

Audited  
Consolidated  
Financial  
Statements

December 31,  
2021

---

Masonic Villages  
of the Grand Lodge  
of Pennsylvania

## INDEX

	<u>PAGE</u>
Independent Auditor's Report	1 - 2
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7 - 8
Notes to Consolidated Financial Statements	9 – 52
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	53 – 54
Schedule of Findings and Responses	55



## ***INDEPENDENT AUDITOR'S REPORT***

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

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

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, 2021 and 2020, 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.

In our opinion, based on our audits and the report of the 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, 2021 and 2020, 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.

We did not audit the financial statements of Pennsylvania Acacia Insurance Company, Ltd, a wholly-owned subsidiary, which statements reflect total assets of \$ 16,896,427 and \$ 15,134,311 as of December 31, 2021 and 2020, respectively, and total revenues of \$ 1,871,002 and \$ 1,630,489, 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.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

#### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2022, on our consideration of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control over financial reporting and compliance.



Camp Hill, Pennsylvania  
April 26, 2022



LIABILITIES AND NET ASSETS	<u>2021</u>	<u>2020</u>
Current Liabilities:		
Current installments of long-term debt (Note 13)	\$ 9,495,000	\$ 9,145,000
Accrued expenses	18,254,442	18,103,111
Accounts payable:		
Trade	4,334,369	7,045,999
Grand Lodge	101,263	-
Grand Lodge of Pennsylvania Charity Foundation	25,223	18,255
Deferred revenue from estates and trusts	50,085	54,107
Deposits - Residents	1,207,661	1,008,331
Deposits on unoccupied units	1,525,244	1,248,195
Annuities payable	<u>1,144,260</u>	<u>929,847</u>
 Total current liabilities	 <u>36,137,547</u>	 <u>37,552,845</u>
 Annuities payable, net of current portion	 9,189,088	 5,724,393
 Refundable fees	 103,227,497	 106,881,509
 Deferred revenue from entrance fees	 126,452,274	 123,712,556
 Interest rate swap agreements (Note 12)	 15,272,173	 20,442,514
 Long-term debt, net (Note 13)	 <u>149,256,623</u>	 <u>159,099,246</u>
 Total liabilities	 <u>439,535,202</u>	 <u>453,413,063</u>
Net Assets		
Without donor restrictions	541,317,494	487,843,754
With donor restrictions	<u>441,697,997</u>	<u>413,394,842</u>
 Total net assets	 <u>983,015,491</u>	 <u>901,238,596</u>
 Total liabilities and net assets	 <u>\$ 1,422,550,693</u>	 <u>\$ 1,354,651,659</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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Resident service revenue (Note 18)	\$ 147,648,813	\$ 152,179,370
Provision for bad debts	(64,312)	(442,302)
Net resident service revenue	<u>147,584,501</u>	<u>151,737,068</u>
Amortization of entrance fees	15,097,123	14,139,684
Other operating revenue	7,645,944	15,084,065
Investment income	9,524,919	11,530,992
Total operating revenues	<u>179,852,487</u>	<u>192,491,809</u>
Operating expenses:		
Wages, salaries, and benefits	122,506,001	122,705,685
Supplies	24,398,630	23,795,188
Purchased services	20,486,953	19,219,054
Energy and utilities	8,446,796	8,268,118
Depreciation and amortization	29,737,669	28,955,029
Interest	6,139,782	6,527,315
Other operating expenses	5,235,352	5,095,805
COVID-19 pandemic expenses	1,191,206	1,972,773
Total operating expenses	<u>218,142,389</u>	<u>216,538,967</u>
Loss from operations before change in fair value of derivative financial instruments	<u>(38,289,902)</u>	<u>(24,047,158)</u>
Unrealized appreciation (depreciation) on interest rate swap agreements	<u>5,170,341</u>	<u>(2,424,506)</u>
Loss from operations	<u>(33,119,561)</u>	<u>(26,471,664)</u>
Nonoperating gains (losses):		
Contributions, gifts, and bequests	7,788,978	5,199,396
Contributions from Grand Lodge of Pennsylvania Charity Foundation	437,500	1,653
Contributions from Grand Lodge net assets with donor restrictions	29,000	41,000
Income from perpetual trusts held by third parties	1,996,648	1,940,137
Realized gains on sale of investments	39,275,741	14,254,980
Forgiveness of debt - Grand Lodge	(37,500)	-
Adjustment of actuarial liabilities of split-interest agreements	(951,314)	444,956
Loss on disposal of property and equipment	(167,913)	(45,252)
Total nonoperating gains	<u>48,371,140</u>	<u>21,836,870</u>
Excess (deficiency) of revenues and gains over expenses and losses	<u>15,251,579</u>	<u>(4,634,794)</u>
Net assets released from restrictions:		
Satisfaction of program restrictions - Operations	19,377,292	18,261,593
Satisfaction of program restrictions - Purchase of property and equipment	562,638	195,356
Total net assets released from restrictions	<u>19,939,930</u>	<u>18,456,949</u>
Transfer of net assets with donor restrictions from Grand Lodge and Grand Lodge of Pennsylvania Charity Foundation	91,504	-
Excess of assets over liabilities of not-for-profit corporations added to financial reporting entity by Masonic Villages assuming sole membership of organizations on January 1:		
Pennsylvania Masonic Youth Foundation	-	11,253,942
The Masonic Library and Museum of Pennsylvania	-	11,532,129
Net unrealized appreciation on investments	<u>18,190,727</u>	<u>34,178,197</u>
Increase in net assets without restrictions	<u>\$ 53,473,740</u>	<u>\$ 70,786,423</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, 2021 and 2020**

	<b>2021</b>			
	Program Services	Management and General	Fundraising	Total Expenses
Wages, salaries, and benefits	\$ 105,290,016	\$ 15,937,897	\$ 1,278,088	\$ 122,506,001
Supplies	24,004,574	387,851	6,205	24,398,630
Purchased services	13,355,638	6,985,827	145,488	20,486,953
Energy and utilities	8,011,332	433,078	2,386	8,446,796
Depreciation and amortization	28,200,131	1,537,311	227	29,737,669
Interest	5,905,316	234,466	-	6,139,782
Other operating expenses	4,902,435	153,446	179,471	5,235,352
COVID-19 pandemic expenses	1,175,817	15,389	-	1,191,206
Total operating expenses	\$ 190,845,259	\$ 25,685,265	\$ 1,611,865	\$ 218,142,389

	<b>2020</b>			
	Program Services	Management and General	Fundraising	Total Expenses
Wages, salaries, and benefits	\$ 104,206,089	\$ 17,080,608	\$ 1,418,988	\$ 122,705,685
Supplies	23,565,365	222,387	7,436	23,795,188
Purchased services	12,158,526	6,824,028	236,500	19,219,054
Energy and utilities	7,837,575	427,809	2,734	8,268,118
Depreciation and amortization	27,610,069	1,344,312	648	28,955,029
Interest	6,303,052	224,263	-	6,527,315
Other operating expenses	4,550,570	340,980	204,255	5,095,805
COVID-19 pandemic expenses	1,896,148	76,609	16	1,972,773
Total operating expenses	\$ 188,127,394	\$ 26,540,996	\$ 1,870,577	\$ 216,538,967

*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, 2021 and 2020**

	2021			2020		
	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
<b>Revenues and Gains:</b>						
Total operating revenues	\$ 179,852,487	\$ 179,852,487	\$ -	\$ 192,491,809	\$ 192,491,809	\$ -
Unrealized appreciation (depreciation) on interest rate swap agreements	5,170,341	5,170,341	-	(2,424,506)	(2,424,506)	-
Nonoperating investment income	606,003	-	606,003	638,986	-	638,986
Realized gains on sale of investments	67,517,550	39,275,741	28,241,809	26,130,450	14,254,980	11,875,470
Contributions, gifts, and bequests	12,325,201	7,788,978	4,536,223	10,533,968	5,199,396	5,334,572
Contribution from Grand Lodge of Pennsylvania Charity Foundation	449,209	437,500	11,709	1,653	1,653	-
Contributions from Grand Lodge net assets with donor restrictions	29,000	29,000	-	41,000	41,000	-
Income from perpetual trusts held by third parties	2,123,377	1,996,648	126,729	2,071,940	1,940,137	131,803
<b>Total revenues and gains</b>	<u>268,073,168</u>	<u>234,550,695</u>	<u>33,522,473</u>	<u>229,485,300</u>	<u>211,504,469</u>	<u>17,980,831</u>
<b>Expenses and Losses:</b>						
Operating expenses	218,142,389	218,142,389	-	216,538,967	216,538,967	-
Forgiveness of debt - Grand Lodge	37,500	37,500	-	-	-	-
Loss on disposal of property and equipment	167,913	167,913	-	45,252	45,252	-
Adjustment of actuarial liabilities of split-interest agreements	942,139	951,314	(9,175)	(456,006)	(444,956)	(11,050)
<b>Total expenses and losses</b>	<u>219,289,941</u>	<u>219,299,116</u>	<u>(9,175)</u>	<u>216,128,213</u>	<u>216,139,263</u>	<u>(11,050)</u>
<b>Excess (deficiency) of revenues and gains over expenses and losses</b>	<u>48,783,227</u>	<u>15,251,579</u>	<u>33,531,648</u>	<u>13,357,087</u>	<u>(4,634,794)</u>	<u>17,991,881</u>
<b>Net assets released from restrictions -</b>						
Satisfaction of program restrictions						
For use in operations	-	19,377,292	(19,377,292)	-	18,261,593	(18,261,593)
For capital purchases	-	562,638	(562,638)	-	195,356	(195,356)
<b>Total net assets released from restrictions</b>	<u>-</u>	<u>19,939,930</u>	<u>(19,939,930)</u>	<u>-</u>	<u>18,456,949</u>	<u>(18,456,949)</u>
<b>Transfer of net assets with donor restrictions from Grand Lodge and Grand Lodge of Pennsylvania Charity Foundation</b>	91,504	91,504	-	49,302,526	-	49,302,526
<b>Excess of assets over liabilities of not-for-profit corporations added to financial reporting entity by Masonic Villages assuming sole membership of organizations on January 1:</b>						
Pennsylvania Masonic Youth Foundation	-	-	-	14,818,925	11,253,942	3,564,983
The Masonic Library and Museum of Pennsylvania	-	-	-	20,507,215	11,532,129	8,975,086
	-	-	-	-	-	-
<b>Net unrealized appreciation on investments</b>	<u>32,902,164</u>	<u>18,190,727</u>	<u>14,711,437</u>	<u>57,966,107</u>	<u>34,178,197</u>	<u>23,787,910</u>
<b>Increase in net assets</b>	<u>81,776,895</u>	<u>53,473,740</u>	<u>28,303,155</u>	<u>155,951,860</u>	<u>70,786,423</u>	<u>85,165,437</u>
<b>Net assets at January 1</b>	<u>901,238,596</u>	<u>487,843,754</u>	<u>413,394,842</u>	<u>745,286,736</u>	<u>417,057,331</u>	<u>328,229,405</u>
<b>Net assets at December 31</b>	<u>\$ 983,015,491</u>	<u>\$ 541,317,494</u>	<u>\$ 441,697,997</u>	<u>\$ 901,238,596</u>	<u>\$ 487,843,754</u>	<u>\$ 413,394,842</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**  
**Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities and Nonoperating Gains:		
Increase in net assets	\$ 81,776,895	\$ 155,951,860
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	29,737,669	28,955,029
Amortization of deferred financing costs	118,104	121,593
Bad debts	64,312	442,302
Bond premium amortization	(465,727)	(477,800)
Loss on disposal of property and equipment	167,913	45,252
Amortization of entrance fees	(15,097,123)	(14,139,684)
Initial contributions recognized from split-interest agreements	(2,699,900)	(1,818,479)
Actuarial adjustment for split-interest agreements	942,139	(456,006)
Contributions restricted for long-term investments	(4,662,952)	(5,466,375)
Net realized and unrealized gains on long-term investments	(100,419,714)	(84,096,557)
(Increase) decrease in fair value of interest rate swap agreements	(5,170,341)	2,424,506
Transfer of net assets with donor restrictions		
from Grand Lodge and Grand Lodge of Pennsylvania Charity Foundation	(91,504)	(49,302,526)
Excess of assets over liabilities of Pennsylvania Masonic Youth Foundation and The Masonic Library and Museum of Pennsylvania added to financial reporting entity on January 1	-	(35,326,140)
Decrease in receivables	810,084	2,984,377
Increase in other current assets and inventory	(338,223)	(864,367)
(Decrease) in accounts payable and accrued expenses	(2,452,068)	(1,934,317)
(Decrease) increase in other current and noncurrent liabilities	472,357	(2,363,414)
Proceeds from entrance fees and deposits	<u>27,887,828</u>	<u>25,248,350</u>
Net cash provided by operating activities and nonoperating gains	<u>10,579,749</u>	<u>19,927,604</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(14,796,902)	(16,368,030)
Decrease (increase) in assets whose use is limited	(110,949)	3,824
Decrease in notes receivable	326,200	157,771
Decrease in note receivable from Grand Lodge	-	542,846
Proceeds from the sale of investments	47,341,014	37,687,204
Purchases of investments	(34,112,766)	(34,838,126)
Proceeds from acquiring control of other entities	-	865,199
Net cash (used in) investing activities	<u>(1,353,403)</u>	<u>(11,949,312)</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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows from Financing Activities:		
Refunds of entrance fees and deposits	\$ (13,704,999)	\$ (9,941,321)
Proceeds from contributions restricted for long-term investments	4,662,952	5,466,375
Proceeds from contributions under split-interest agreements	5,203,693	4,013,089
Net payments made on split-interest agreements	(1,025,521)	(830,662)
Principal payments on long-term debt	<u>(9,145,000)</u>	<u>(8,830,000)</u>
Net cash (used in) financing activities	<u>(14,008,875)</u>	<u>(10,122,519)</u>
Net (decrease) in cash and cash equivalents	(4,782,529)	(2,144,227)
Cash and cash equivalents - Beginning of year	<u>24,411,393</u>	<u>26,555,620</u>
Cash and cash equivalents - End of year	<u>\$ 19,628,864</u>	<u>\$ 24,411,393</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 6,900,498</u>	<u>\$ 6,998,807</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, 2021 and 2020**

**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, 2021 include a 453 bed nursing facility providing nursing care (Nursing Home), 1,110 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 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, 2021, 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, 64 beds of personal care, and 282 units of Retirement Living Apartments and Villas as of December 31, 2021. In addition to these residential services, the Sewickley location also offers home care services.

As of December 31, 2021, services provided at the Lafayette Hill campus include a 60 bed nursing facility, 39 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, 2021.

Pennsylvania Masonic Youth Foundation (Foundation) and The Masonic Library and Museum of Pennsylvania (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 has the ability to determine the direction of management

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

### Organization – Continued

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. This transaction was accounted for as an acquisition. 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:

	<u>Pennsylvania Masonic Youth Foundation</u>	<u>The Masonic Library and Museum of Pennsylvania</u>	<u>Total</u>
Total assets	\$ 14,875,451	\$ 21,129,055	\$ 36,004,506
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	3,564,983	8,975,086	12,540,069
	<u>\$ 14,875,451</u>	<u>\$ 21,129,055</u>	<u>\$ 36,004,506</u>

On May 21, 2021 Ashlar Creative Solutions, LLC's, a wholly-owned subsidiary of Masonic Villages, board of directors approved a resolution giving consent to dissolve and liquidate Ashlar Creative Solutions, LLC. The Company ceased operations in May 2021 and on February 22, 2022 the Pennsylvania Department of State approved the dissolution and liquidation of the remaining assets to Masonic Villages.

### 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, Ashlar Home Health and Hospice Services, LLC, The Masonic Library and Museum of Pennsylvania, and Pennsylvania Masonic Youth Foundation after elimination of all significant interrelated balances and transactions.

### Assets Whose Use is Limited

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

### Resident Accounts Receivable

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

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

### Inventory

Inventory consists of medical supplies and pharmaceutical products, livestock, and maintenance supplies and is valued at the lower of cost or net realizable value. 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.

### Contributions Receivable

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

Masonic Villages will be the recipient of specified funds over the terms of several charitable lead trusts 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 1.92% to 4.25%), 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.

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

### 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.

### Collections

Masonic Villages owns collections of Masonic memorabilia, paintings, antique furniture, farm equipment, and other artifacts related to the history of Masonic Villages and Freemasonry. These collections are located at the Elizabethtown, Pennsylvania campus and at the Masonic Temple in Philadelphia, Pennsylvania. The collections, which were primarily acquired through contributions since Masonic Villages' inception, are not recognized as assets in 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.

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

### Retirement Living - Entrance Fee Units – Continued

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, 2021 and 2020, entrance fees of approximately \$ 103,227,000 and \$ 106,882,000, 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, 2021 or 2020, using a discount rate of 5.00% for 2021 and 2020.

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

### Resident Personal Funds

Masonic Villages receives and holds personal funds of certain residents as an agent of those residents. Cash and cash equivalents include resident personal funds totaling \$ 1,207,661 and \$ 1,008,331 as of December 31, 2021 and 2020, respectively.

### Worker's Compensation Claims

For the years ended December 31, 2021 and 2020, 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 \$ 1,900,000 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.

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

### 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 3.00% 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.

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.

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

### 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 statements 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.

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, 2021 and 2020. Laws and regulations governing Medicare, Medicaid, and

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

### Resident Service Revenue - Continued

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.

### Consolidated Statements of Operations Earnings Measurements

Masonic Villages' consolidated statements 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.

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

### 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 is 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.

### Leases

Masonic Villages has entered into leasing arrangements for a parcel of land at the Dallas campus and the use of equipment at several locations. Masonic Villages made payments totaling \$ 511,927 and \$ 448,827 under leasing arrangements for the years ended December 31, 2021 and 2020, respectively. These payments are reported in purchased services expense in the consolidated statements of operations.

### 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 Masonic Youth Foundation, The Masonic Library and Museum of Pennsylvania, Pennsylvania Acacia Insurance Company, Ltd. and Ashlar Home Health and Hospice Services, LLC are all 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.

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 consolidated statements of operations and the consolidated statements of changes in net assets for the years ended December 31, 2021 and 2020. Masonic Villages has not recorded liabilities for income taxes or unrecognized income tax benefits in the consolidated balance sheets as of December 31, 2021 and 2020. Masonic Villages' 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.

**NOTE 1: Summary of Significant Accounting Policies – Continued**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: Reassignment of Assets**

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 Grand Lodge of Pennsylvania Charity Foundation 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 Grand Lodge of Pennsylvania Charity Foundation 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 Grand Lodge of Pennsylvania Charity Foundation transferred donor restricted funds and perpetual trusts held by third parties with fair values totaling \$ 49,302,526 to Masonic Villages as follows:

	Grand Lodge	Grand Lodge of Pennsylvania Charity Foundation	Total
Donor restricted funds	\$ 46,258,264	\$ 482,318	\$ 46,740,582
Perpetual trusts held by third parties	<u>2,561,944</u>	<u>-</u>	<u>2,561,944</u>
	<u>\$ 48,820,208</u>	<u>\$ 482,318</u>	<u>\$ 49,302,526</u>

On January 1, 2021, the Grand Lodge of Pennsylvania Charity Foundation transferred net assets totaling \$ 91,504 to Masonic Villages. This transfer represented investment assets and the net present value of expected annuity payments related to charitable gift annuity arrangements that had been entered with donors by the Grand Lodge of Pennsylvania Charity Foundation through December 31, 2020. The purpose of this transfer is to consolidate all charitable gift annuity activities with Masonic Villages, which will improve operational efficiency and reduce the amount of regulatory reporting.

**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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents available for operations	\$ 16,485,641	\$ 21,069,876
Investment income receivable		
without donor restrictions	97,710	75,905
Resident accounts receivable	4,733,745	5,440,928
Accounts receivable - Grand Lodge	-	72,910
Notes receivable	636,830	963,030
Investments without donor restrictions	<u>542,124,043</u>	<u>487,566,476</u>
	<u>\$ 564,077,969</u>	<u>\$ 515,189,125</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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Available for operations	\$ 16,485,641	\$ 21,069,876
Held for residents deposits	<u>1,207,661</u>	<u>1,008,331</u>
Total without donor restrictions	17,693,302	22,078,207
With donor restrictions	<u>1,935,562</u>	<u>2,333,186</u>
	<u>\$ 19,628,864</u>	<u>\$ 24,411,393</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, 2021 and 2020, Masonic Villages' aggregate resident accounts receivable over 90 days past due totaled \$ 1,923,384 and \$ 2,636,747, 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.

**NOTE 5: Resident Accounts Receivable - Continued**

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, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Allowance at January 1	\$ 1,302,000	\$ 1,177,000
Provision for bad debts	64,312	442,302
Accounts receivable written off, net of recoveries	<u>(99,312)</u>	<u>(317,302)</u>
Allowance at December 31	<u>\$ 1,267,000</u>	<u>\$ 1,302,000</u>

**NOTE 6: Contributions Receivable**

Contributions receivable consisted of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Charitable lead annuity trusts	\$ 1,329,744	\$ 253,217
Promises to give	<u>117,336</u>	<u>68,681</u>
Total contributions receivable	<u>1,447,080</u>	<u>321,898</u>
Less:		
Current portion of charitable lead annuity trusts	153,043	62,904
Current portion of promises to give	<u>60,000</u>	<u>70,000</u>
Noncurrent portion	<u>\$ 1,234,037</u>	<u>\$ 188,994</u>

Promises to give consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 120,000	\$ 70,000
Unamortized discount	<u>(2,664)</u>	<u>(1,319)</u>
Net promises to give	<u>\$ 117,336</u>	<u>\$ 68,681</u>

The schedule of payments to be received from promises to give as of December 31, 2021 is as follows:

2022	\$ 60,000
2023	<u>60,000</u>
	<u>\$ 120,000</u>

The discount rates used for promises to give received during the years ended December 31, 2021 and 2020 were 1.51% and .92%, respectively.

**NOTE 7: Notes Receivable**

Notes receivable with Masonic Villages' Retirement Living residents totaled \$ 636,830 and \$ 963,030 as of December 31, 2021 and 2020, 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 \$ 0 as of December 31, 2021 and 2020. There were no notes receivable on nonaccrual status as of December 31, 2021 and 2020. 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 twenty different investment management firms and held in safekeeping by JPMorgan Chase Bank, N. A. Approximately 98% 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.:

<u>At December 31, 2021</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Domestic stocks	\$ 222,708,024	\$ 136,354,291	\$ 4,419,326	\$ 354,642,989
International stocks	42,024,015	12,228,167	2,153,407	52,098,775
U.S. Government and Agency bonds	23,626,661	78,619	305,154	23,400,126
Domestic corporate bonds	90,852,390	1,378,490	1,330,818	90,900,062
Municipal bonds	9,877,785	207,618	141,974	9,943,429
Mutual funds - Equity securities	50,598,190	10,024,391	-	60,622,581
Exchange traded funds	88,992,346	5,872,881	74,010	94,791,217
Mortgage backed securities	21,562,809	343,867	154,169	21,752,507
Asset backed securities	28,826,588	75,170	328,606	28,573,152
Real estate investment trusts	806,554	516,603	-	1,323,157
Private equity investments	13,595,586	5,824,676	-	19,420,262
Limited partnerships	110,826,794	16,256,982	29,808	127,053,968
Money market funds	56,091,178	-	-	56,091,178
Total Consolidated Fund	<u>\$ 760,388,920</u>	<u>\$ 189,161,755</u>	<u>\$ 8,937,272</u>	<u>\$ 940,613,403</u>

  

<u>At December 31, 2020</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Domestic stocks	\$ 199,220,528	\$ 107,883,352	\$ 1,618,714	\$ 305,485,166
International stocks	41,656,038	6,772,706	1,826,631	46,602,113
U.S. Government and Agency bonds	25,013,017	129,294	110,925	25,031,386
Domestic corporate bonds	86,731,252	4,563,235	136,123	91,158,364
Municipal bonds	7,838,810	487,108	50,783	8,275,135
Mutual funds - Equity securities	50,543,380	8,958,893	-	59,502,273
Exchange traded funds	96,474,522	9,031,070	1,629,024	103,876,568
Mortgage backed securities	24,345,470	857,438	44,505	25,158,403
Asset backed securities	32,315,563	383,788	181,069	32,518,282
Real estate investment trusts	864,855	204,035	30,482	1,038,408
Private equity investments	11,702,144	2,372,808	-	14,074,952
Royalty trusts	1,592,895	323,477	-	1,916,372
Limited partnerships	75,418,033	11,671,459	-	87,089,492
Money market funds	61,688,220	-	-	61,688,220
Total Consolidated Fund	<u>\$ 715,404,727</u>	<u>\$ 153,638,663</u>	<u>\$ 5,628,256</u>	<u>\$ 863,415,134</u>

**NOTE 8: Investments – Continued**

At December 31, 2021 and 2020, Masonic Villages' investments consisted of the following:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Money Market Funds	\$ 7,055,680	\$ 7,055,680	\$ 6,240,706	\$ 6,240,706
Consolidated Fund	454,534,011	535,068,363	418,443,543	481,325,770
Lincoln Financial Group	1,137,595	1,137,595	1,061,959	1,061,959
Mill Creek Capital Advisors, LLC	8,682,174	10,137,043	4,157,060	5,041,444
Total Without Donor Restrictions	<u>471,409,460</u>	<u>553,398,681</u>	<u>429,903,268</u>	<u>493,669,879</u>
Money Market Funds	2,283,328	2,283,328	3,445,097	3,445,097
Consolidated Fund	307,182,215	380,431,988	293,108,513	356,776,799
Real estate	391,007	391,007	391,007	391,007
Perpetual Trusts Held by Third Parties	26,474,948	54,215,700	26,474,948	49,085,749
Total With Donor Restrictions	<u>336,331,498</u>	<u>437,322,023</u>	<u>323,419,565</u>	<u>409,698,652</u>
	<u>\$ 807,740,958</u>	<u>\$ 990,720,704</u>	<u>\$ 753,322,833</u>	<u>\$ 903,368,531</u>

Masonic Villages' investments are presented in the consolidated balance sheets in the following categories as of December 31, 2021 and 2020:

	2021	2020
Minimum liquid reserve requirement	\$ 19,918,540	\$ 19,220,087
Investments at fair value	<u>970,802,164</u>	<u>884,148,444</u>
	<u>\$ 990,720,704</u>	<u>\$ 903,368,531</u>

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, 2021 and 2020 is as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Masonic Villages Reserve Fund	\$ 166,511,220	\$ 201,055,908	\$ 152,903,865	\$ 180,809,802
Masonic Temple Preservation Fund	14,488,046	17,116,688	13,177,601	15,234,056
Children's Home Fund	6,511,413	7,512,341	6,137,889	6,903,594
Ilgem Trust	13,994,234	15,954,820	13,258,257	14,725,200
Charitable Gift Annuity Reserve Funds	6,387,495	7,515,865	8,364,522	9,705,103
Warminster Building and Improvement Fund	2,763,818	2,904,473	2,529,311	2,572,489
Masonic Eastern Star Endowment Fund	1,843,270	1,881,589	1,716,675	1,690,925
Elizabethtown Retirement Living Fund	32,479,616	36,487,820	29,661,895	32,434,603
Dallas Retirement Living Fund	2,963,061	3,404,404	2,700,161	3,026,230
Sewickley Retirement Living Fund	154,182,065	178,987,153	140,360,085	159,104,517
Lafayette Hill Funds	33,603,260	38,587,177	30,572,124	34,255,702
Pennsylvania Masonic Youth Foundation	10,717,871	12,763,231	9,830,941	11,443,767
The Masonic Library and Museum of Pennsylvania	951,622	1,089,912	524,422	601,824
Pennsylvania Acacia Insurance Company	14,167,824	16,837,785	12,930,334	15,042,496
	<u>\$ 461,564,815</u>	<u>\$ 542,099,166</u>	<u>\$ 424,668,082</u>	<u>\$ 487,550,308</u>

**NOTE 8: Investments – Continued**

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 policy maximum. For the years ended December 31, 2021 and 2020, the spending policy percentage recommended by the Grand Lodge Committee on Finance and elected by the Trustees of the Consolidated Fund was 5.00%. On September 25, 2020, the spending policy percentage for the year ended December 31, 2020 was increased to 10.00% by the Trustees of the Consolidated Fund. This change was prompted by a new Pennsylvania law increasing the upper percentage for spending policies of not-for-profit corporations from 7% to 10% for the years 2020, 2021, and 2022. The Pennsylvania legislature enacted this temporary increase to spending limits to provide flexibility to not-for-profit corporations related to the fiscal impact of the COVID-19 pandemic. 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.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Masonic Villages' Consolidated Fund spending maximum amount for 2021	\$ 41,824,665	\$ 27,535,775	\$ 69,360,440
Amounts withdrawn from Consolidated Fund	<u>20,449,549</u>	<u>26,891,465</u>	<u>47,341,014</u>
Excess of spending maximum amount over amounts withdrawn	<u>\$ 21,375,116</u>	<u>\$ 644,310</u>	<u>\$ 22,019,426</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Masonic Villages' Consolidated Fund spending maximum amount for 2020	\$ 40,036,336	\$ 26,056,630	\$ 66,092,966
Amounts withdrawn from Consolidated Fund	<u>12,211,078</u>	<u>25,476,126</u>	<u>37,687,204</u>
Excess (deficiency) of spending maximum amount over amounts withdrawn	<u>\$ 27,825,258</u>	<u>\$ 580,504</u>	<u>\$ 28,405,762</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, 2021 and 2020, is set forth below.

	<u>2021</u>		<u>2020</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	\$ 2,859,331	\$ 2,859,331	\$ 2,748,382	\$ 2,748,382
Less current portion	<u>2,859,331</u>	<u>2,859,331</u>	<u>2,748,382</u>	<u>2,748,382</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 10: Property and Equipment**

A summary of property and equipment at December 31, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 5,984,187	\$ 5,878,666
Land improvements	30,275,897	28,976,795
Buildings and improvements	487,534,067	483,892,413
Equipment	<u>323,125,726</u>	<u>314,171,365</u>
	846,919,877	832,919,239
Less accumulated depreciation	<u>453,966,536</u>	<u>425,275,217</u>
	392,953,341	407,644,022
Construction in progress	<u>1,454,928</u>	<u>1,820,127</u>
Property and equipment, net	<u>\$ 394,408,269</u>	<u>\$ 409,464,149</u>

Depreciation expense for the years ended December 31, 2021 and 2020 was \$ 29,684,869 and \$ 28,902,229, respectively.

**NOTE 11: Deferred Costs**

A summary of deferred costs at December 31, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Costs to upgrade Elizabethtown Borough wastewater treatment plant	\$ 1,056,000	\$ 1,056,000
Less accumulated amortization	<u>(1,003,200)</u>	<u>(950,400)</u>
	<u>\$ 52,800</u>	<u>\$ 105,600</u>

Amortization expense related to deferred costs totaled \$ 52,800 for each of the years ended December 31, 2021 and 2020.

**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.

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.

## NOTE 12: Interest Rate Swap Agreements – Continued

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 in the consolidated balance sheets at their fair value. Changes in fair value are recorded as a change in unrealized appreciation or depreciation in the consolidated statements of operations and the consolidated statements of changes in net assets.

As of December 31, 2021, and 2020, the fair values of Masonic Villages' interest rate swap agreements were as follows:

	<u>2021</u>	<u>2020</u>
Liabilities:		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	\$ (7,551,709)	\$ (9,702,620)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(3,787,700)	(5,312,661)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>(3,932,764)</u>	<u>(5,427,233)</u>
	<u>\$ (15,272,173)</u>	<u>\$ (20,442,514)</u>

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

At both December 31, 2021 and 2020, the accumulated derivative loss which had been reported outside of the performance indicator was:

	<u>2021</u>	<u>2020</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, 2021 and 2020, the net payments associated with the terms of the swap agreements totaled:

	<u>2021</u>	<u>2020</u>
Fixed rate payments		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	\$ 1,305,992	\$ 1,373,043
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	925,018	1,022,811
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>953,675</u>	<u>987,412</u>
Total fixed rate payments	<u>3,184,685</u>	<u>3,383,266</u>
Variable rate payments		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	(19,015)	(109,589)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(16,201)	(100,969)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>(17,061)</u>	<u>(96,445)</u>
Total variable rate payments	<u>(52,277)</u>	<u>(307,003)</u>
Net payments to interest rate swap provider	<u>\$ 3,132,408</u>	<u>\$ 3,076,263</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, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Lancaster County Hospital Authority (Series of 1996) - variable rate demand/fixed rate bonds, maturing through 2027	\$ 6,960,000	\$ 7,975,000
Lancaster County Hospital Authority (Series of 2008) - variable rate demand bonds, maturing through 2034	67,740,000	72,210,000
Lancaster County Hospital Authority (Series of 2013) - variable rate demand bonds, maturing through 2038	28,995,000	30,345,000
Lancaster County Hospital Authority (Series of 2015) - 2.15% to 5.00% bonds, maturing through 2035	25,320,000	26,620,000
Lancaster County Hospital Authority (Series of 2017) - 2.625% to 5.00% bonds, maturing through 2038	<u>26,650,000</u>	<u>27,660,000</u>
Total long-term debt	155,665,000	164,810,000
Add premium on bonds payable	4,039,032	4,504,759
Less deferred financing costs	(952,409)	(1,070,513)
Less current installments of long-term debt	<u>(9,495,000)</u>	<u>(9,145,000)</u>
	<u>\$ 149,256,623</u>	<u>\$ 159,099,246</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, 2021 and 2020, 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>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>	<u>Total</u>
1996	\$ 1,055,000	\$ 1,095,000	\$ 1,135,000	\$ 1,180,000	\$ 1,225,000	\$ 1,270,000	\$ 6,960,000
2008 (A)	1,660,000	1,735,000	1,810,000	1,890,000	1,970,000	11,210,000	20,275,000
2008 (B)	1,445,000	1,505,000	1,570,000	1,635,000	1,710,000	11,910,000	19,775,000
2008 (D)	1,565,000	1,650,000	1,725,000	1,815,000	1,905,000	19,030,000	27,690,000
2013	1,385,000	1,420,000	1,455,000	1,490,000	1,530,000	21,715,000	28,995,000
2015	1,340,000	1,390,000	1,450,000	1,515,000	1,570,000	18,055,000	25,320,000
2017	<u>1,045,000</u>	<u>1,050,000</u>	<u>1,100,000</u>	<u>1,135,000</u>	<u>1,180,000</u>	<u>21,140,000</u>	<u>26,650,000</u>
	<u>\$ 9,495,000</u>	<u>\$ 9,845,000</u>	<u>\$ 10,245,000</u>	<u>\$ 10,660,000</u>	<u>\$ 11,090,000</u>	<u>\$ 104,330,000</u>	<u>\$ 155,665,000</u>

The fair value of Masonic Villages' total outstanding bonds, based on quoted market prices, at December 31, 2021 and 2020 was approximately \$ 162,702,234 and \$ 172,016,000, 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, 2021 and 2020 follows:

	<u>2021</u>	<u>Capitalized</u>	<u>Interest Expense</u>	<u>Investment Income</u>	<u>Total</u>
Bond premium amortization	\$ -	\$ -	\$ (465,727)	\$ -	\$ (465,727)
Interest cost	-	-	3,355,003	-	3,355,003
Net payments to interest rate swap provider	-	-	3,132,401	-	3,132,401
Amortization of deferred financing costs	-	-	118,105	-	118,105
Investment income - Funds held by Trustee	-	-	-	(665)	(665)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,139,782</u>	<u>\$ (665)</u>	<u>\$ 6,139,117</u>
	<u>2020</u>				
Bond premium amortization	\$ -	\$ -	\$ (477,800)	\$ -	\$ (477,800)
Interest cost	-	-	3,807,259	-	3,807,259
Net payments to interest rate swap provider	-	-	3,076,263	-	3,076,263
Amortization of deferred financing costs	-	-	121,593	-	121,593
Investment income - Funds held by Trustee	-	-	-	(14,056)	(14,056)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,527,315</u>	<u>\$ (14,056)</u>	<u>\$ 6,513,259</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.

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

**NOTE 14: Endowments – Continued**

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, 2021 and 2020, the spending percentage elected by the Trustees of the Consolidated Fund was 10.00%. 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.

In July 2020, the Pennsylvania legislature passed Act 71 of 2020. Act 71 amends Act 141 by increasing the upper percentage for spending policies of not-for-profit corporations from 7% to 10% for the years 2020, 2021, and 2022. The Pennsylvania legislature enacted this temporary increase to spending limits to provide flexibility to not-for-profit corporations related to the fiscal impact of the COVID-19 pandemic. Prior to the adoption of Act 71, the Trustees of the Consolidated Fund had elected a spending percentage of 5% for the year ended December 31, 2020. On September 25, 2020, the Trustees of the Consolidated Fund approved an amendment to

## NOTE 14: Endowments – Continued

the Consolidated Fund investment policy. The new amendment permits organizations invested in the Consolidated Fund to increase their withdrawals from the Consolidated Fund to achieve their cash management objectives up to the 10% allowed by Act 71 for the years 2020, 2021, and 2022. This amendment had the effect of increasing the spending policy maximum percentage from 5% to 10% for the year ended December 31, 2020.

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, 2021 and 2020.

Endowment net assets consisted of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Without donor restrictions	\$ 14,661,638	\$ 13,152,240
With donor restrictions	<u>376,659,854</u>	<u>356,115,824</u>
	<u>\$ 391,321,492</u>	<u>\$ 369,268,064</u>

The changes in endowment net assets for the years ended December 31, 2021 and 2020 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at January 1, 2020	\$ 1,530,309	\$ 277,659,182	\$ 279,189,491
Investment return, net	1,449,354	38,723,845	40,173,199
Addition of Pennsylvania Masonic Youth Foundation and The Masonic Library and Museum of Pennsylvania to the Masonic Villages financial reporting entity	10,358,588	11,394,799	21,753,387
Transfers of donor restricted endowments from affiliates	-	46,442,066	46,442,066
Contributions and bequests	-	4,327,277	4,327,277
Income from perpetual trusts held by third parties	5,675	122,596	128,271
Transfers from funds without donor restrictions	-	127,224	127,224
Appropriation of endowment assets for expenditure	<u>(191,686)</u>	<u>(22,681,165)</u>	<u>(22,872,851)</u>
Endowment net assets at December 31, 2020	<u>13,152,240</u>	<u>356,115,824</u>	<u>369,268,064</u>
Investment return, net	1,635,002	41,366,290	43,001,292
Contributions and bequests	-	1,303,420	1,303,420
Income from perpetual trusts held by third parties	23,371	122,926	146,297
Transfers from funds without donor restrictions	-	1,774,165	1,774,165
Appropriation of endowment assets for expenditure	<u>(148,975)</u>	<u>(24,022,771)</u>	<u>(24,171,746)</u>
Endowment net assets at December 31, 2021	<u>\$ 14,661,638</u>	<u>\$ 376,659,854</u>	<u>\$ 391,321,492</u>

#### NOTE 14: Endowments – Continued

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 consolidated statements of operations totaled \$ 3,613,105 and \$ 4,499,313, respectively, for the years ended December 31, 2021 and 2020. Amounts withdrawn from the endowments and reported as satisfaction of program restrictions in the consolidated statements of operations and changes in net assets for the years ended December 31, 2021 and 2020 totaled \$ 19,391,354 and \$ 18,181,852, respectively.

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

Net assets with donor restrictions are restricted for the following purposes at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowment net assets available to be appropriated for expenditure:		
Support of Masonic Villages and its activities	\$ 3,852,373	\$ 3,217,638
Support of Children's Home and its activities	16,413,602	11,845,227
Support of Residential program for developmentally disabled individuals	973,648	678,012
Building renovations and construction projects	77,198	53,274
Scholarship awards	6,266,335	4,992,027
Care and support of eligible Masons and their families	5,443,663	2,545,299
General operations of the organization	<u>107,208,201</u>	<u>99,609,033</u>
	<u>140,235,020</u>	<u>122,940,510</u>
Endowment nets assets to be maintained in perpetuity:		
Support of Masonic Villages and its activities	3,969,613	3,957,403
Support of Children's Home and its activities	29,695,109	28,721,907
Support of Residential program for developmentally disabled individuals	2,020,611	1,996,697
Building renovations and construction projects	150,000	150,000
Scholarship awards	7,680,968	7,232,481
Care and support of eligible Masons and their families	28,476,456	28,473,942
General operations of the organization	<u>164,432,077</u>	<u>162,642,884</u>
	<u>236,424,834</u>	<u>233,175,314</u>
Total endowment net assets	<u>376,659,854</u>	<u>356,115,824</u>
Not subject to spending policy or appropriation:		
Perpetual trusts held by third parties	<u>54,215,700</u>	<u>49,085,749</u>
Subject to expenditure for specified purpose:		
Support of Masonic Villages and its activities	1,770,799	1,597,992
Support of Children's Home and its activities	304,305	214,518
Building renovations and construction projects	441,185	159,169
Care and support of eligible Retirement Living residents	2,394,818	1,940,445
Scholarship awards	32,206	102,381
Care and support of eligible Masons and their families	887,845	804,485
Employee assistance	460,904	394,519
General operations of the organization	<u>4,530,381</u>	<u>2,979,760</u>
Total subject to expenditure for specified purposes	<u>10,822,443</u>	<u>8,193,269</u>
	<u>\$ 441,697,997</u>	<u>\$ 413,394,842</u>

Masonic Villages did not receive any donor restricted contributions that were subject to the passage of time during the years ended December 31, 2021 and 2020.

**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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished:		
Support of Masonic Villages and its activities	\$ 24,928	\$ 4,554
Support of Children's Home and its activities	5,058	44,948
Support of Residential Care and its activities	-	44
General operations of the organization	19,576,437	17,149,111
Care and support of eligible Retirement Living residents	398,205	423,860
Care and support of eligible Masons and their families	880,500	560,500
Employee assistance	31,316	20,368
Scholarship awards	275,013	205,432
Satisfaction of restrictions - Operations	<u>21,191,457</u>	<u>18,408,817</u>
Satisfaction of restrictions - Purchase of property and equipment	<u>562,638</u>	<u>195,356</u>
	<u>\$ 21,754,095</u>	<u>\$ 18,604,173</u>

During the years ended December 31, 2021 and 2020, assets totaling \$ 1,814,165 and \$ 147,224, respectively, were transferred from the designated Charitable Gift Annuity Reserve (a fund without donor restrictions) into a restricted fund in accordance with donor restrictions. These assets were transferred upon the deaths of the donors and the corresponding termination of charitable gift annuity arrangements.

**NOTE 17: Retirement Plans**

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 \$ 3,636,114 and \$ 3,651,630 during the years ended December 31, 2021 and 2020, respectively. Masonic Villages also incurred administrative costs related to the defined contribution retirement plan totaling \$ 49,422 and \$ 59,874 during the years ended December 31, 2021 and 2020, 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 in the consolidated balance sheets. The accumulated assets and the corresponding liability totaled \$ 1,137,595 and \$ 1,061,959 as of December 31, 2021 and 2020, respectively. Masonic Villages incurred administrative costs related to this noncontributory retirement plan totaling \$ 9,404 and \$ 2,094 during the years ended December 31, 2021 and 2020, 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, 2021 and 2020, services rendered to Medicare program beneficiaries were reimbursed on a prospective payment system or fee schedule, depending on the medical services provided. Under the prospective payment system, Masonic Villages is reimbursed according to the beneficiaries' acuity level and services provided. Under the fee schedule, Masonic Villages is reimbursed the lesser of its charge or the allowable amount per the fee schedule.

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

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 \$ 751,073 and \$ 1,619,071 for the years ended December 31, 2021 and 2020, respectively. Nursing assessment costs are reported as a component of other operating expenses by Masonic Villages in the consolidated statements of operations. Masonic Villages recognized increased Medicaid reimbursement of \$ 3,045,397 and \$ 2,204,909 from the nursing assessment program for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 was \$ 0.

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, 2021 and 2020 from these major payor sources is as follows:

	2021			
	<u>Medicare and Medicaid</u>	<u>Other Third Party Payors</u>	<u>Private Pay</u>	<u>Total</u>
Gross resident service revenue	\$ 65,516,656	\$ 22,251,564	\$ 105,729,823	\$ 193,498,043
Less provisions for:				
Contractual adjustments under third party reimbursement programs	27,387,838	6,518,282	-	33,906,120
Charity care allowances	<u>-</u>	<u>-</u>	<u>11,943,110</u>	<u>11,943,110</u>
Net resident service revenue, before provision for bad debts	<u>\$ 38,128,818</u>	<u>\$ 15,733,282</u>	<u>\$ 93,786,713</u>	<u>\$ 147,648,813</u>
	2020			
	<u>Medicare and Medicaid</u>	<u>Other Third Party Payors</u>	<u>Private Pay</u>	<u>Total</u>
Gross resident service revenue	\$ 69,228,371	\$ 22,242,408	\$ 106,679,223	\$ 198,150,002
Less provisions for:				
Contractual adjustments under third party reimbursement programs	27,545,102	7,296,901	-	34,842,003
Charity care allowances	<u>-</u>	<u>-</u>	<u>11,128,629</u>	<u>11,128,629</u>
Net resident service revenue, before provision for bad debts	<u>\$ 41,683,269</u>	<u>\$ 14,945,507</u>	<u>\$ 95,550,594</u>	<u>\$ 152,179,370</u>

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

Resident service revenue by service type for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Nursing Care	\$ 61,644,424	\$ 66,843,507
Medical Ancillary Clinics	3,815,183	3,849,260
Pharmacy	10,418,066	10,034,326
Personal Care	10,100,665	10,519,239
Retirement Living	50,755,231	49,382,348
Child Day Center	2,177	562,407
Adult Daily Living Center	-	57,026
Residential Care Program	422,934	405,785
Hospice	3,975,886	4,309,206
Wellness Center	132,796	156,467
Home Health Care Services	2,217,023	2,062,104
Home Care Services	1,408,648	1,402,950
Other services, including meals, communications, laundry, parking, and gift and beauty shops	<u>2,755,780</u>	<u>2,594,745</u>
Net resident service revenue, before provision for bad debts	<u>\$ 147,648,813</u>	<u>\$ 152,179,370</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.

Charges forgone for charity care and the estimated costs of providing charity care for the years ended December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Charges forgone	<u>\$ 11,943,110</u>	<u>\$ 11,128,629</u>
Estimated cost to provide charity care	<u>\$ 10,122,786</u>	<u>\$ 9,513,287</u>

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

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 \$ 400,355 and \$ 403,860 for the years ended December 31, 2021 and 2020, 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 \$ 25,950,000 and \$ 24,756,000 in 2021 and 2020, 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 \$ 168,153 and \$ 152,543 for the years ended December 31, 2021 and 2020, 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 \$ 4,115 for the year ended December 31, 2021.

During 2021 and 2020, Masonic Villages permitted its meeting and conference facilities to be used by several not-for-profit organizations, including 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 \$ 10,000 and \$ 20,000 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, these contributions totaled \$ 246,516 and \$ 254,863, 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 \$ 231,450 and \$ 193,736 for the years ended December 31, 2021 and 2020, 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.

**NOTE 20: Functional Allocation of Expenses - Continued**

The following table summarizes operating expenses on a functional basis for the year ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Program Services:		
Nursing Care	\$ 65,066,959	\$ 65,987,186
Medical Ancillary Clinics	6,069,272	6,138,973
Pharmacy	10,164,936	9,794,149
Personal Care	11,200,142	11,230,929
Retirement Living	51,899,515	50,983,755
Children's Home	2,296,067	2,183,196
Adult Daily Living Center	10	248,015
Residential Care Program	348,551	322,765
Hospice	3,991,692	4,001,402
Wellness Center	1,148,815	1,142,856
Home Health Care Services	2,406,738	1,974,515
Home Care Services	1,155,966	1,123,943
Community Services	288,258	278,633
Child Day Care Center	42,595	850,024
Conference Facilities	2,770,532	2,951,357
Contributions to Affiliates	185,543	675
Youth programs	425,899	417,958
Library and museum activities	549,661	857,716
Employee Housing and Rental Property	1,369,100	1,285,773
Farm	1,937,729	1,831,922
Communications Services	1,490,595	1,488,400
Admissions and Resident Services	2,671,654	2,155,673
Support Services	4,828,517	4,845,410
Maintenance	12,232,697	10,677,195
Food Services	<u>6,303,816</u>	<u>5,354,974</u>
Total program services expense	190,845,259	188,127,394
Management and general - Administration	25,685,265	26,540,996
Fundraising - Gift Planning	<u>1,611,865</u>	<u>1,870,577</u>
	<u>\$ 218,142,389</u>	<u>\$ 216,538,967</u>

**NOTE 21: Transactions with Affiliated Organizations**

As described in Notes 1 and 2, on January 1, 2020, Masonic Villages became the sole member of the Foundation and Masonic Library and Museum and also received donor restricted funds reassigned from Grand Lodge and the Grand Lodge of Pennsylvania Charity Foundation. These significant additions to Masonic Villages' consolidated financial reporting entity also changed the nature of continuing transactions with these entities and funds. Prior to January 1, 2020, transactions conducted by Masonic Villages with the Foundation and Masonic Library and Museum were disclosed in Masonic Villages' consolidated financial statements since the Foundation and Masonic Library and Museum were affiliates of Masonic Villages. Subsequent to December 31, 2019, transactions conducted by Masonic Villages with the Foundation and Masonic Library and Museum are not disclosed in Masonic Villages' consolidated financial statements since the Foundation and Masonic Library and Museum are subsidiaries of Masonic Villages. Prior to January 1, 2020, income from the transferred donor restricted funds was recognized as contribution revenue from Grand Lodge and Grand Lodge of Pennsylvania Charity Foundation. Subsequent to December 31, 2019, income from the transferred donor restricted funds and used for qualifying expenses is recorded as a satisfaction of program restrictions.

## NOTE 21: Transactions with Affiliated Organizations – Continued

### 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Sommerville Art Fund	\$ 29,000	\$ 41,000

During the year ended December 31, 2018, the Grand Lodge of Pennsylvania Charity Foundation 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 Grand Lodge of Pennsylvania Charity Foundation to Masonic Villages totaled \$ 2,208 and \$ 1,653 for the years ended December 31, 2021 and 2020, respectively. These contributions from Grand Lodge of Pennsylvania Charity Foundation are included in non-operating gains in the consolidated statement of operations for the years ended December 31, 2021 and 2020.

During the year ended December 31, 2021, Masonic Villages received a contribution in the amount of \$ 437,500 from Grand Lodge of Pennsylvania Charity Foundation. The contribution by the Foundation is to support the Masonic Library and Museum and Pennsylvania Masonic Youth Foundation.

### Contributions to Affiliated Organizations

Contributions from Masonic Villages' net assets with donor restrictions are made to the Grand Lodge of Pennsylvania Charity Foundation. 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 Grand Lodge of Pennsylvania Charity Foundation. Contributions from this trust to the Grand Lodge of Pennsylvania Charity Foundation totaled \$ 543 and \$ 675 for the years ended December 31, 2021 and 2020, respectively.

In addition, Masonic Villages made restricted contributions to the Grand Lodge of Pennsylvania Charity Foundation totaling \$ 185,000 for the year ended December 31, 2021. The contribution was provided as a reimbursement for gift annuity contracts that terminated at December 31, 2020.

### Administrative and Program Service Expenses

For the year ended December 31, 2020, 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 year ended December 31, 2020 was \$ 92,408. Reimbursement received for these costs is included in other operating revenue in the consolidated statements of operations.

Effective January 1, 2021 Masonic Villages entered into a resource sharing and fiduciary agreement with Grand Lodge. Under the agreement, Masonic Villages has agreed to pay Grand Lodge a fiduciary services and management fee in the amount of \$ 250,000 annually. In addition, as defined in the resource sharing and fiduciary agreement, Masonic Villages will no longer require Grand Lodge to reimburse Masonic Villages for costs associated with human resources, accounting, information technology and public relations. Masonic Villages cost associated with the fiduciary and management fee totaled \$ 250,000 for the year ended December 31, 2021.

## NOTE 21: Transactions with Affiliated Organizations – Continued

### Administrative and Program Service Expenses - Continued

During 2020, Masonic Villages' employees provided fundraising services to the Grand Lodge of Pennsylvania Charity Foundation under an expense reimbursement arrangement with Masonic Villages. Masonic Villages' costs for these services allocated to the Grand Lodge of Pennsylvania Charity Foundation for the year ended December 31, 2020 were \$ 6,537 and are included in other operating revenue in 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. 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 was to pay interest to Masonic Villages on a quarterly basis, beginning on March 31, 2020. Grand Lodge repaid the full amount of this note as part of the reassignment of donor restricted net assets that occurred on January 1, 2020.

## 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.

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, 2021 and 2020, the fair value of assets recognized under split-interest agreements by Masonic Villages, consisting principally of cash and investments, was as follows:

	<u>2021</u>	<u>2020</u>
Perpetual trusts held by third parties	\$ 54,215,700	\$ 49,085,749
Charitable gift annuities	7,515,865	9,705,103
Charitable remainder unitrusts	<u>10,137,043</u>	<u>5,041,444</u>
	<u>\$ 71,868,608</u>	<u>\$ 63,832,296</u>

## NOTE 22: Split-Interest Agreements – Continued

Contribution revenues recognized by Masonic Villages under split-interest agreements for the years ended December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Without donor restrictions -		
Charitable gift annuities	\$ 330,539	\$ 255,180
Charitable remainder unitrusts	1,125,084	1,563,299
With donor restrictions -		
Charitable lead annuity trusts	1,124,277	-
Promises to give	<u>120,000</u>	<u>-</u>
	<u>\$ 2,699,900</u>	<u>\$ 1,818,479</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 \$ 2,123,377 and \$ 2,071,940 for the years ended December 31, 2021 and 2020, 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.

**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, 2021 and 2020.

### ***Domestic and International Common Stock, Mutual Funds – Equity Securities, Exchange Traded Funds, Royalty Trusts 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).

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

***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, 2021 and 2020 are as follows:

<u>At December 31, 2021</u>	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	\$ 144,470,586	\$ 140,774,347	\$ 3,696,239	\$ -
Energy	9,407,115	9,407,115	-	-
Financial	49,537,976	49,456,905	81,071	-
Industrials	140,511,647	140,032,207	479,440	-
Information technology	28,856,680	28,856,680	-	-
Materials	6,330,617	6,262,783	67,834	-
Transportation	2,333,367	2,333,367	-	-
Telecommunications services	25,293,776	25,293,776	-	-
Total domestic and international common stocks	<u>406,741,764</u>	<u>402,417,180</u>	<u>4,324,584</u>	<u>-</u>
U.S. Government securities	23,400,126	-	23,400,126	-
Domestic corporate bonds:				
Aaa credit rating	-	-	-	-
Aa credit rating	5,663,322	-	5,663,322	-
A credit rating	21,403,106	-	21,403,106	-
Baa credit rating	2,283,014	-	2,283,014	-
B credit rating	1,845,590	-	1,845,590	-
Bb credit rating	14,430,892	-	14,430,892	-
Bbb credit rating	41,883,764	-	41,883,764	-
Unrated	3,390,374	-	3,390,374	-
Total domestic corporate bonds	<u>90,900,062</u>	<u>-</u>	<u>90,900,062</u>	<u>-</u>
Municipal bonds:				
Aaa credit rating	2,720,974	-	2,720,974	-
Aa credit rating	6,459,980	-	6,459,980	-
A credit rating	270,306	-	270,306	-
Bb credit rating	135,148	-	135,148	-
Unrated	357,021	-	357,021	-
Total municipal bonds	<u>9,943,429</u>	<u>-</u>	<u>9,943,429</u>	<u>-</u>
Mutual funds - Equity securities	20,019,771	19,730,069	289,702	-
Exchange traded funds	94,791,217	94,791,217	-	-
Mortgage backed securities	21,752,507	-	21,752,507	-
Asset backed securities	28,573,152	301,255	28,271,897	-
Real estate investment trusts	1,323,157	1,323,157	-	-
Money Market funds	56,091,178	56,009,117	82,061	-
Private equity investments	19,420,262	-	-	19,420,262
Investments measured at net asset value:				
Limited partnerships	127,053,968	-	-	-
Mutual funds - equity securities	40,602,810	-	-	-
Total investments measured at net asset value	<u>167,656,778</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - All Investment Types	<u>\$ 940,613,403</u>	<u>\$ 574,571,995</u>	<u>\$ 178,964,368</u>	<u>\$ 19,420,262</u>

## NOTE 23: Fair Value Measurements – Continued

<u>At December 31, 2020</u>	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	\$ 130,206,708	\$ 129,218,135	\$ 988,573	\$ -
Energy	2,426,171	2,426,171	-	-
Financial	50,744,282	50,744,282	-	-
Industrials	117,724,174	116,768,868	955,306	-
Information technology	19,397,993	19,382,109	15,884	-
Materials	5,299,346	5,299,346	-	-
Transportation	1,008,872	1,008,872	-	-
Telecommunications services	25,279,733	25,279,733	-	-
Total domestic and international common stocks	<u>352,087,279</u>	<u>350,127,516</u>	<u>1,959,763</u>	<u>-</u>
U.S. Government securities	<u>25,031,386</u>	<u>-</u>	<u>25,031,386</u>	<u>-</u>
Domestic corporate bonds:				
Aaa credit rating	320,296	-	320,296	-
Aa credit rating	5,009,667	-	5,009,667	-
A credit rating	25,658,786	-	25,658,786	-
Baa credit rating	2,647,736	-	2,647,736	-
B credit rating	2,265,513	-	2,265,513	-
Bb credit rating	13,553,417	-	13,553,417	-
Bbb credit rating	39,681,614	-	39,681,614	-
Unrated	2,021,335	-	2,021,335	-
Total domestic corporate bonds	<u>91,158,364</u>	<u>-</u>	<u>91,158,364</u>	<u>-</u>
Municipal bonds:				
Aaa credit rating	1,584,888	-	1,584,888	-
Aa credit rating	4,909,310	-	4,909,310	-
A credit rating	340,843	-	340,843	-
Unrated	1,440,094	-	1,440,094	-
Total municipal bonds	<u>8,275,135</u>	<u>-</u>	<u>8,275,135</u>	<u>-</u>
Mutual funds - Equity securities	<u>21,372,319</u>	<u>21,145,940</u>	<u>226,379</u>	<u>-</u>
Exchange traded funds	<u>103,876,568</u>	<u>103,876,568</u>	<u>-</u>	<u>-</u>
Mortgage backed securities	<u>25,158,403</u>	<u>-</u>	<u>25,158,403</u>	<u>-</u>
Asset backed securities	<u>32,518,282</u>	<u>-</u>	<u>32,518,282</u>	<u>-</u>
Royalty trusts	<u>1,916,372</u>	<u>1,916,372</u>	<u>-</u>	<u>-</u>
Real estate investment trusts	<u>1,038,408</u>	<u>1,038,408</u>	<u>-</u>	<u>-</u>
Money Market funds	<u>61,688,220</u>	<u>-</u>	<u>61,688,220</u>	<u>-</u>
Private equity investments	<u>14,074,952</u>	<u>-</u>	<u>-</u>	<u>14,074,952</u>
Investments measured at net asset value:				
Limited partnerships	87,089,492	-	-	-
Mutual funds - equity securities	38,129,954	-	-	-
Total investments measured at net asset value	<u>125,219,446</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - All Investment Types	<u>\$ 863,415,134</u>	<u>\$ 478,104,804</u>	<u>\$ 246,015,932</u>	<u>\$ 14,074,952</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, 2021 and 2020:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>At December 31, 2021</b>				
Mutual fund - Equity securities	\$ 30,834,481	\$ -	Quarterly	60 Days
Mutual fund - Equity securities	9,768,329	\$ -	Monthly	30 Days
Limited partnerships	10,588,133	-	Quarterly	90 Days
Limited partnerships	10,735,664	-	Annual	180 Days
Limited partnerships	26,018,043	-	Quarterly	60 Days
Limited partnerships	27,370,959	-	Monthly	5 Days
Limited partnerships	52,341,169	-	Weekly	10 Days
Private equity investments	19,420,262	-	Illiquid	Not Applicable
	<u>\$ 187,077,040</u>	<u>\$ -</u>		
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>At December 31, 2020</b>				
Mutual fund - Equity securities	\$ 28,364,890	\$ -	Quarterly	60 Days
Mutual fund - Equity securities	9,765,064	-	Monthly	5 Days
Limited partnerships	40,833,505	-	Monthly	10 Days
Limited partnerships	46,255,987	-	Weekly	Not Applicable
Private equity investments	14,074,952	-	Illiquid	Not Applicable
	<u>\$ 139,294,398</u>	<u>\$ -</u>		

The redemption restrictions for these financial instruments are included in the contracts with the investment management firms responsible for these investments.

**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, 2021 and 2020:

	<u>Total</u>	<u>Private Equity Investments</u>
Fair value at January 1, 2020	\$ 10,274,924	\$ 10,274,924
Unrealized gains	986,249	986,249
Sales	(808,823)	(808,823)
Purchases	<u>3,622,602</u>	<u>3,622,602</u>
Fair value at December 31, 2020	14,074,952	14,074,952
Unrealized gains	4,368,270	4,368,270
Sales	(1,501,721)	(1,501,721)
Purchases	<u>2,478,761</u>	<u>2,478,761</u>
Fair value at December 31, 2021	<u>\$ 19,420,262</u>	<u>\$ 19,420,262</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, 2021 and 2020 are as follows:

	Fair Value	Quote Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
<b>At December 31, 2021</b>				
Investments (excluding Consolidated Fund):				
Money Market Funds	9,339,008	\$ 9,339,008	\$ -	\$ -
Equity Funds	11,274,638	11,274,638	-	-
Real estate	391,007	-	391,007	-
Perpetual Trusts Held by Third Parties	54,215,700	-	54,215,700	-
Contributions receivable:				
Charitable lead annuity trusts	1,329,744	-	1,329,744	-
Promises to give	117,336	-	-	117,336
	<u>\$ 76,667,433</u>	<u>\$ 20,613,646</u>	<u>\$ 55,936,451</u>	<u>\$ 117,336</u>
<b>At December 31, 2020</b>				
Investments (excluding Consolidated Fund):				
Money Market Funds	\$ 9,685,803	\$ 9,685,803	\$ -	\$ -
Equity Funds	6,103,403	6,103,403	-	-
Common Trust Funds	391,007	-	391,007	-
Perpetual Trusts Held by Third Parties	49,085,749	-	49,085,749	-
Contributions receivable:				
Charitable lead annuity trusts	253,217	-	253,217	-
Promises to give	68,681	-	-	68,681
	<u>\$ 65,587,860</u>	<u>\$ 15,789,206</u>	<u>\$ 49,729,973</u>	<u>\$ 68,681</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, 2021 and 2020:

	2021	2020
Fair value as of January 1	\$ 68,681	\$ 167,179
Promises to give received	150,000	-
Contributions receivable assumed January 1, 2020 from the addition of The Masonic Library and Museum of Pennsylvania to the financial reporting entity	-	36,617
Cash payments received	(100,000)	(139,500)
Actuarial adjustment of fair value based on remaining terms of promises to give and risk-free interest rates	(1,345)	4,385
Fair value as of December 31	<u>\$ 117,336</u>	<u>\$ 68,681</u>

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

## NOTE 23: Fair Value Measurements – Continued

The fair values of liabilities measured on a recurring basis as of December 31, 2021 and 2020 are as follows:

	Fair Value	Quote Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
<b>At December 31, 2021</b>				
Annuities payable	\$ 10,333,348	\$ -	\$ 10,333,348	\$ -
Interest rate swap agreements	15,272,173	-	15,272,173	-
	<u>\$ 25,605,521</u>	<u>\$ -</u>	<u>\$ 25,605,521</u>	<u>\$ -</u>
<b>At December 31, 2020</b>				
Annuities payable	\$ 6,654,240	\$ -	\$ 6,654,240	\$ -
Interest rate swap agreements	20,442,514	-	20,442,514	-
	<u>\$ 27,096,754</u>	<u>\$ -</u>	<u>\$ 27,096,754</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.

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>At December 31, 2021</b>					
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 19,628,864	\$ 19,628,864	\$ 19,628,864	\$ -	\$ -
Assets whose use is limited	2,859,331	2,859,331	2,859,331	-	-
Resident accounts and other receivables	7,291,525	7,291,525	-	-	7,291,525
Notes receivable	636,830	636,830	-	-	636,830
<b>Financial Liabilities:</b>					
Accounts payable and accrued expenses	\$ 22,715,297	\$ 22,715,297	\$ 22,715,297	\$ -	\$ -
Annuities payable	10,333,348	10,333,348	-	-	10,333,348
Interest rate swap agreements	15,272,173	15,272,173	-	15,272,173	-
Long-term debt	158,751,623	162,702,234	-	162,702,234	-
<b>At December 31, 2020</b>					
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 24,411,393	\$ 24,411,393	\$ 24,411,393	\$ -	\$ -
Assets whose use is limited	2,748,382	2,748,382	2,748,382	-	-
Resident accounts and other receivables	6,976,427	6,976,427	-	-	6,976,427
Notes receivable	963,030	963,030	-	-	963,030
<b>Financial Liabilities:</b>					
Accounts payable and accrued expenses	\$ 25,167,365	\$ 25,167,365	\$ 25,167,365	\$ -	\$ -
Annuities payable	6,654,240	6,654,240	-	-	6,654,240
Interest rate swap agreements	20,442,514	20,442,514	-	20,442,514	-
Long-term debt	168,244,246	172,016,000	-	172,016,000	-

**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.

The minimum required reserve amounts for the years ended December 31, 2021 and 2020 were determined using projected expense and principal payment amounts for the years ending December 31, 2022 and 2021, respectively. The minimum required reserve amounts calculated under the two methods were as follows:

	<u>2021</u>	<u>2020</u>
<u>Operating Expense Method</u>		
Operating expenses	\$ 230,310,653	\$ 222,018,266
Less: Depreciation expense	<u>31,125,252</u>	<u>29,817,394</u>
Cash expenses for minimum liquid reserve	199,185,401	192,200,872
Percentage of cash expenses to be held in reserve	<u>10%</u>	<u>10%</u>
Minimum liquid reserve requirement under Operating Expense Method	<u>\$ 19,918,540</u>	<u>\$ 19,220,087</u>
<u>Debt Service Method</u>		
Interest expense	\$ 6,440,118	\$ 6,286,218
Principal payments	<u>9,495,000</u>	<u>9,145,000</u>
Minimum liquid reserve requirement under Debt Service Method	<u>\$ 15,935,118</u>	<u>\$ 15,431,218</u>

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

The fair value of the Masonic Villages Reserve Fund at December 31, 2021 and 2020 totaled \$ 201,055,908 and \$ 180,809,802, respectively. Masonic Villages met the minimum liquid reserve required by the Insurance Department for the years ended December 31, 2021 and 2020.

**NOTE 25: Subsequent Events**

Masonic Villages has evaluated events and transactions subsequent to December 31, 2021 through April 26, 2022, the date these consolidated financial statements were issued. Based on the definitions and requirements of generally accepted accounting principles, Masonic Villages has identified the Pennsylvania Department of State's approval to liquidate Ashlar Creative Solutions, LLC as explained in Note 1 as a subsequent event.

**NOTE 26: Commitments and Contingencies**

Masonic Villages has signed contracts for various construction projects approximating \$ 6,722,000. Approximately \$ 5,861,000 has been paid or accrued on these contracts as of December 31, 2021.

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.

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

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 \$ 1,335,834 and \$ 1,312,880 in lieu of tax payments under this agreement for the years ended December 31, 2021 and 2020, respectively. For the year ending December 31, 2022, Masonic Villages' commitment under the agreement is approximately \$ 1,348,916.

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 \$ 888,289 and \$ 867,872 under this agreement for the years ended December 31, 2021 and 2020, respectively. For the year ending December 31, 2022 Masonic Villages' commitment under the agreement is approximately \$ 889,900.

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 \$ 52,020 and \$ 51,869 under these two agreements for the years ended December 31, 2021 and 2020, 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 \$ 37,123 and \$ 36,275 under this agreement for the years ended December 31, 2021 and 2020, respectively. For the year ending December 31, 2022, Masonic Villages' commitment under the agreement is approximately \$ 37,474.

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

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

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.

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

**NOTE 28: Cybersecurity Incident - Continued**

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 during 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' consolidated 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>

Masonic Villages submitted a claim to the business interruption insurer on May 19, 2020 for the costs incurred for investigation and remediation of the cybersecurity incident. Masonic Villages accrued insurance reimbursement receivable related to this claim totaling \$ 290,322 as of December 31, 2020. Masonic Villages received insurance reimbursement related to the cybersecurity incident in October 2021 in the amount of \$ 688,219.

**NOTE 29: COVID-19 Pandemic Financial Activities**

In March 2020, the COVID-19 pandemic began in the United States. The federal, state and local governments took a variety of measures to respond to this public health threat, including placing restrictions on certain business activities to prevent spread of the COVID-19 virus, producing and distributing mass quantities of necessary medical supplies, and providing financial assistance to healthcare providers. The financial assistance primarily was in the form of federal and state grants that were sent to healthcare providers unsolicited.

In response to the COVID-19 pandemic Masonic Villages implemented temporary moratoriums on new admissions to its different senior living service areas at various times throughout 2021 and 2020, which resulted in resident occupancy declining below normal levels. Certain ancillary activities, including therapy clinics and child day care, experienced declines in the volume of services provided. Resident dining areas were closed for most of 2020 to prevent spread of the COVID-19 virus. The aggregate impact of these circumstances was a decline in Masonic Villages' operating revenues for the years ended December 31, 2021 and 2020. Despite reduced revenue, Masonic Villages was able to fund its operations, meet its debt service obligations, and maintain adequate liquidity due to income generated by its unrestricted investments and financial assistance from federal government programs created to support healthcare providers during the COVID-19 pandemic. The presence of significant earning assets should enable Masonic Villages to conduct normal operations and maintain adequate liquidity for the duration of the COVID-19 pandemic.

**NOTE 29: COVID-19 Pandemic Financial Activities - Continued**

Masonic Villages received federal assistance for the COVID-19 pandemic totaling \$ 3,416,756 and \$ 9,818,537 for the years ended December 31, 2021 and 2020, respectively. The assistance was presumed to reimburse the costs associated with the COVID-19 pandemic and lost revenue from the decline in resident occupancy and ancillary activities. These amounts have been recognized as other operating revenue in the consolidated statement of operations. COVID-19 pandemic costs have been reported in Masonic Villages' consolidated financial statements for the years ended December 31, 2021 and 2020 as follows:

	<u>2021</u>	<u>2020</u>
Labor incurred by Masonic Villages' employees and recognized as wages salaries and benefits in the consolidated statements of operations	\$ 2,376,443	\$ 3,222,169
Payments for specialized services and other incidental items recognized as COVID-19 costs in the consolidated statements of operations	<u>1,191,206</u>	<u>1,972,773</u>
	<u>\$ 3,567,649</u>	<u>\$ 5,194,942</u>



***INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Masonic Villages of the Grand Lodge of Pennsylvania (a non-for-profit organization) and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

Board of Directors  
Masonic Villages of the  
Grand Lodge of Pennsylvania

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' Response to Findings**

Government Auditing Standards required the auditor to perform limited procedures on Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Camp Hill, Pennsylvania  
April 26, 2022

**MASONIC VILLAGES OF THE GRAND LODGE OF PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**December 31, 2021**

**Findings - Financial Statement Audit**

**Material Weaknesses:**

**2021-001 Interest Rate Swap Reconciliation**

- Criteria:** Interest rate swap values should be reconciled from third-party statements to the applicable general ledger balances on a quarterly basis.
- Condition/Context:** The interest rate swap values are reconciled from third-party statements with the general ledger balances on a quarterly basis; however, the interest rate swap values did not agree to the general ledger by a difference of \$ 1,320,000 at December 31, 2021.
- Effect:** The error would have resulted in the interest rate swap liability being overstated and the unrealized appreciation being understated by \$ 1,320,000 if it had not been discovered during the audit and corrected prior to the issuance of the financial statements.
- Cause:** The entry to adjust the market value of the interest rate swaps to actual at December 31, 2021 was recorded backwards causing the error in the recorded balance. This error was not detected by management during the review of the reconciliation.
- Repeat Finding:** A material error was detected during the prior year audit that was also not detected by management during the review process.
- Recommendation:** Management should enhance procedures to ensure accurate entries are recorded and an accurate reconciliation is being prepared.

**View of Responsible  
Officials and Planned  
Corrective Actions/  
Auditee's Response:**

We have implemented the following procedures to correct this material weakness:

- Masonic Villages has enhanced the quarterly reconciliation related to the interest rate swap liability to provide additional preventative and detective controls to maintain the accuracy of the swap liability accounting. The updated reconciliation requires gathering of independent data from the general ledger as well as third-party generated statements and identifies any variances between the swap liability amounts captured from these sources. The reconciliation process also incorporates analysis and verification of the valuation change as defined by the third-party statement with the valuation change recorded in the general ledger. Variances are calculated on a quarterly basis as well as year-to-date basis to ensure that all valuation changes have been appropriately recorded within the general ledger. Any quarterly or -year-to-date discrepancies between the statements and the general ledger related to the liability or valuation allowance are automatically identified for remediation prior to closing each quarter.

The Financial and Regulatory Reporting Manager will prepare swap reconciliations prior to the annual close of the Workday general ledger. This process will be completed independent of the quarterly reconciliations and will use the third-party generated swap valuation statements for the current year and prior year to reconcile the swap liability valuation change to the amounts recorded in the general ledger. The annual swap reconciliation process will ensure the amounts recorded in Masonic Villages' general ledger agree to the third-party generated swap valuation statements.