restrictions in excess of the spending maximum. For the years ended December 31, 2019 and 2018, 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 Consolidated Fund investments with donor restrictions as net assets with donor restrictions available to be appropriated for expenditure.

**NOTE 8: Investments – Continued**

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

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Masonic Villages' Consolidated Fund spending maximum amount for 2019	\$ 19,249,061	\$ 12,357,452	\$ 31,606,513
Amounts withdrawn from Consolidated Fund	<u>30,608,446</u>	<u>11,923,747</u>	<u>42,532,193</u>
Excess (deficiency) of spending maximum amount over amounts withdrawn	<u>\$ (11,359,385)</u>	<u>\$ 433,705</u>	<u>\$ (10,925,680)</u>
	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Masonic Villages' Consolidated Fund spending maximum amount for 2018	\$ 18,399,573	\$ 11,977,779	\$ 30,377,352
Amounts withdrawn from Consolidated Fund	<u>34,422,992</u>	<u>12,100,618</u>	<u>46,523,610</u>
Excess (deficiency) of spending maximum amount over amounts withdrawn	<u>\$ (16,023,419)</u>	<u>\$ (122,839)</u>	<u>\$ (16,146,258)</u>

**NOTE 9: 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, 2019 and 2018, is set forth below.

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Under indenture agreement held by trustee -				
Cash and short-term investments	\$2,752,206	\$2,752,206	\$2,671,517	\$2,671,517
Less current portion	<u>2,752,206</u>	<u>2,752,206</u>	<u>2,671,517</u>	<u>2,671,517</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 10: Property and Equipment**

A summary of property and equipment at December 31, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 5,833,167	\$ 5,601,636
Land improvements	27,468,518	25,863,649
Buildings and improvements	463,065,252	441,181,766
Equipment	<u>300,082,545</u>	<u>278,506,879</u>
	796,449,482	751,153,930
Less accumulated depreciation	<u>391,461,187</u>	<u>369,913,079</u>
	404,988,295	381,240,851
Construction in progress	<u>6,010,395</u>	<u>8,349,516</u>
Property and equipment, net	<u>\$ 410,998,690</u>	<u>\$ 389,590,367</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$26,792,459 and \$ 26,340,163, respectively.

**NOTE 11: Deferred Costs**

A summary of deferred costs at December 31, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Costs to upgrade Elizabethtown Borough wastewater treatment plant	\$ 1,056,000	\$ 1,056,000
Less accumulated amortization	<u>(897,600)</u>	<u>(844,800)</u>
	<u>\$ 158,400</u>	<u>\$ 211,200</u>

Amortization expense related to deferred costs totaled \$ 52,800 for each of the years ended December 31, 2019 and 2018.

**NOTE 12: 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.

## **NOTE 12: Interest Rate Swap Agreements – Continued**

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, 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 expired 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.

In January 2015, the interest rate swap agreement for the 2004 Bonds / 2008 Bonds (Series C) was terminated in connection with the refunding of the 2008 Bonds (Series C) in February 2015.

On May 31, 2018, Masonic Villages and Wells Fargo Bank, NA amended the interest rate agreements for the 2008 Bonds (Series A and B). These amendments were done in connection with renegotiation of the direct purchase agreements with Wells Fargo Bank, NA for the 2008 Bonds (Series A and B). Under the amendments, the variable interest rates on Masonic Villages' interest rate swap agreements are now determined using 80% of the LIBOR. The original fixed interest rates in the interest rate swap agreements were increased to synchronize with the revised direct purchase agreements. The fixed interest rate in the swap agreement for 2008 Bonds (Series A) increased from 4.085% to 4.470%. The interest rate for the swap agreement for the 2008 Bonds (Series B) increased from 4.190% to 4.571%.

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.

**NOTE 12: Interest Rate Swap Agreements – Continued**

As of December 31, 2019, and 2018, the fair values of Masonic Villages' interest rate swap agreements were as follows:

	<u>2019</u>	<u>2018</u>
Liabilities:		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	\$ (8,708,414)	\$ (7,841,187)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(4,604,627)	(3,991,395)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>(4,704,967)</u>	<u>(4,076,404)</u>
	<u>\$ (18,018,008)</u>	<u>\$ (15,908,986)</u>

At both December 31, 2019 and 2018, the accumulated derivative loss which had been reported outside of the performance indicator was:

	<u>2019</u>	<u>2018</u>
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	<u>(3,510,225)</u>	<u>(3,510,225)</u>
	<u>\$ (14,085,235)</u>	<u>\$ (14,085,235)</u>

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.

At December 31, 2019 and 2018, the net payments associated with the terms of the swap agreements totaled:

Fixed rate payments	<u>2019</u>	<u>2018</u>
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	\$ 1,436,993	\$ 1,497,959
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	1,089,041	1,110,406
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>1,047,140</u>	<u>1,065,169</u>
Total fixed rate payments	<u>3,573,174</u>	<u>3,673,534</u>
Variable rate payments		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	(469,215)	(438,731)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(437,080)	(388,757)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>(410,413)</u>	<u>(364,137)</u>
Total variable rate payments	<u>(1,316,708)</u>	<u>(1,191,625)</u>
Net payments to interest rate swap provider	<u>\$ 2,256,466</u>	<u>\$ 2,481,909</u>

### NOTE 13: Long-Term Debt

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, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Lancaster County Hospital Authority (Series of 1996) - variable rate demand/fixed rate bonds, maturing through 2027	\$ 8,955,000	\$ 9,900,000
Lancaster County Hospital Authority (Series of 2008) - variable rate demand bonds, maturing through 2034	76,485,000	80,575,000
Lancaster County Hospital Authority (Series of 2013) - variable rate demand bonds, maturing through 2038	31,660,000	32,945,000
Lancaster County Hospital Authority (Series of 2015) - 2.00% to 5.00% bonds, maturing through 2035	27,890,000	32,145,000
Lancaster County Hospital Authority (Series of 2017) - 2.625% to 5.00% bonds, maturing through 2038	<u>28,650,000</u>	<u>28,650,000</u>
Total long-term debt	<u>173,640,000</u>	<u>184,215,000</u>
Add premium on bonds payable	4,982,559	5,507,966
Less deferred financing costs	(1,192,106)	(1,321,522)
Less current installments of long-term debt	<u>(8,830,000)</u>	<u>(10,575,000)</u>
	<u>\$ 168,600,453</u>	<u>\$ 177,826,444</u>

Under the terms of the bond purchase agreements with the Lancaster County Hospital Authority, 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 Masonic Villages satisfy certain measures of financial performance as long as the debt is outstanding. For the years ended December 31, 2019 and 2018, Masonic Villages met the minimum debt service coverage ratio contained in the loan agreements.

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

<u>Bond Series</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>	<u>Total</u>
1996	\$ 980,000	\$ 1,015,000	\$ 1,055,000	\$ 1,095,000	\$ 1,135,000	\$ 3,675,000	\$ 8,955,000
2008 (A)	1,525,000	1,590,000	1,660,000	1,735,000	1,810,000	15,070,000	23,390,000
2008 (B)	1,325,000	1,385,000	1,445,000	1,505,000	1,570,000	15,255,000	22,485,000
2008 (D)	1,425,000	1,495,000	1,565,000	1,650,000	1,725,000	22,750,000	30,610,000
2013	1,315,000	1,350,000	1,385,000	1,420,000	1,455,000	24,735,000	31,660,000
2015	1,270,000	1,300,000	1,340,000	1,390,000	1,450,000	21,140,000	27,890,000
2017	<u>990,000</u>	<u>1,010,000</u>	<u>1,045,000</u>	<u>1,050,000</u>	<u>1,100,000</u>	<u>23,455,000</u>	<u>28,650,000</u>
	<u>\$ 8,830,000</u>	<u>\$ 9,145,000</u>	<u>\$ 9,495,000</u>	<u>\$ 9,845,000</u>	<u>\$ 10,245,000</u>	<u>\$ 126,080,000</u>	<u>\$ 173,640,000</u>

The fair value of Masonic Villages' total outstanding bonds, based on quoted market prices, at December 31, 2019 and 2018 was approximately \$ 180,789,000 and \$ 189,277,000, respectively.

**NOTE 13: Long-Term Debt – Continued**

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, 2019 and 2018 follows:

<u>2019</u>	<u>Capitalized</u>	<u>Interest Expense</u>	<u>Investment Income</u>	<u>Total</u>
Bond premium amortization	\$ -	\$ (525,407)	\$ -	(525,407)
Interest cost	-	5,107,446	-	5,107,446
Net payments to interest rate swap provider	-	2,256,466	-	2,256,466
Internal cost of borrowed funds capitalized for assets constructed with internal funds	578,718	(578,718)	-	-
Amortization of deferred financing costs	-	129,415	-	129,415
Investment income - Funds held by Trustee	-	-	(52,385)	(52,385)
	<u>\$ 578,718</u>	<u>\$ 6,389,202</u>	<u>\$ (52,385)</u>	<u>\$ 6,915,535</u>
 <u>2018</u>  				
Bond premium amortization	\$ (104,870)	\$ (473,440)	\$ -	\$ (578,310)
Interest cost	829,897	4,378,475	-	5,208,372
Net payments to interest rate swap provider	-	2,481,909	-	2,481,909
Amortization of deferred financing costs	-	125,561	-	125,561
Investment income - Funds held by Trustee	(5,320)	-	(38,545)	(43,865)
	<u>\$ 719,707</u>	<u>\$ 6,512,505</u>	<u>\$ (38,545)</u>	<u>\$ 7,193,667</u>

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 May 31, 2018, Masonic Villages amended Continuing Covenants Agreements 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 amended 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. On November 1, 2019, J.P. Morgan Chase Bank, NA., agreed to extend 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 expiring on October 3, 2024.

**NOTE 14: 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.

## NOTE 14: Endowments – Continued

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 donor restricted activity. All interest income, dividends, and capital appreciation in excess of the annual spending amount are reported as net assets with donor restrictions available to be appropriated for expenditure in future 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 net assets required to be maintained in perpetuity (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 is classified as net assets with donor restrictions available to be 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, 2019 and 2018, 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.



**NOTE 14: Endowments – Continued**

An underwater endowment fund is defined as a donor-restricted endowment fund for which the fair value is less than either the original gift amount or the amount required to be maintained by the donors or by law that extends donor restrictions. Masonic Villages has interpreted Act 141 to permit spending from underwater endowments to the extent the donor-restricted endowment has net assets with donor restrictions available to be appropriated for expenditure. Masonic Villages did not have any underwater endowments as of December 31, 2019 and 2018.

Endowment net assets consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Without donor restrictions	1,530,309	\$ 1,315,416
With donor restrictions	<u>277,659,182</u>	<u>242,620,539</u>
	<u>\$ 279,189,491</u>	<u>\$ 243,935,955</u>

The changes in endowment net assets for the years ended December 31, 2019 and 2018 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at January 1, 2018	\$ 1,408,912	\$ 264,642,402	\$ 266,051,314
Investment return, net	(66,039)	(12,129,854)	(12,195,893)
Contributions and bequests	-	1,244,339	1,244,339
Income from perpetual trust held by third party	-	2,785	2,785
Transfers from funds without donor restrictions	-	242,300	242,300
Appropriation of endowment assets for expenditure	<u>(27,457)</u>	<u>(11,381,433)</u>	<u>(11,408,890)</u>
Endowment net assets at December 31, 2018	<u>1,315,416</u>	<u>242,620,539</u>	<u>243,935,955</u>
Investment return, net	244,606	44,757,863	45,002,469
Contributions and bequests	-	1,279,710	1,279,710
Income from perpetual trust held by third party	-	18,225	18,225
Transfers from funds without donor restrictions	-	160,000	160,000
Appropriation of endowment assets for expenditure	<u>(29,713)</u>	<u>(11,177,155)</u>	<u>(11,206,868)</u>
Endowment net assets at December 31, 2019	<u>\$ 1,530,309</u>	<u>\$ 277,659,182</u>	<u>\$ 279,189,491</u>

The amounts reported as appropriation of endowment assets with donor restrictions for expenditure consist of two components. Income from donor restricted endowments recognized as investment income without donor restrictions in the statement of operations totaled \$ 5,344,617 and \$ 5,039,887, respectively, for the years ended December 31, 2019 and 2018. 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, 2019 and 2018 totaled \$ 5,832,538 and \$ 6,341,546, respectively.

**NOTE 15: Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Endowment net assets available to be appropriated for expenditure:		
Support of Masonic Villages and its activities	3,027,947	\$ 2,651,139
Support of Children's Home and its activities	7,974,115	5,206,118
Support of Residential program for developmentally disabled individuals	426,192	130,940
Scholarship awards	3,117,785	2,432,861
General operations of the organization	<u>89,195,417</u>	<u>59,739,690</u>
	<u>103,741,456</u>	<u>70,160,748</u>
Endowment nets assets to be maintained in perpetuity:		
Support of Masonic Villages and its activities	3,227,130	3,048,901
Support of Children's Home and its activities	11,811,584	11,706,201
Support of Residential program for developmentally disabled individuals	1,918,906	1,897,498
Scholarship awards	1,473,875	1,467,163
General operations of the organization	<u>155,486,231</u>	<u>154,340,028</u>
	<u>173,917,726</u>	<u>172,459,791</u>
Total endowment net assets	<u>277,659,182</u>	<u>242,620,539</u>
Not subject to spending policy or appropriation:		
Perpetual trusts held by third parties	<u>44,068,400</u>	<u>39,933,324</u>
Subject to expenditure for specified purpose:		
Support of Masonic Villages and its activities	1,443,478	1,240,419
Support of Children's Home and its activities	91,361	72,887
Building renovations and construction projects	92,411	144,821
Care and support of eligible Retirement Living residents	2,025,152	1,960,923
Scholarship awards	117,306	127,005
Employee assistance	262,885	-
General operations of the organization	<u>2,469,230</u>	<u>2,411,151</u>
Total subject to expenditure for specified purposes	<u>6,501,823</u>	<u>5,957,206</u>
	<u>\$ 328,229,405</u>	<u>\$ 288,511,069</u>

Masonic Villages did not receive any donor restricted contributions that were subject to the passage of time during the years ended December 31, 2019 and 2018.

**NOTE 16: 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Support of Masonic Villages and its activities	\$ 6,978	\$ 27,669
Support of Children's Home and its activities	18,766	51,200
Support of Residential Care and its activities	4,931	4,352
General operations of the organization	6,088,005	6,575,928
Care and support of eligible Retirement Living residents	382,836	352,738
Employee assistance	2,400	-
Scholarship awards	62,720	137,162
Satisfaction of restrictions - Operations	<u>6,566,636</u>	<u>7,149,049</u>
 Satisfaction of restrictions - Purchase of property and equipment	 <u>292,521</u>	 <u>584,681</u>
	<u>\$ 6,859,157</u>	<u>\$ 7,733,730</u>

During the years ended December 31, 2019 and 2018, assets totaling \$ 160,529 and \$ 242,300, respectively, were transferred from the designated Charitable Gift Annuity Reserve (a fund without donor restrictions) into a 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.

Masonic Villages received a liquidating distribution of a trust previously recorded as a perpetual trust held by a third party during 2019. This distribution, totaling \$19,470, was recorded as a satisfaction of the donor's restriction and transferred from net assets with donor restrictions to net assets without donor restrictions for the year ended December 31, 2019.

**NOTE 17: Retirement Plans**

Masonic Villages and Grand Lodge had a noncontributory defined benefit pension plan covering substantially all employees as of December 31, 2010. The benefits were 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 were determined annually by the Grand Lodge Committee on Finance within limits established by the Employee Retirement Income Security Act (ERISA) of 1974. Masonic Villages made contributions to the Plan totaling \$ 13,812,149 for the year ended December 31, 2018. Contributions provided 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 planned to terminate the defined benefit pension plan when the plan's assets equaled or exceeded the projected benefit obligation. When this occurred, the defined benefit pension plan was to purchase annuity contracts from insurance companies to provide the guaranteed retirement income for eligible employees. The plan was also to be amended to permit lump sum payments to be issued to certain participants. The Administrators of the Pension Plan also adopted a resolution to implement a defined contribution retirement plan effective January 1,

**NOTE 17: Retirement Plans – Continued**

2011. The new defined contribution retirement plan, which is funded by contributions from both the employer and employees, replaced the defined benefit pension plan.

In July 2017, the Administrators of the Pension Plan authorized a partial settlement to reduce the plan’s aggregate projected benefit obligation. The plan document was amended to enable eligible participants to elect to receive an immediate lump sum payout or an immediate annuity as a complete, irrevocable settlement for their accumulated pension benefits. Eligible participants for the partial settlement consisted of vested participants who terminated employment prior to January 1, 2017 and met certain other criteria. Eligible participants were given a two-month “window” during the fall of 2017 to consider this option and make an election. A total of 294 eligible participants elected to take an immediate lump sum payout and 11 participants elected to take an immediate annuity from the plan. On December 1, 2017, the pension plan paid \$12,437,686 to those participants in the form of lump sum payouts or annuities.

In March 2018, the Administrators of the Pension Plan authorized a final settlement to eliminate the plan’s aggregate projected benefit obligation and completely terminate the plan. The plan document was amended to terminate the plan effective May 31, 2018. The amendment also provided that when the final distribution of the plan’s assets began, participants who were not yet in pay status would have the option to receive an immediate lump sum payout or an immediate annuity as a complete, irrevocable settlement for their accumulated pension benefits. Eligible participants for the final settlement consisted of all remaining vested participants, including participants who were already receiving monthly benefit payments. On December 5, 2018, the pension plan paid \$121,853,665 to those participants in the form of lump sum payouts or annuities. The final settlement reduced the plan’s aggregate projected benefit obligation to \$0. For the year ended December 31, 2018, Masonic Villages recognized additional pension expense of \$21,162,377 as its share of the cost of the pension plan’s final settlement.

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 net assets without donor restrictions. 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 changes in net assets for the year ended December 31, 2018 consists of the following:

	<u>2018</u>
Amortization of net gain	\$ 742,679
Settlement	21,162,377
Net actuarial (loss) gain	<u>(2,960,009)</u>
	<u>\$ 18,945,047</u>

Due to the termination of the pension plan in December 2018, there is no estimated amount amortized from net assets without donor restrictions into net periodic pension expense in 2019 or subsequent years.

**NOTE 17: 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 year ended December 31, 2018:

	<u>2018</u>
Change in projected benefit obligation for service rendered to date:	
Projected benefit obligation at January 1	\$ 118,244,000
Service cost	397,609
Interest cost	4,584,809
Actuarial (gain) loss	(2,583,363)
Settlements	(115,269,497)
Expenses paid	(1,230,274)
Benefits paid	<u>(4,143,284)</u>
Projected benefit obligation at December 31	<u>-</u>
Change in plan assets, primarily stocks and bonds:	
Plan assets at fair value at January 1	106,139,043
Actual return on plan assets	691,863
Employer contributions	13,812,149
Settlements	(115,269,497)
Expenses paid	(1,230,274)
Benefits paid	<u>(4,143,284)</u>
Plan assets at fair value at December 31	<u>-</u>
Net pension cost for 2018 includes the following components:	
Service cost - Benefits earned during the year	\$ 397,609
Interest cost on projected benefit obligation	4,584,809
Expected return on plan assets	(6,235,235)
Net amortization and deferrals	<u>742,679</u>
Net periodic pension cost	<u>\$ (510,138)</u>
Benefits paid	<u>\$ 4,143,284</u>

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:

	<u>2018</u>
Weighted discount rate	3.94%
Rate of compensation increase	0.00%
Long-term rate of return on assets	6.00%

The measurement date used in determining the above information was December 31, 2017.

## **NOTE 17: Retirement Plans – Continued**

The overall expected long-term rate of return on assets assumption (6.00%) was based upon the defined benefit pension plan's past investment performance and the general economic conditions at the time the annual pension calculations were prepared. The defined benefit pension plan's investment objective was to achieve the greatest return possible for the amount of risk assumed. To achieve this objective, the defined benefit pension plan's investment policy established target asset allocation percentages and permissible ranges of asset allocations between equity securities and fixed income securities. The goal to terminate the defined benefit pension plan 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 year ended December 31, 2018 were 30% in risk assets such as equity securities and 70% in fixed income and cash equivalents, with a permissible additional range of 30% for risk assets and 30% for fixed income securities. There were additional target allocations established for subcategories of potential investments within the equity and fixed income categories. These targets and ranges were 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.

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 \$ 3,417,636 and \$ 3,209,613 during the years ended December 31, 2019 and 2018, respectively. Masonic Villages also incurred administrative costs related to the defined contribution retirement plan totaling \$ 58,982 and \$ 51,976 during the years ended December 31, 2019 and 2018, respectively.

In April 2012, Masonic Villages established a 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 \$ 1,256 and \$ 1,675 during the years ended December 31, 2019 and 2018, respectively.

## **NOTE 18: Resident Service Revenue**

Masonic Villages has agreements with third-party payors that provide for reimbursement to 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, 2019 and 2018, 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.

**NOTE 18: Resident Service Revenue – Continued**

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.

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 \$ 1,630,713 and \$ 1,681,722 for the years ended December 31, 2019 and 2018, 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 \$ 2,829,212 and \$ 2,872,813 from the nursing assessment program for the years ended December 31, 2019 and 2018, 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, 2019 and 2018 was \$ 1,608,327 and \$ 2,002,828, 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.

Generally accepted accounting principles require organizations to disaggregate revenue from contracts with customers to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Masonic Villages disaggregates its resident service revenue from contracts with customers by payor source and by service type.

**NOTE 18: Resident Service Revenue – Continued**

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, 2019 and 2018 from these major payor sources is as follows:

	<b>2019</b>			<b>Total</b>
	<b>Medicare and Medicaid</b>	<b>Other Third Party Payors</b>	<b>Private Pay</b>	
Gross resident service revenue	\$ 75,763,455	\$ 24,421,880	\$ 105,673,847	\$ 205,859,182
Less provisions for:				
Contractual adjustments under third party reimbursement programs	30,338,303	9,332,640	-	39,670,943
Charity care allowances	<u>-</u>	<u>-</u>	<u>11,369,495</u>	<u>11,369,495</u>
Net resident service revenue, before provision for bad debts	<u>\$ 45,425,152</u>	<u>\$ 15,089,240</u>	<u>\$ 94,304,352</u>	<u>\$ 154,818,744</u>
	<b>2018</b>			
	<b>Medicare and Medicaid</b>	<b>Other Third Party Payors</b>	<b>Private Pay</b>	<b>Total</b>
Gross resident service revenue	\$ 70,934,979	\$ 22,344,487	\$ 100,883,942	\$ 194,163,408
Less provisions for:				
Contractual adjustments under third party reimbursement programs	26,803,282	9,153,297	-	35,956,579
Charity care allowances	<u>-</u>	<u>-</u>	<u>10,809,494</u>	<u>10,809,494</u>
Net resident service revenue, before provision for bad debts	<u>\$ 44,131,697</u>	<u>\$ 13,191,190</u>	<u>\$ 90,074,448</u>	<u>\$ 147,397,335</u>



**NOTE 18: Resident Service Revenue – Continued**

Resident service revenue by service type for the years ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Nursing Care	\$ 70,950,344	\$ 68,268,943
Medical Ancillary Clinics	5,212,012	5,382,889
Pharmacy	6,760,917	5,167,240
Personal Care	11,072,767	10,827,195
Retirement Living	47,975,023	45,090,126
Child Day Center	1,144,426	1,619,644
Adult Daily Living Center	370,304	416,619
Residential Care Program	389,065	380,893
Hospice	4,444,136	4,119,108
Wellness Center	412,333	370,345
Home Health Care Services	1,597,055	1,210,987
Home Care Services	1,115,860	1,063,460
Other services, including meals, communications, laundry, parking, and gift and beauty shops	<u>3,374,502</u>	<u>3,479,886</u>
Net resident service revenue, before provision for bad debts	<u>\$ 154,818,744</u>	<u>\$ 147,397,335</u>

**NOTE 19: 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.

**NOTE 19: Charity Care and Community Service – Continued**

Charges forgone for charity care and the estimated costs of providing charity care for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Charges forgone	<u>\$ 11,369,495</u>	<u>\$ 10,809,494</u>
Estimated cost to provide charity care	<u>\$ 9,995,711</u>	<u>\$ 9,500,941</u>

Masonic Villages has received contributions restricted for the care and support of Retirement Living residents eligible for charity care. These contributions are recorded as net assets with donor restrictions 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 \$ 359,586 and \$ 343,804 for the years ended December 31, 2019 and 2018, 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 \$ 22,954,000 and \$ 20,306,000 in 2019 and 2018, respectively.

Masonic Villages conducts two programs that benefit people not residing at one of the five locations. 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 \$ 87,425 and \$ 97,776 for the years ended December 31, 2019 and 2018, 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 \$358 and \$ 989 for the years ended December 31, 2019 and 2018, respectively.

During 2019 and 2018, 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 \$ 177,000 and \$ 186,000 for the years ended December 31, 2019 and 2018, respectively.

Masonic Villages made contributions of cash and in-kind services to not-for-profit organizations in the communities it serves. For the years ended December 31, 2019 and 2018, these contributions totaled \$ 149,331 and \$ 168,546, 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 \$ 70,546 and \$ 147,418 for the years ended December 31, 2019 and 2018, respectively.

## NOTE 20: 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. Functional expenses reported in the consolidated financial statements represent combinations of specific cost centers within the Masonic Villages' accounting structure. Cost centers are used to focus on specific operational activities, such as an individual program or administrative service. Use of the cost centers enable individual expenses to be assigned directly to the appropriate activity as incurred throughout the year. Certain expenses that are incurred at an entity level are not assigned to an individual cost center and must be allocated among the programs and supporting services benefited using a reasonable basis that is consistently applied. Expenses that require allocation include employee healthcare costs and net periodic pension expense.

The following table summarizes operating expenses on a functional basis for the year ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Program Services:		
Nursing Care	\$ 65,132,471	\$ 72,899,433
Medical Ancillary Clinics	6,511,100	7,188,617
Pharmacy	6,639,692	5,456,581
Personal Care	10,811,748	11,833,304
Retirement Living	47,329,655	48,352,075
Children's Home	2,288,789	2,582,712
Adult Daily Living Center	329,835	367,275
Residential Care Program	294,038	339,315
Hospice	4,198,052	4,189,926
Wellness Center	1,118,407	1,241,847
Home Health Care Services	1,712,034	1,376,218
Home Care Services	999,358	1,014,182
Community Services	206,828	310,182
Child Day Care Center	1,339,601	1,779,273
Conference Facilities	2,604,911	2,509,769
Contributions to Affiliates	2,357,201	2,868,742
Employee Housing and Rental Property	1,485,861	1,217,985
Member Services	122,348	1,468,175
Farm	1,959,780	2,234,072
Communications Services	1,233,821	1,091,204
Admissions and Resident Services	2,250,937	2,493,335
Support Services	4,258,473	5,070,757
Maintenance	8,680,689	9,078,681
Food Services	<u>5,565,609</u>	<u>6,118,911</u>
Total program services expense	179,431,238	193,082,571
Management and general - Administration	25,956,357	26,077,884
Fundraising - Gift Planning	<u>1,762,734</u>	<u>1,947,296</u>
	<u>\$ 207,150,329</u>	<u>\$ 221,107,751</u>

## NOTE 21: 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 donors to benefit needy Masons, widows, and children. Contributions were received by Masonic Villages from the following trusts for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Thomas Ranken Patton Contingency Fund	\$ 217,311	\$ 555,071
Thomas Ranken Patton Masonic Institution for Boys	106,258	200,014
Thomas Ranken Patton Memorial Charity Fund	438,000	438,000
Gertrude M. Flach Scholarship Fund	-	60,000
Nelson Herst Scholarship Fund	-	45,495
Henry C. and Anna C. Ellis Trust	54,245	40,200
Joseph W. Murray Memorial Fund	23,027	21,279
Charles W. Jackson McClary Memorial Fund #1	6,196	5,725
	<u>\$ 845,037</u>	<u>\$ 1,365,784</u>

During the year ended December 31, 2018, the Masonic Charities Fund received a bequest to establish a permanent endowment fund. The donor specified that income generated by the permanent endowment be used for the repair, improvement and maintenance of Masonic Villages' outdoor swimming pool and conference facilities. Investment income earned by this endowment and contributed by the Masonic Charities Fund to Masonic Villages totaled \$4,168 and \$1,834 for the years ended December 31, 2019 and 2018, respectively. These contributions from Masonic Charities Fund are included in non-operating gains on the consolidated statement of operations for the years ended December 31, 2019 and 2018.

During the year ended December 31, 2018, the Masonic Charities Fund made a contribution of \$10,000 to Masonic Villages. This contribution was made to pay general operating expenses of the Children's Home located at the Masonic Village at Elizabethtown. The contribution from Masonic Charities Fund is included in non-operating gains on the consolidated statement of operations for the year ended December 31, 2018.

### Contributions to Affiliated Organizations

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

	<u>2019</u>	<u>2018</u>
Pennsylvania Masonic Youth Foundation	\$ 179,808	\$ 434,729
The Masonic Library and Museum of Pennsylvania	2,176,781	2,433,484
	<u>\$ 2,356,589</u>	<u>\$ 2,868,213</u>

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.

## **NOTE 21: Transactions with Affiliated Organizations – Continued**

### Contributions to Affiliated Organizations – Continued

Masonic Villages made contributions totaling \$ 2,176,781 to The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) for the year ended December 31, 2019. These contributions consisted of cash payments of \$ 2,133,823 and donated services provided by Masonic Villages' employees with a cost of \$ 42,958.

Masonic Villages made contributions totaling \$ 2,433,484 to The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) for the year ended December 31, 2018. These contributions consisted of cash payments of \$ 1,722,881, a payment to the defined benefit pension plan of \$ 685,005 on behalf of Masonic Library and Museum, and donated services provided by Masonic Villages' employees with a cost of \$ 25,598.

Contributions from Masonic Villages' net assets with donor restrictions are made to the Masonic Charities Fund. These contributions are reported as satisfaction of donor restrictions in the consolidated statements of changes in net assets. The contributions are made from the Reidler Helping Hand Fund, which was established to benefit Masonic Villages and the Masonic Charities Fund. Contributions from this trust to the Masonic Charities Fund totaled \$612 and \$529 for the years ended December 31, 2019 and 2018, respectively.

### Administrative and Program Service Expenses

For the years ended December 31, 2019 and 2018, 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, 2019 and 2018 were \$64,434 and \$ 28,826, respectively. Reimbursement received for these costs is included in other operating revenue on the consolidated statements of operations.

During the years ended December 31, 2019 and 2018, 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 \$42,958 and \$ 25,598 for 2019 and 2018, 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, 2019 and 2018 were \$37,005 and \$ 32,310, respectively. These costs are included in operating expenses on the consolidated statements of operations.

During 2019 and 2018, 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, 2019 and 2018 were \$ 16,541 and \$ 18,070, respectively, and are included in other operating revenue on the consolidated statements of operations.

**NOTE 21: Transactions with Affiliated Organizations – Continued**

Administrative and Program Service Expenses – Continued

For the years ended December 31, 2019 and 2018, 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, 2019 and 2018 were \$ 482,047 and \$ 477,170, respectively. Pennsylvania Masonic Youth Foundation made payments of \$ 450,000 and \$ 200,000 to Masonic Villages to reduce the cost of services provided by Masonic Villages' employees for the years ended December 31, 2019 and 2018, respectively. These costs, net of the reimbursement payments, 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, 2019 and 2018 were \$ 107,957 and \$ 122,600, respectively. These costs are included in operating expenses on the consolidated statements of operations.

Note Receivable – Grand Lodge

In November 2018, Grand Lodge was required to make a cash contribution totaling \$542,846 to the defined benefit pension plan in order to complete the final settlement of the pension plan described in Note 17. Masonic Villages made this cash contribution on behalf of Grand Lodge to enable the pension plan settlement transaction to proceed. On December 31, 2018, Grand Lodge entered an unsecured promissory note agreement to repay the \$542,846 to Masonic Villages. The promissory note provides for interest at a rate of 3.31%. Grand Lodge will pay interest to Masonic Villages on a quarterly basis, beginning on March 31, 2020. Grand Lodge will make annual principal payments to Masonic Villages beginning on March 31, 2021 until the note matures on March 31, 2031.

The following is a schedule of principal payments due on the promissory note receivable from Grand Lodge for the years ending December 31:

2020	-
2021	54,285
2022	54,285
2023	54,285
2024	54,285
Thereafter	<u>325,706</u>
	<u>\$ 542,846</u>

**NOTE 22: 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.

**NOTE 22: Split-Interest Agreements – Continued**

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 without donor restrictions or with donor restrictions based on the existence of any donor-imposed conditions in the split-interest agreement.

As of December 31, 2019 and 2018, the fair value of assets recognized under split-interest agreements by Masonic Villages, consisting principally of cash and investments, was as follows:

	<u>2019</u>	<u>2018</u>
Perpetual trusts held by third parties	\$ 44,068,400	\$ 39,933,324
Charitable gift annuities	8,582,691	8,593,461
Charitable remainder unitrusts	<u>1,052,834</u>	<u>787,266</u>
	<u>\$ 53,703,925</u>	<u>\$ 49,314,051</u>

Contribution revenues recognized by Masonic Villages under split-interest agreements for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Without donor restrictions -		
Charitable gift annuities	\$ 243,564	\$ 215,462
Charitable remainder unitrusts	144,432	42,644
With donor restrictions -		
Charitable lead annuity trusts	-	53,895
Promises to give	<u>170,000</u>	<u>100,000</u>
	<u>\$ 557,996</u>	<u>\$ 412,001</u>

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 \$ 2,212,609 and \$ 1,735,936 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 23: Fair Value Measurements**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

**Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

## NOTE 23: Fair Value Measurements – Continued

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3:** Inputs that are unobservable inputs for the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

### ***Domestic and International Common Stock, Mutual Funds – Equity Securities, Exchange Traded Funds and Real Estate Investment Trusts***

Valued at end of day quoted prices in active markets for identical assets, if available (Level 1). If the market is not active, they are valued using quoted prices for similar assets in active markets or identical assets in inactive markets (Level 2).

### ***U.S. Government Securities, Domestic Corporate Bonds, Municipal Securities, Mortgage Backed Securities, Assets Backed Securities and Demand Notes***

Valued at end of day pricing using quoted prices for similar assets in active markets or identical assets in inactive markets.

### ***Money Market Mutual Funds***

These funds are valued at the end of day closing price based on net asset value (NAV). The value is based on quoted prices for similar assets in active markets or identical assets in inactive markets.

### ***Perpetual Trust Held By Third Parties***

The value of perpetual trusts is determined based on the end of day value of the underlying investments. The investments are valued using quoted prices in active markets or quoted prices for similar assets in active markets or identical assets in inactive markets.

### ***Private Equity Investments***

Valued at the bid price of the investment or if there is no price for the investment in question, the value is the amount which would be paid to a seller for an immediate transfer to another plus any charges for the transfer. The value of an investment which has no price is determined using comparable assets of public markets, private transactions or valuations of comparable companies or assets.

As described in Note 8, Masonic Villages' most significant investment is its share of the Consolidated Fund.



**NOTE 23: Fair Value Measurements – Continued**

The fair values of the Consolidated Fund’s assets measured on a recurring basis as of December 31, 2019 and 2018 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)
<b>At December 31, 2019</b>				
Domestic and international common stocks:				
Consumer staples and discretionary	\$ 91,194,368	\$ 90,648,513	\$ 545,855	\$ -
Energy	7,762,931	7,762,931	-	-
Financial	39,410,326	39,410,326	-	-
Industrials	92,826,277	92,726,560	99,717	-
Information technology	6,937,009	6,937,009	-	-
Materials	4,987,861	4,987,861	-	-
Transportation	3,440,585	3,440,585	-	-
Telecommunications services	25,310,512	25,310,512	-	-
Total domestic and international common stocks	<u>271,869,869</u>	<u>271,224,297</u>	<u>645,572</u>	<u>-</u>
U.S. Government securities	<u>20,307,356</u>	<u>-</u>	<u>20,307,356</u>	<u>-</u>
Domestic corporate bonds:				
Aaa credit rating	3,101,109	-	3,101,109	-
Aa credit rating	11,214,639	-	11,214,639	-
A credit rating	42,882,305	1,017,460	41,864,845	-
Baa credit rating	1,558,927	-	1,558,927	-
Bb credit rating	801,496	-	801,496	-
Bbb credit rating	51,659,693	-	51,659,693	-
Unrated	3,342,427	-	3,342,427	-
Total domestic corporate bonds	<u>114,560,596</u>	<u>1,017,460</u>	<u>113,543,136</u>	<u>-</u>
Municipal bonds:				
Aaa credit rating	2,236,848	-	2,236,848	-
Aa credit rating	4,932,462	-	4,932,462	-
A credit rating	566,199	-	566,199	-
Unrated	1,409,137	-	1,409,137	-
Total municipal bonds	<u>9,144,646</u>	<u>-</u>	<u>9,144,646</u>	<u>-</u>
Mutual funds - Equity securities	<u>31,418,689</u>	<u>31,192,412</u>	<u>226,277</u>	<u>-</u>
Exchange traded funds	<u>191,285,100</u>	<u>191,285,100</u>	<u>-</u>	<u>-</u>
Mortgage backed securities	<u>28,551,986</u>	<u>-</u>	<u>28,551,986</u>	<u>-</u>
Asset backed securities	<u>29,907,105</u>	<u>410,430</u>	<u>29,496,675</u>	<u>-</u>
Demand notes	<u>401,967</u>	<u>-</u>	<u>401,967</u>	<u>-</u>
Real estate investment trusts	<u>312,533</u>	<u>312,533</u>	<u>-</u>	<u>-</u>
Money Market funds	<u>40,073,961</u>	<u>-</u>	<u>40,073,961</u>	<u>-</u>
Private equity investments	<u>10,274,924</u>	<u>-</u>	<u>-</u>	<u>10,274,924</u>
Investments measured at net asset value:				
Mutual funds - equity securities	<u>41,051,910</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments measured at net asset value	<u>41,051,910</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - All Investment Types	<u>\$ 789,160,642</u>	<u>\$ 495,442,232</u>	<u>\$ 242,391,576</u>	<u>\$ 10,274,924</u>

**NOTE 23: Fair Value Measurements – Continued**

<b>At December 31, 2018</b>	<b>Fair Value</b>	<b>Quote Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Domestic and international common stocks:</b>				
Consumer staples and discretionary	\$ 74,390,338	\$ 74,390,338	\$ -	\$ -
Energy	8,562,083	8,562,083	-	-
Financial	32,422,005	32,422,005	-	-
Industrials	74,563,339	74,563,339	-	-
Information technology	869,052	869,052	-	-
Materials	4,782,304	4,782,304	-	-
Transportation	4,242,649	3,322,755	919,894	-
Telecommunications services	8,656,413	8,656,413	-	-
Total domestic and international common stocks	<u>208,488,183</u>	<u>207,568,289</u>	<u>919,894</u>	<u>-</u>
U.S. Government securities	<u>13,736,966</u>	<u>-</u>	<u>13,736,966</u>	<u>-</u>
<b>Domestic corporate bonds:</b>				
Aaa credit rating	2,166,221	-	2,166,221	-
Aa credit rating	10,619,532	-	10,619,532	-
A credit rating	36,033,627	-	36,033,627	-
Baa credit rating	40,159,552	-	40,159,552	-
Bb credit rating	287,087	-	287,087	-
Bbb credit rating	10,388,123	-	10,388,123	-
Unrated	529,406	-	529,406	-
Total domestic corporate bonds	<u>100,183,548</u>	<u>-</u>	<u>100,183,548</u>	<u>-</u>
<b>Municipal bonds:</b>				
Aaa credit rating	1,268,706	-	1,268,706	-
Aa credit rating	3,191,248	-	3,191,248	-
A credit rating	191,460	-	191,460	-
Bb credit rating	352,370	-	352,370	-
Unrated	815,654	-	815,654	-
Total municipal bonds	<u>5,819,438</u>	<u>-</u>	<u>5,819,438</u>	<u>-</u>
Mutual funds - Equity securities	<u>59,981,260</u>	<u>59,830,257</u>	<u>151,003</u>	<u>-</u>
Exchange traded funds	<u>162,608,761</u>	<u>162,608,761</u>	<u>-</u>	<u>-</u>
Mortgage backed securities	<u>28,359,590</u>	<u>-</u>	<u>28,359,590</u>	<u>-</u>
Asset backed securities	<u>30,852,613</u>	<u>-</u>	<u>30,852,613</u>	<u>-</u>
Demand notes	<u>426,210</u>	<u>-</u>	<u>426,210</u>	<u>-</u>
Real estate investment trusts	<u>597,061</u>	<u>597,061</u>	<u>-</u>	<u>-</u>
Money Market funds	<u>49,556,083</u>	<u>-</u>	<u>49,556,083</u>	<u>-</u>
Private equity investments	<u>7,997,689</u>	<u>-</u>	<u>-</u>	<u>7,997,689</u>
<b>Investments measured at net asset value:</b>				
Limited partnership - international	72,516	-	-	-
Mutual funds - equity securities	<u>34,175,539</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments measured at net asset value	<u>34,248,055</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total - All Investment Types</b>	<u><u>\$ 702,855,457</u></u>	<u><u>\$ 430,604,368</u></u>	<u><u>\$ 230,005,345</u></u>	<u><u>\$ 7,997,689</u></u>

**NOTE 23: Fair Value Measurements – Continued**

The Consolidated Fund has investments in certain financial instruments whose fair values are measured as a practical expedient by using the net asset value per share of the investment. 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 as a practical expedient by using the net asset value per share of the investment and their redemption features are as follows as of December 31, 2019 and 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>At December 31, 2019</b>				
Mutual fund - Equity securities	\$ 27,313,228	\$ -	Quarterly	60 Days
Mutual fund - Equity securities	3,750,000	-	Quarterly	60 Days
Mutual fund - Equity securities	9,988,682	-	Monthly	5 Days
Private equity investments	<u>10,274,924</u>	<u>-</u>	Illiquid	Not Applicable
	<u>\$ 51,326,834</u>	<u>\$ -</u>		

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>At December 31, 2018</b>				
Mutual fund - Equity securities	\$ 25,153,897	\$ -	Quarterly	60 Days
Mutual fund - Equity securities	9,021,642	-	Monthly	5 Days
Private equity investments	7,997,689	-	Illiquid	Not Applicable
Limited partnership - international	<u>72,516</u>	<u>-</u>	Quarterly	45 Days
	<u>\$ 42,245,744</u>	<u>\$ -</u>		

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 limited partnership – international funds in early 2009. The liquidations of the special investment funds created from the redemption process were completed during the year ended December 31, 2019.

**NOTE 23: Fair Value Measurements – Continued**

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, 2019 and 2018:

	<u>Total</u>	<u>Private Equity Investments</u>
Fair value at January 1, 2018	\$ 3,721,492	\$ 3,721,492
Unrealized gains	401,764	401,764
Purchases	<u>3,874,433</u>	<u>3,874,433</u>
Fair value at December 31, 2018	7,997,689	7,997,689
Unrealized gains	834,772	834,772
Purchases	<u>1,442,463</u>	<u>1,442,463</u>
Fair value at December 31, 2019	<u>\$ 10,274,924</u>	<u>\$ 10,274,924</u>

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 contributions receivable from beneficial interests in charitable lead annuity trusts is determined by calculating the present value of the annuity using published life expectancy tables and discount rates ranging from 2.17% to 4.25%. 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 1.92% to 2.45%.

**NOTE 23: Fair Value Measurements – Continued**

The fair values of assets measured on a recurring basis as of December 31, 2019 and 2018 are as follows:

	<b>Fair Value</b>	<b>Quote Prices</b>		
		<b>In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Input (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>At December 31, 2019</b>				
Investments (excluding Consolidated Fund):				
Money Market Funds	\$ 7,017,609	\$ 7,017,609	\$ -	\$ -
Equity Funds	2,022,503	2,022,503	-	-
Real estate	391,007	-	391,007	-
Perpetual Trusts Held by Third Parties	44,068,400	-	44,068,400	-
Contributions receivable:				
Charitable lead annuity trusts	305,070	-	305,070	-
Promises to give	167,179	-	-	167,179
	<u>\$ 53,971,768</u>	<u>\$ 9,040,112</u>	<u>\$ 44,764,477</u>	<u>\$ 167,179</u>
<b>At December 31, 2018</b>				
Investments (excluding Consolidated Fund):				
Money Market Funds	\$ 6,798,732	\$ 6,798,732	\$ -	\$ -
Equity Funds	1,519,692	1,519,692	-	-
Common Trust Funds	391,007	-	391,007	-
Perpetual Trusts Held by Third Parties	39,933,324	-	39,933,324	-
Contributions receivable:				
Charitable lead annuity trusts	355,118	-	355,118	-
Promises to give	45,215	-	-	45,215
	<u>\$ 49,043,088</u>	<u>\$ 8,318,424</u>	<u>\$ 40,679,449</u>	<u>\$ 45,215</u>

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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Fair value as of January 1	\$ 45,215	\$ 17,757
Promises to give received	170,000	30,104
Cash payments received	(44,604)	(2,000)
Actuarial adjustment of fair value based on remaining terms of promises to give and risk-free interest rates	(3,432)	(646)
Fair value as of December 31	<u>\$ 167,179</u>	<u>\$ 45,215</u>

**NOTE 23: Fair Value Measurements – Continued**

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.

The fair values of liabilities measured on a recurring basis as of December 31, 2019 and 2018 are as follows:

	<b>Fair Value</b>	<b>Quote Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Input (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>At December 31, 2019</b>				
Annuities payable	\$ 5,896,650	\$ -	\$ 5,896,650	\$ -
Interest rate swap agreements	18,018,008	-	18,018,008	-
	<u>\$ 23,914,658</u>	<u>\$ -</u>	<u>\$ 23,914,658</u>	<u>\$ -</u>
<b>At December 31, 2018</b>				
Annuities payable	\$ 5,688,864	\$ -	\$ 5,688,864	\$ -
Interest rate swap agreements	15,908,986	-	15,908,986	-
	<u>\$ 21,597,850</u>	<u>\$ -</u>	<u>\$ 21,597,850</u>	<u>\$ -</u>

Masonic Villages meets the requirements for disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of Masonic Villages.

**NOTE 23: Fair Value Measurements – Continued**

The carrying amounts and fair values of Masonic Village’s financial instruments are as follows:

	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>At December 31, 2019</b>					
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 26,555,620	\$ 26,555,620	\$ 26,555,620	\$ -	\$ -
Assets whose use is limited	2,752,206	2,752,206	2,752,206	-	-
Resident accounts and other receivables	8,966,217	8,966,217	-	-	8,966,217
Estimated third party settlements	1,608,327	1,608,327	-	-	1,608,327
Notes receivable	1,663,647	1,663,647	-	-	1,663,647
<b>Financial Liabilities:</b>					
Accounts payable and accrued expenses	\$ 26,569,413	\$ 26,569,413	\$ 26,569,413	\$ -	\$ -
Annuities payable	5,896,650	5,896,650	-	-	5,896,650
Interest rate swap agreements	18,018,008	18,018,008	-	18,018,008	-
Long-term debt	177,430,453	180,789,000	-	180,789,000	-
<b>At December 31, 2018</b>					
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 24,322,470	\$ 24,322,470	\$ 24,322,470	\$ -	\$ -
Assets whose use is limited	2,671,517	2,671,517	2,671,517	-	-
Resident accounts and other receivables	8,353,436	8,353,436	-	-	8,353,436
Estimated third party settlements	2,002,828	2,002,828	-	-	2,002,828
Notes receivable	2,635,541	2,635,541	-	-	2,635,541
<b>Financial Liabilities:</b>					
Accounts payable and accrued expenses	\$ 23,881,951	\$ 23,881,951	\$ 23,881,951	\$ -	\$ -
Annuities payable	5,688,864	5,688,864	-	-	5,688,864
Interest rate swap agreements	15,908,986	15,908,986	-	15,908,986	-
Long-term debt	188,401,444	189,277,000	-	189,277,000	-

**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 comply with the minimum reserve requirement.

**NOTE 24: Minimum Liquid Reserve Requirement– Continued**

The minimum required reserve amounts for the years ended December 31, 2019 and 2018 were determined using projected expense and principal payment amounts for the years ending December 31, 2020 and 2019, respectively. The minimum required reserve amounts calculated under the two methods were as follows:

	<u>2019</u>	<u>2018</u>
<u>Operating Expense Method</u>		
Operating expenses	\$ 219,735,620	\$ 205,775,642
Less: Depreciation expense	<u>27,902,780</u>	<u>26,055,117</u>
Cash expenses for minimum liquid reserve	191,832,840	179,720,525
Percentage of cash expenses to be held in reserve	<u>10%</u>	<u>10%</u>
Minimum liquid reserve requirement under Operating Expense Method	<u>\$ 19,183,284</u>	<u>\$ 17,972,053</u>
<u>Debt Service Method</u>		
Interest expense	\$ 6,640,865	\$ 6,989,334
Principal payments	<u>8,830,000</u>	<u>10,575,000</u>
Minimum liquid reserve requirement under Debt Service Method	<u>\$ 15,470,865</u>	<u>\$ 17,564,334</u>

The fair value of the Masonic Villages Reserve Fund at December 31, 2019 and 2018 totaled \$ 158,792,568 and \$ 157,428,448, respectively. Masonic Villages met the minimum liquid reserve required by the Insurance Department for the years ended December 31, 2019 and 2018.

**NOTE 25: Subsequent Events**

Masonic Villages has evaluated events and transactions subsequent to December 31, 2019 through April 24, 2020, the date these financial statements were issued. Based on the definitions and requirements of generally accepted accounting principles, Masonic Villages has identified the following three events that have occurred subsequent to December 31, 2019 and through April 24, 2020, that require recognition or disclosure in the financial statements:

Pennsylvania Masonic Youth Foundation (Foundation) and the Masonic Library and Museum are both not-for-profit corporations whose sole member was Grand Lodge prior to January 1, 2020. Masonic Villages has always had an economic interest in the Foundation and the Masonic Library and Museum through the significant annual financial support provided by Masonic Villages to both not-for-profit corporations. On December 27, 2019, the Foundation's Board of Directors approved new by-laws that made Masonic Villages the sole member of the Foundation, with an effective date of January 1, 2020. On December 27, 2019, the Masonic Library and Museum's Board of Directors approved new by-laws that made Masonic Villages the sole member of the Masonic Library and Museum, with an effective date of January 1, 2020. As the sole member of the Foundation and the Masonic Library and Museum, Masonic Villages will have the ability to determine the direction of management and policies for both organizations. Generally accepted accounting principles require an organization that has both control of and an economic interest in another entity to include the assets, liabilities, revenues and expenses of that entity in its consolidated financial statements. Accordingly, the Foundation and the Masonic Library and Museum became part of the aggregate Masonic Villages entity as of January 1, 2020 for financial reporting purposes.



**NOTE 25: Subsequent Events - Continued**

The financial impact of the consolidation of the Foundation and the Masonic Library and Museum into Masonic Villages as of January 1, 2020 is as follows:

	Pennsylvania Masonic Youth Foundation	The Masonic Library and Museum of Pennsylvania	Total
Total assets	<u>\$ 14,875,451</u>	<u>\$ 21,129,055</u>	<u>\$ 36,004,506</u>
Total liabilities	\$ 56,526	\$ 621,840	\$ 678,366
Net assets without restrictions	11,253,942	11,532,129	22,786,071
Net assets with restrictions	<u>3,564,983</u>	<u>8,975,086</u>	<u>12,540,069</u>
	<u>\$ 14,875,451</u>	<u>\$ 21,129,055</u>	<u>\$ 36,004,506</u>

On December 3, 2019, the Grand Lodge Committee on Finance approved a resolution to make the operations of Grand Lodge and its charitable affiliates and subsidiaries more efficient and effective. One of the elements of this effort was a review of the donor restricted funds and perpetual trusts held by third parties reported as assets of Grand Lodge and the Masonic Charities Fund as of December 31, 2019. Some of these donor restricted funds and perpetual trusts held by third parties had been established for the primary benefit of another charity, including Masonic Villages. Although Grand Lodge and the Masonic Charities Fund had been appropriately distributing income generated by these assets each year to the charity named as the primary beneficiary, the funds and trusts were not reported as assets of those beneficiary charitable entities. As a result of this review, these donor restricted funds and trusts were reassigned in 2020 to achieve a better alignment of the assets with the charitable entity that is the beneficiary of the related income. On January 1, 2020, Grand Lodge and the Masonic Charities Fund transferred donor restricted funds and perpetual trusts held by third parties with fair values totaling \$49,560,582 to Masonic Villages as follows:

	Grand Lodge	Masonic Charities Fund	Total
Donor restricted funds	\$ 46,801,111	\$ 371,640	\$ 47,172,751
Perpetual trusts held by third parties	<u>2,387,831</u>	-	<u>2,387,831</u>
	<u>\$ 49,188,942</u>	<u>\$ 371,640</u>	<u>\$ 49,560,582</u>

As a result of the COVID-19 pandemic, investment markets have seen a significant decline in market value which has impacted Masonic Villages' investment portfolio. Also, disruption to Masonic Villages' residents, operations, and donors could impact the value of certain receivables and revenues. At this point, the duration and extent of the COVID-19 impact on the value of Masonic Villages assets and revenues cannot be reasonably estimated. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration and extent of the economic impact. Therefore, it is reasonable to expect that Masonic Villages' financial condition and operating results could be negatively impacted, but the degree of such impact is uncertain at this time.

## **NOTE 26: Commitments and Contingencies**

Masonic Villages has signed contracts for various construction projects approximating \$ 12,839,000. Approximately \$7,897,000 has been paid or accrued on these contracts as of December 31, 2019.

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 \$ 1,310,055 and \$ 1,304,855 in lieu of tax payments under this agreement for the years ended December 31, 2019 and 2018, respectively. For the year ending December 31, 2020, Masonic Villages' commitment under the agreement is approximately \$ 1,323,000.

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 \$ 853,145 and \$ 840,606 under this agreement for the years ended December 31, 2019 and 2018, respectively. For the year ending December 31, 2020 Masonic Villages' commitment under the agreement is approximately \$ 864,000.

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 \$ 46,312 and \$ 46,175 under these two agreements for the years ended December 31, 2019 and 2018, 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 \$ 35,930 and \$ 35,589 under this agreement for the years ended December 31, 2019 and 2018, respectively. For the year ending December 31, 2020, Masonic Villages' commitment under the agreement is approximately \$ 36,000.

## **NOTE 26: Commitments and Contingencies - Continued**

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 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, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could be material. In addition, recent economic uncertainty and market events as a result of the COVID-19 pandemic and other market forces have led to unprecedented volatility in currency, commodity, credit and equity markets. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in Masonic Villages' investment portfolio.

Recent economic and government reactions to the COVID-19 pandemic have resulted in temporary reductions or shut down of operations for some businesses and created many economic uncertainties. These events could impact the financial condition and operating results of Masonic Villages. However, the financial impact and duration cannot be reasonably estimated at this time.

## NOTE 28: Cybersecurity Incident

Masonic Villages identified certain system functionality and access issues with its computer network on or about June 27, 2019. Following notification to its cyber liability insurance carrier, Masonic Villages engaged special cyber liability legal counsel and a third party data security consulting firm to conduct a root cause forensic investigation. The forensic investigation concluded that malware containing a crypto mining bot infiltrated Masonic Villages systems on or around June 7, 2019. The malware spread across Masonic Villages systems, affecting functionality and access. Although the malware established persistence in Masonic Villages systems, the malware was not known to have exfiltration or data targeting capabilities. There was no evidence of a targeted attack, data staging, data exfiltration or data access. There was no evidence of the compromise of any personally identifiable information or protected health information in Masonic Villages' environment. Based on the results of the investigation, special legal counsel concluded that the malware incident did not rise to the level of a reportable event under applicable state and federal laws, rules and regulations. Accordingly, Masonic Villages was not required to disclose the malware incident to any regulators or individuals pursuant to these laws, rules and regulations. Masonic Villages is not aware that the malware incident affected any requirements or obligations under its contractual arrangements with third parties, including notification and privacy provisions in its business associate agreements and financial covenants in loan agreements.

Masonic Villages incurred direct expenditures totaling \$1,269,411 for the year ended December 31, 2019 in connection with the investigation of this cybersecurity incident and the subsequent remediation and recovery effort to restore functionality and access to its systems. These expenditures include fees paid to special cyber security legal counsel, the third party data security consulting firm principally responsible for the forensic investigation of Masonic Villages' systems, and other third party consultants engaged to assist Masonic Villages with its remediation and recovery effort. These expenditures also include the purchase of new replacement equipment and the restoration of equipment exposed to the infected systems. Cybersecurity incident remediation costs have been reported in Masonic Villages' financial statements for the year ended December 31, 2019 as follows:

Purchases of equipment capitalized as depreciable assets	\$ 584,290
Payments for specialized services and other incidental items recognized as expense	<u>685,121</u>
	<u>\$ 1,269,411</u>

Some of these costs may eventually be reimbursed through Masonic Villages' business interruption insurance. Under the terms of Masonic Villages' business interruption insurance policy, claims for reimbursement of costs related to this cybersecurity incident must be submitted to the insurer by December 2020. As of December 31, 2019, Masonic Villages was compiling the information necessary to submit a claim for reimbursement to the insurance carrier. Since a claim has not yet been formally submitted, Masonic Villages has not accrued insurance reimbursement receivable as of December 31, 2019.