



*Report of Independent Auditors and
Consolidated Financial Statements with Supplementary Information*

Masonic Homes of California and Subsidiaries

*October 31, 2021,
with summarized comparative information for October 31, 2020*



Table of Contents

REPORT OF INDEPENDENT AUDITORS	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position.....	4
Consolidated Statements of Activities and Changes in Net Assets.....	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8
SUPPLEMENTARY INFORMATION	
Consolidating Statements of Financial Position.....	41
Consolidating Statements of Activities and Changes in Net Assets.....	42
Consolidating Statements of Cash Flows	43
Supplemental Schedule of Supporting Services Expenses (Unaudited).....	45



Report of Independent Auditors

To the Audit Committee
Masonic Homes of California and Subsidiaries

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Masonic Homes of California and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statements of financial position as of October 31, 2021, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Masonic Homes of California and Subsidiaries as of October 31, 2021, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Report on Summarized Comparative Information

We have previously audited the Organization's 2020 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated February 24, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements, from which it has been derived.

Other Matters – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial information as of and for the years ended October 31, 2021 and 2020, included in the accompanying consolidating statements of financial position, consolidating statements of activities and changes in net assets, and consolidating statements of cash flows for the years ended October 31, 2021 and 2020, presented as supplementary information, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting, and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matters – Other Information

The summarized information for the years ended October 31, 2021 and 2020, included in the accompanying supplemental schedule of supporting services expenses for the years ended October 31, 2021 and 2020, all presented as supplementary information, is presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



San Francisco, California
February 24, 2022

Consolidated Financial Statements

Masonic Homes of California and Subsidiaries
Consolidated Statements of Financial Position
October 31, 2021
(With Summarized Comparative Information as of October 31, 2020)
(In Thousands)

	Without Donor Restriction	With Donor Restrictions	2021 Consolidated	2020 Total Comparative Totals Only
Assets				
Current assets				
Cash and cash equivalents - unrestricted	\$ 12,365	\$ -	\$ 12,365	\$ 12,250
Funds held for residents	1,077	-	1,077	1,002
Receivables, net	3,646	-	3,646	2,871
Prepaid expenses and other assets	4,186	-	4,186	4,233
Current portion of related party receivable	306	540	846	617
Assets held for sale	362	-	362	217
Total current assets	<u>21,942</u>	<u>540</u>	<u>22,482</u>	<u>21,190</u>
Investments, at fair value	928,472	165,358	1,093,830	918,538
Long term portion of related party receivable	-	535	535	867
Property and equipment, net	228,006	-	228,006	200,978
Assets held in trusts	-	13,834	13,834	12,011
Funds held for prospective residents	539	-	539	373
Other assets	663	-	663	822
Total assets	<u>\$ 1,179,622</u>	<u>\$ 180,267</u>	<u>\$ 1,359,889</u>	<u>\$ 1,154,779</u>
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued liabilities	\$ 4,816	\$ -	\$ 4,816	\$ 5,779
Accrued payroll and benefits payable	3,280	-	3,280	3,382
Current portion of long-term debt	5,615	-	5,615	55,362
Liability for funds held for residents	1,077	-	1,077	1,002
Related parties payable	401	-	401	4
Total current liabilities	<u>15,189</u>	<u>-</u>	<u>15,189</u>	<u>65,529</u>
Liability to beneficiaries of split-interest agreements	-	2,521	2,521	2,357
Long term-debt, net	131,839	-	131,839	87,592
Liability for funds held for prospective residents	539	-	539	373
Refundable advance fees	38,730	-	38,730	38,172
Deferred revenue	18,949	-	18,949	20,185
Total liabilities	<u>205,246</u>	<u>2,521</u>	<u>207,767</u>	<u>214,208</u>
Net assets	<u>974,376</u>	<u>177,746</u>	<u>1,152,122</u>	<u>940,571</u>
Total liabilities and net assets	<u>\$ 1,179,622</u>	<u>\$ 180,267</u>	<u>\$ 1,359,889</u>	<u>\$ 1,154,779</u>

Masonic Homes of California and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
Year Ended October 31, 2021
(With Summarized Comparative Information for the Year Ended October 31, 2020)
(In Thousands)

	Without Donor Restriction	With Donor Restriction	Year Ended October 31, 2021 Consolidated	Year Ended October 31, 2020 Comparative Totals Only
Public Support and Revenue				
Contributions	\$ 19	\$ 1,364	\$ 1,383	\$ 437
Bequests and memorials	689	2,606	3,295	7,077
Amortization of deferred revenue	2,103	-	2,103	2,409
Amount received from pensions assigned by residents	5,341	-	5,341	5,548
Investment income	11,768	168	11,936	6,791
Net realized gains on investments	64,272	532	64,804	2,201
Net unrealized gains on equity investments	88,436	-	88,436	9,258
Fee for service	9,140	-	9,140	9,808
Health service revenue	6,711	-	6,711	7,084
Royalty and other income	4,748	-	4,748	6,066
Change in value of split-interest agreements	-	2,416	2,416	(691)
Net assets released from restriction	2,378	(2,378)	-	-
Total public support and revenue	<u>195,605</u>	<u>4,708</u>	<u>200,313</u>	<u>55,988</u>
Expenses				
Program				
Operation of Acacia Creek and Masonic Homes	58,421	-	58,421	58,985
Masonic Outreach Services	5,500	-	5,500	6,181
Masonic Center for Youth and Families	3,982	-	3,982	4,099
Scholarship	207	-	207	61
Total program expenses	<u>68,110</u>	<u>-</u>	<u>68,110</u>	<u>69,326</u>
Supporting services				
Marketing	404	-	404	388
Fundraising	989	-	989	952
Administration/shared services	7,372	-	7,372	7,347
Total supporting services expenses	<u>8,765</u>	<u>-</u>	<u>8,765</u>	<u>8,687</u>
Total expenses	<u>76,875</u>	<u>-</u>	<u>76,875</u>	<u>78,013</u>
Excess (deficit) of revenues over expenses before other changes in net assets	118,730	4,708	123,438	(22,025)
Net unrealized gain on investments	86,378	1,734	88,112	13,306
Change in net assets	205,108	6,442	211,550	(8,719)
Net assets at beginning of year	<u>769,268</u>	<u>171,304</u>	<u>940,572</u>	<u>949,290</u>
Net assets at end of year	<u>\$ 974,376</u>	<u>\$ 177,746</u>	<u>\$ 1,152,122</u>	<u>\$ 940,571</u>

See accompanying notes.

Masonic Homes of California and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended October 31, 2021 and 2020
(In Thousands)

	Year Ended October 31, 2021	Year Ended October 31, 2020
Cash flows from operating activities		
Contributions and bequests received	\$ 4,378	\$ 6,530
Net proceeds from assigned assets	1,739	24
Amounts received from assigned assets	5,341	5,548
Net proceeds from sale of resident assets	(70)	639
Investment income received	11,937	6,791
Fee for service	9,140	9,808
Health service revenue	6,810	7,168
Royalty and other income	3,055	4,917
Cash paid for expenses	(69,150)	(68,915)
Net proceeds from split-interest agreements, charitable gift annuity, and pooled income fund	756	(13)
Net cash used in operating activities	<u>(26,064)</u>	<u>(27,503)</u>
Cash flows from investing activities		
Net proceeds from sales of investments	102,480	136,212
Purchase of investments	(36,418)	(58,475)
Purchase of property and equipment	(35,168)	(47,960)
Net cash provided by investing activities	<u>30,894</u>	<u>29,777</u>
Cash flows from financing activities		
Cash received from residents subject to refund	2,458	4,926
Deposits refunded to residents	(1,688)	(2,542)
Contribution restricted for long term investments	300	982
Funds held for residents	(28)	36
Changes in other assets	(12)	(42)
Long-term debt proceeds	50,193	-
Long-term debt principal installment payment	(55,697)	(5,359)
Net cash used in financing activities	<u>(4,474)</u>	<u>(1,999)</u>
Net increase in cash, cash equivalents, and restricted cash	356	275
Cash, cash equivalents, and restricted cash, beginning of year	<u>13,625</u>	<u>13,350</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 13,981</u>	<u>\$ 13,625</u>
Supplemental cash-flow information		
Interest paid	<u>\$ 1,431</u>	<u>\$ 2,038</u>

Masonic Homes of California and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Years Ended October 31, 2021 and 2020
(In Thousands)

	Year Ended October 31, 2021	Year Ended October 31, 2020
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ 211,550	\$ (8,719)
Adjustment to reconcile change in net assets to net cash used in operating activities		
Depreciation	8,156	8,138
Amortization of deferred revenue	(2,103)	(2,409)
Amortization due to death and withdrawal	(1,084)	(1,187)
Realized and unrealized gains on investments	(241,354)	(24,737)
Contribution restricted for long term investments	(300)	(982)
Changes in assets and liabilities		
Receivables, net	(775)	(74)
Prepaid expenses and other assets	205	(2,971)
Related parties receivable and payable	488	253
Assets held for sale	(146)	638
Assets held in trust	(1,821)	834
Funds held for residents and prospective residents	243	76
Accounts payable and accrued liabilities	(1,028)	3,765
Liability to beneficiaries of split interest agreements	165	(152)
Deferred revenue from assigned assets, net	1,740	24
Net cash provided by operating activities	\$ (26,064)	\$ (27,503)

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and organization – Masonic Homes of California (“Masonic Homes”), a California not-for-profit corporation, operates a home for adults in Union City, California, and a home for adults in Covina, California. Masonic Homes is supported by The Grand Lodge of Free and Accepted Masons of the State of California (the “Grand Lodge”) and members of the Masonic Fraternity in California.

Masonic Homes is the sole member of Acacia Creek, A Masonic Senior Living Community at Union City (“Acacia Creek – UC”). Masonic Homes and Acacia Creek – UC, serve the housing needs of the elderly with independent, assisted living, memory care, and skilled nursing.

Masonic Homes is subject to statutory reserve requirements. As of October 31, 2021, Masonic Homes’ reserves, as calculated in accordance with Continuing Care Contract Statutes of the California Health and Safety Code, were in excess of such requirements.

Principles of consolidation – The consolidated financial statements include the accounts of Masonic Homes of California and Acacia Creek – UC (collectively, the “Organization”). All significant inter-company accounts and transactions have been eliminated.

Comparative information – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s consolidated financial statements as of and for the year ended October 31, 2020, from which the summarized information was derived.

Net asset classifications – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Without donor restriction – without donor restriction net assets represent resources that are not subject to donor-imposed restrictions and are available to support Masonic Homes’ activities. The Board of Trustees has designated certain net assets without donor restrictions as operating reserves, capital replacement and development reserves, uninsured risk reserves, and strategic initiative reserves. As of October 31, 2021, and 2020, board-designated reserve funds consisted of the following:

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

	2021	2020
	(In Thousands)	(In Thousands)
Operating reserve fund	\$ 6,112	\$ 7,884
Capital reserve fund	6,969	6,963
Uninsured risk fund	12,245	14,404
Strategic reserve fund	1,308	1,014
Advanced care reserve fund	3,188	1,792
Total board-designated net assets	\$ 29,822	\$ 32,057

With Donor Restriction – with Donor restriction net assets represent contributions to be held in perpetuity as directed by the donor and contributions that are limited as to use in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Organization according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released and reported as without donor restriction. If a restriction is fulfilled in the same fiscal year in which the contribution was received, the contribution is reported as with donor restriction support and net assets are released from restrictions in that period.

Use of estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Estimates included in these consolidated financial statements relate to fair market value of investments, liability to beneficiaries of split-interest agreements in various charitable remainder trusts, fair market value of real and personal property assigned by residents at the date they are assigned, the useful lives of property and equipment, and allocations of functional expenses. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments – The carrying amounts reported in the accompanying consolidated statements of financial position for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and related entities receivables and payables approximate fair value due to their short-term nature. Discussion on the fair value of financial instruments is included in Note 4.

Fair valuation process – The Organization determines fair value measurement policies and procedures for assets and liabilities under the supervision of the Investment Committee. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income, and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on an annual basis, or as necessary based on current market conditions and other third-party information. In determining the reasonableness of the methodology, Masonic Homes evaluates a variety of factors that include a review of existing agreements, economic conditions, industry, and market developments. Certain unobservable inputs are assessed through review of contract terms while others are substantiated utilizing available market data, including, but not limited to, market comparable, qualified opinions, and discount rates and mortality tables for split-interest agreements.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Cash, cash equivalents, and restricted cash – Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less at the time of purchase, with the exception of cash and cash equivalents held in the endowment fund as investments, the use of which is restricted.

Funds held for residents and prospective residents include residents' accounts at Union City, Covina, and Acacia Creek – UC, which comprise of (a) deposits made by residents for a unit in Acacia Creek – UC, (b) unexpended portions of monthly allowances made to residents, or (c) other income earned by residents. A corresponding liability related to deposits, and the unexpended portion of monthly allowances is included reported as liability for funds held for residents (Note 2).

Cash and cash equivalents, and restricted cash consisted of the following as of October 31:

	2021	2020
	(In Thousands)	(In Thousands)
Operating cash	\$ 1,883	\$ 2,986
Money market	10,482	9,264
Funds held for residents and prospective residents	1,616	1,375
Total cash, cash equivalents, and restricted cash	<u>\$ 13,981</u>	<u>\$ 13,625</u>

Receivables, net – The Organization receives payment for health services from residents, insurance companies, Medicare, Medi-Cal, HMOs, and other third-party payors. As a result, the Organization is exposed to certain credit risks. The Organization manages its risk by regularly reviewing its accounts receivable and, on a periodic basis, evaluates its accounts receivable and establishes an allowance for uncollectible accounts, based on a history of past write-offs and collections. Past-due status is based upon the date of services provided. Uncollectible receivables are charged off when deemed uncollectible. Recoveries from previously charged-off accounts are recorded when received.

Prepaid expenses – Prepaid expenses consist primarily of insurance premium prepayments.

Related-party receivable – As a part of the California Masonic Foundation fundraising campaign, the Organization has a grant receivable for the amounts designated by the grantors for the benefit of the Organization. The total receivable balance was \$1,381,000 and \$1,484,000 as of October 31, 2021 and 2020, respectively.

Assets held for sale – Assets held for sale consist primarily of tangible property received from residents, including residential real estate that is held for sale. Assets are recorded at 80% to 90% of estimated fair market value on the date of assignment with the intention of liquidating within 180 days.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

Investments – Investments in common stocks, fixed income, and equity securities are stated at estimated fair market values based on quoted market prices. Investments received through gifts are recorded at estimated fair market values at the dates of donation. The fair value of alternative investments is recorded at the investment manager’s Net Asset Value (“NAV”), as the managers have the greatest insight into the investments of their funds and the related industry, and have the appropriate expertise to determine the NAV. The Organization assesses the NAV and takes into consideration events such as suspended redemptions, restructuring, secondary sales, and investor defaults to determine if an adjustment is necessary. Additionally, asset holdings are reviewed within the investment manager’s audited consolidated financial statements as well as interim consolidated financial statements and fund manager communications, for the purposes of assessing valuation. Unrealized gains or losses that result from market fluctuations are recorded in the period in which such fluctuations occur. Realized gains or losses resulting from sales or maturities of securities are calculated on a cost basis.

Property and equipment – Property and equipment are carried at cost. Purchases of property and equipment amounting to \$1,000 and above are capitalized and depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 50 years
Equipment	3 to 35 years
Furniture and fixtures	5 to 20 years
Vehicles	3 to 4 years

The Organization evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Measurement of the amount of impairment may be based on market values of similar assets or estimates of future discounted cash flows resulting from use and ultimate disposition of the assets. No asset impairment was recognized during the years ended October 31, 2021 and 2020.

Assets held in trusts – Assets held in trusts represent the assets used to satisfy the liability to beneficiaries of split-interest agreements. When a donor establishes a split-interest agreement where Masonic Homes is the trustee, the lump sum received by the donor is invested separately (Note 6).

Professional liability insurance – Masonic Homes insures for professional liability claims under an “occurrence policy.” Masonic Homes primary and excess policies cover all occurrences that happen during the policy term up to \$10,000,000, subject to a \$500,000 self-insured retention. Acacia Creek policy covers all occurrences that happen during the policy term up to \$3,000,000, subject to a \$25,000 deductible and excess policy for each loss event up to \$4,000,000. Should these policies not be renewed or replaced with equivalent insurance, claims made outside of the policy period may be uninsured. Management’s intention is to continue insuring for professional liability exposures at all times. Management is not aware of any pending claims that exceed the coverage limitations provided by the policy. Management is of the opinion that the impact, if any, of unknown claims is immaterial and any settlement would not have a material adverse effect on the Organization’s financial position. Management’s estimate of the Organization’s liability for expected losses is based on historical claims experience. At this time there are no accruals for liability included in accounts payable and accrued liabilities, nor are any insurance receivables recorded in the consolidated financial statements of the Organization.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Workers' compensation insurance – The Organization insures for workers' compensation claims under an "occurrence policy" in compliance with the Workers' Compensation Law of the State of California. The policy covers all occurrences that happen during the policy term up to \$1,000,000, subject to a \$250,000 deductible per occurrence. Under California Law workers' compensation coverage must be carried by all employers, therefore, if this policy was not renewed, replacement coverage would need to be secured. There are no accruals for unreported claims accounts payable and accrued liabilities in the consolidated financial statements of the Organization. Under the program, the Organization pays its claims and costs falling under the \$250,000 deductible as incurred, and no accruals have been made nor reserves established in the consolidated financial statements of the Organization for any open claims that have not reached the \$250,000 deductible threshold. The Organization pays for claims and increases in reserves held by the insurance company on a quarterly basis, regardless of the policy year the claim was filed. Management is of the opinion that the impact, if any, of unreported claims or open claims is immaterial and would not have an adverse impact on the Organization's financial position.

Liability to beneficiaries of split-interest agreements

Deferred revenue from pooled income fund – Deferred revenue from pooled income fund represents the discount for future investment earnings on Masonic Homes' remainder interest in the Masonic Homes Pooled Income Fund (the "Pooled Income Fund") (Note 6). Masonic Homes has determined the amount deferred using the tax deduction methodology from Internal Revenue Service ("IRS") Publication 1457 tables, and a discount rate of 3.955% as of October 31, 2021 and 2020, respectively. Deferred revenue from the Pooled Income Fund included in liability to beneficiaries of split-interest agreements in the consolidated statements of financial position was \$183,000 and \$261,000 as of October 31, 2021 and 2020, respectively.

Liability to beneficiaries of charitable remainder trusts – Liability to beneficiaries of charitable remainder trusts represents the income beneficiaries' interest in various charitable remainder trusts of which Masonic Homes is the trustee (Note 6). The liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. Masonic Homes has determined the amount of the liability using the tax deduction methodology from IRS Publication 1457, Table S, or IRS Publication 1458, Table D, as applicable, and using a discount rate of 6.00% as of October 31, 2021 and 2020. Liabilities to beneficiaries of charitable remainder trusts included in liabilities to beneficiaries in the consolidated statements of financial position were \$1,782,000 and \$1,642,000 as of October 31, 2021 and 2020, respectively.

Other liabilities to beneficiaries of split-interest arrangements – Other liabilities to beneficiaries of split-interest agreements include charitable remainder trusts and other gift annuities for which the Organization is obligated. These arrangements included in liabilities to beneficiaries in the consolidated statements of financial position were \$556,000 and \$454,000 as of October 31, 2021 and 2020, respectively.

Obligation to provide future services to current residents – The Organization is required to accrue a liability in the consolidated financial statements to cover future services to current residents if deferred residency fees and future anticipated income are not sufficient to cover these costs. The interest rate used to estimate this liability was 3% as of October 31, 2021 and 2020, respectively. Management has determined that no such accrual is required in the accompanying consolidated financial statements.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

Revenue recognition

Masonic Homes

Residency fees – The adult residents who enter Masonic Homes are required by a life-care agreement to assign 75% of their assets to Masonic Homes in exchange for continuing care for the remainder of their lives. In the event that a continuing care contract is canceled by the resident through withdrawal within the first 90 days of residency, the resident is entitled to a pro-rata refund of all his or her assigned assets. As of October 31, 2021, and 2020, deferred revenues from assigned assets subject to refund, were \$167,540 and \$0, respectively. The life-care agreement creates a performance obligation to be satisfied over the remaining life of the resident at Masonic Homes.

Masonic Homes recognizes the revenue associated with the residency fee using a straight-line method over the actuarially determined estimated life of each resident. Resident life expectancies are reevaluated regularly and any changes in the revenue as a result of that reevaluation will be recognized in the period noted. As of October 31, 2021 and 2020, Masonic Homes had \$14,691,000 and \$15,251,000, respectively, in deferred revenue from residency fees to be recognized as the performance obligations are satisfied. See Note 7 for changes in the unearned residency fee revenue for the years ended October 31, 2021 and 2020. Any unamortized balance upon death of the individual resident or last survivor is recognized as income.

Health service revenue – Masonic Homes – Health service revenues are recognized in the month in which services are provided and collectability is reasonably assured. Health service revenue on the consolidated statements of activities and changes in net assets for assisted living and memory care of \$6,711,000 and \$7,084,000, for the years ended October 31, 2021 and 2020, respectively and is presented net of third-party rate adjustments. Other revenue is recognized as the related services are provided and includes guest services income, catering income, and other miscellaneous income.

Revenue for health services performance obligations satisfied over time is recognized on actual charges incurred. Masonic Homes believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the skilled nursing facility (“SNF”). Masonic Homes measures the performance obligation from admission into the SNF to the point when it is no longer required to provide health care services to the resident, which is typically at the time of discharge.

The SNF recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. The SNF has agreements with third-party payers that provide for payments to the Hospital facility at amounts different from its established rates. These payment arrangements include:

- Medicare: Inpatient nonacute care services Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical/ rehab, diagnostic, and other factors. The SNF is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the SNF and audits thereof by the Medicare administrative contractor.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

- Medi-Cal: Beginning July 1, 2013, inpatient non acute care services rendered to Medi-Cal program beneficiaries are reimbursed under a diagnostic related group (“DRG”) methodology. Under this methodology, similar to Medicare, services were paid at prospectively a determined facility rates less resident share of costs.
- Secondary insurance: The SNF has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the SNF under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Masonic Homes provides health care services primarily to residents of its communities. Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. Masonic Homes believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

Settlements with third-party payors for retroactive adjustments due to audits, review, or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Masonic Homes' historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2021 or 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Masonic Homes estimate the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments determined on a resident by resident basis. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to nursing center revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended October 31, 2021 and 2020, was not significant.

Fee for service revenue – Masonic Homes – Financially qualified adult residents may enter Masonic Homes by paying a monthly rental fee; such amounts vary with an option to pay an entrance fee. In the event of withdrawal, residents are refunded entrance fees ratably over the first 36 or 60 months.

Assigned retirement benefits – Resident retirement benefits that are assigned to Masonic Homes are recognized when received. These amounts are generally received in the form of annuity payments.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

Acacia Creek – UC

Entrance fees – Acacia Creek – UC – The adult residents who enter and sign a Residence and Care Agreement are allowed a 90-day trial period during which the resident may leave the community at their discretion and receive, upon written notice, a refund of all fees less a reasonable processing fee and fees for the value of services rendered during occupancy. The majority of the adult resident entrance fees are refundable ranging from 50% to 100% upon the resident's death or termination of the agreement. Acacia Creek – UC is required to refund the entrance fees when the unit is re-sold. As of October 31, 2021 and 2020, entrance fees subject to refund were \$44,517,000 and \$44,652,000, respectively. The nonrefundable portion is amortized over the life of the resident and is included in deferred revenue.

Fee for service revenue – Acacia Creek – UC – Acacia Creek – UC offers a variety of living accommodations, fine amenities, a comprehensive wellness program, and several types of support and health care. Residents pay 1) a monthly fee, which varies according to the size and type of apartment selected and by the level of care needed, and 2) fees for optional services, if applicable.

Contributions – The Organization records contributions and unconditional promises to give in the period they are received in accordance with Accounting Standards Codification (“ASC”) 958-605, *Revenue Recognition*. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Recognition of donor-restricted contributions – Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Performance indicator – “Excess (deficit) of revenues over expenses before other changes in net assets” in net assets without donor restrictions as reflected in the accompanying consolidated statements of activities and changes in net assets is the performance indicator. Changes in net assets without donor restrictions, which are excluded from excess (deficit) of revenues over expenses, consistent with industry practice, includes unrealized gains and losses on investments.

Concentration of credit risk – Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation insurance thresholds, cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds, and various debt and equity investments in excess of Securities Investor Protection Corporation insurance. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the consolidated financial statements. The risk associated with the investments is mitigated through diversification.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Tax-exempt status – Masonic Homes and Acacia Creek – UC are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of California Revenue and Taxation Code and have been granted tax-exempt status by the IRS and the California Franchise Tax Board. Accordingly, no provision for income taxes is included in the consolidated financial statements.

New accounting pronouncements – During 2021, the Organization adopted the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to allow an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This pronouncement is effective for fiscal years beginning after December 15, 2019. The adoption did not have a material impact on the Organization’s consolidated financial statements.

During 2021, the Organization adopted the FASB issued ASU No. 2018-13 *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, to modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including consideration of costs and benefits. This pronouncement is effective for fiscal years beginning after December 15, 2019. The adoption did not have a material impact on the Organization’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which simplifies the presentation of leases by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This pronouncement is effective for fiscal years beginning after December 15, 2020. Management is currently evaluating the impact of adoption on the consolidated financial statements which will be effective for the Organization for fiscal year 2022.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires the measurement of all expected credit losses for financial assets held based on historical experience, current conditions, and reasonable and supportable forecasts. This pronouncement is effective for fiscal years beginning after December 15, 2021. Management is currently evaluating the impact of adoption on the consolidated financial statements which will be effective for the Organization for fiscal year 2023.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to provide guidance and ease potential burden in accounting for (or recognizing the effects of) reference rate reform on financial report stemming from the cessation of the London Interbank Offered Rate (“LIBOR”). This update is as of March 12, 2020, through December 31, 2022. Management is currently evaluating the impact of the provisions of the pronouncement on the consolidated financial statements.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

In September 2020, the FASB issued ASU 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, which increases the transparency of contributed nonfinancial assets for not-for-profit organizations through enhancements to presentation and disclosure. The update addresses certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit organizations, as well as the amount of those contributions used in a not-for-profit organization's programs and other activities. This update is effective for fiscal years beginning after June 15, 2021, with early adoption permitted. Management is currently evaluating the impact of adoption on the consolidated financial statements which will be effective for the Organization for fiscal year 2022.

NOTE 2 – FUNDS HELD FOR RESIDENTS AND PROSPECTIVE RESIDENTS

Funds held for residents consisted of the following as of October 31:

	2021	2020
	(In Thousands)	(In Thousands)
Acacia Creek — UC	\$ 539	\$ 373
Masonic Homes Union City	223	238
Masonic Homes Covina	854	764
Total funds held for residents and prospective residents	\$ 1,616	\$ 1,375

NOTE 3 – INVESTMENTS

Investments are presented at fair value and consist of corporate stocks, fixed income securities, and institutional mutual funds that invest primarily in diversified portfolios of fixed income securities, corporate stocks, and real estate.

Investments consisted of the following as of October 31:

	2021	2020
	(In Thousands)	(In Thousands)
Corporate stocks	\$ 273,201	\$ 226,092
Equity mutual funds	390,793	325,576
Alternative investments	137,507	141,610
Fixed income mutual funds	230,329	199,635
Private markets	62,000	25,625
Total investments	\$ 1,093,830	\$ 918,538

Corporate stocks – These are U.S. equity, non-U.S. equity, global equity, and emerging market equity stocks. The fund seeks stocks with fundamentals of strong earnings, a relative low cost structure and growth potential. A sell decision focuses on the changes or a decline in the three factors.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Equity mutual funds – These funds are comprised of both U.S. and Global Mutual Funds. The Organization’s investment policy states the Organization believes the capital markets are “mean-reverting” by nature. Therefore, it adheres to long-term asset allocation strategies and periodic, regular rebalancing. The Organization believes market timing is ineffective as a long-term investment strategy and will remain fully invested in all long-term mandates.

Alternative investments – These funds are comprised of Credit Long/Short, Real Estate, hedge funds, and Opportunistic Futures. The Organization’s investment policy states that the Organization believes the capital markets are “mean-reverting” by nature. Therefore, it adheres to long-term asset allocation strategies and periodic, regular rebalancing. The Organization believes market timing is ineffective as a long-term investment strategy and will remain fully invested in all long-term mandates.

Fixed income mutual funds – This is a PIMCO All Asset All Authority Fund. The fund seeks long-term real returns. The fund invests in actively managed PIMCO mutual funds, including developed and emerging bonds and stocks, real estate, commodities, and absolute-return oriented strategies.

Private markets – The Organization is working with their investment manager on a discretionary basis to build out a private markets portfolio. The investments represent a diversified range of strategies focused on numerous geographies and sectors.

Alternative investments are less liquid than the Organization’s other investments. The following table summarizes these investments by investment strategy type at October 31:

		2021		2020
		(In Thousands)		(In Thousands)
Alternative investment strategy	Number of funds		Number of funds	
Real estate investment trust	1	\$ 14,734	1	\$ 16,580
Global Macro (caxton)	1	22,184	1	19,439
Credit Long / Short (caspan)	1	32,605	1	26,852
Opportunistic (bravo ii)	1	10,331	1	12,400
EM Macro (broad reach)	1	26,036	1	18,622
Structured Credit (400 capital)	1	31,617	1	24,261
Institutional Equities (renaissance)	-	-	1	23,456
Total alternative investments	6	<u>\$ 137,507</u>	7	<u>\$ 141,610</u>

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

The following table shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at October 31, 2021 and 2020:

	2021					
	(In Thousands)					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income mutual funds	\$ -	\$ -	\$ 64,477	\$ (4,474)	\$ 64,477	\$ (4,474)
Equity mutual funds	-	-	-	-	-	-
Alternative investments	-	-	10,331	(1,466)	10,331	(1,466)
Total temporarily impaired investments	\$ -	\$ -	\$ 74,808	\$ (5,940)	\$ 74,808	\$ (5,940)

	2020					
	(In Thousands)					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income mutual funds	\$ -	\$ -	\$ 53,507	\$ (13,252)	\$ 53,507	\$ (13,252)
Equity mutual funds	44,052	(325)	11,541	(10,086)	55,593	(10,411)
Alternative investments	42,078	(2,217)	12,400	(4,632)	54,478	(6,849)
Total temporarily impaired investments	\$ 86,130	\$ (2,542)	\$ 77,448	\$ (27,970)	\$ 163,578	\$ (30,512)

The fair market value of these investments has declined due to a number of reasons, including changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other-than-temporary impairment under management's policy of evaluating securities for impairment. This review considers the severity and duration of the decline in market value, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded to investment income (loss) and a new cost basis in the investment is established. For the years ended October 31, 2021 and 2020, no securities were determined to be other-than-temporarily impaired.

NOTE 4 – FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Corporate stocks/mutual funds/assets held in trusts – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain real estate investments, and other less liquid securities using investment appropriate models like the income approach for real estate investments. For those assets held in trusts classified as Level 3, the fair value is based on the fair value of underlying investments and the Organization's percentage of interest in the trusts.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at October 31:

	2021			
	Fair Value	(In Thousands)		
		Level 1	Level 2	Level 3
Investments				
Corporate stocks				
Domestic stocks	\$ 164,508	\$ 164,508	\$ -	\$ -
Foreign stocks	54,139	54,139	-	-
Equity mutual funds				
Domestic equity	18,620	18,620	-	-
Foreign equity	150,601	150,601	-	-
Fixed income mutual funds	76,807	76,807	-	-
Total Investments	464,675	464,675	-	-
Assets held in trust				
Corporate stocks				
Domestic stocks	395	-	-	395
Equity mutual funds				
Domestic stocks	5,042	3,166	-	1,876
Foreign stocks	2,240	1,561	-	679
Alternative investments	73	-	-	73
Fixed income mutual funds	5,698	4,696	-	1,002
Money market accounts	386	298	-	88
Total assets held in trust	13,834	9,721	-	4,113
Total	\$ 478,509	\$ 474,396	\$ -	\$ 4,113

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

	2020 (In Thousands)			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Corporate stocks				
Domestic stocks	\$ 135,170	\$ 135,170	\$ -	\$ -
Foreign stocks	45,503	45,503	-	-
Equity mutual funds				
Domestic equity	26,314	26,314	-	-
Foreign equity	121,503	121,503	-	-
Fixed income mutual funds	64,914	64,914	-	-
Total Investments	<u>393,404</u>	<u>393,404</u>	<u>-</u>	<u>-</u>
Assets held in trust				
Corporate stocks				
Domestic stocks	322	-	-	322
Equity mutual funds				
Domestic stocks	3,938	2,805	-	1,133
Foreign stocks	1,934	1,487	-	447
Alternative investments	84	-	-	84
Fixed income mutual funds	5,314	4,435	-	879
Money market accounts	419	324	-	95
Total assets held in trust	<u>12,011</u>	<u>9,051</u>	<u>-</u>	<u>2,960</u>
Total	<u>\$ 405,415</u>	<u>\$ 402,455</u>	<u>\$ -</u>	<u>\$ 2,960</u>

The following table presents assets recognized in the accompanying consolidated statements of financial position measured at net asset value ("NAV") at October 31:

	2021	2020
	(In Thousands)	(In Thousands)
Investments measured at NAV		
Corporate stocks		
Foreign stocks	\$ 54,553	\$ 45,418
Equity mutual funds		
Domestic equity (BGI, Kaspick)	109,195	87,508
Foreign equity (GMO, CG, Kas)	112,378	89,340
Alternative investments	137,507	141,610
Fixed income mutual funds	153,522	135,633
Private markets	62,000	25,625
Total	<u>\$ 629,155</u>	<u>\$ 525,134</u>

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated financial statements using significant unobservable (Level 3) inputs:

	Asset Held in Trust
Balance, October 31, 2019	\$ 3,440
Total realized and unrealized gain and loss	
Included in changes in net assets with donor restrictions	(480)
Balance, October 31, 2020	2,960
Total realized and unrealized gain and loss	
Included in changes in net assets with donor restrictions	1,153
Balance, October 31, 2021	\$ 4,113

As required by ASC Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value.

The following table provides the fair value and redemption terms and restrictions for investments measured at NAV as of October 31, 2021 and 2020:

Fund Type	Fair Value (in thousands) October 31, 2021	Fair Value (in thousands) October 31, 2020	Unfunded Commitments (in thousands) October 31, 2021	Unfunded Commitments (in thousands) October 31, 2020	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Redemption Restriction
Corporate stocks							
Foreign stocks	\$ 54,553	\$ 45,418	\$ -	\$ -	Monthly	30 days	None
Equity mutual funds							
Domestic equity	109,195	87,508	-	-	Daily	1-5 days	None
Foreign equity	112,378	89,340	-	-	Daily, Monthly	0 days	None or minimum of \$250
Alternative investments							
Global Macro (Caxton Global Investment)	22,184	19,439	-	-	Quarterly	Quarterly	45 days, lock-up 1st year
Credit Long/Short (Caspian)	32,805	28,852	-	-	Quarterly	Quarterly	45 days
PIMCO Bravo II	10,331	12,400	-	-	n/a	n/a	n/a
Broad Reach	26,036	18,622	-	-	Quarterly	90 days	90 days
400 Capital	31,617	24,261	-	-	Quarterly	60 days	60 days
Real Estate (UBS TPF)	14,734	16,580	-	-	Quarterly	60 days	60 days
Renaissance	-	23,456	-	-	Monthly	30 days	30 days
Fixed income mutual funds	153,522	135,633	-	-	0-3 days	None	None
Private markets	62,000	25,625	44,298	39,312	n/a	n/a	n/a
	<u>\$ 629,155</u>	<u>\$ 525,134</u>	<u>\$ 44,298</u>	<u>\$ 39,312</u>			

Foreign stocks – This represents an investment in Acadian Non-US All Cap Equity (USD Hedged) Fund. The fund's objective is to seek long-term capital appreciation in investing primarily in common stocks of international issuers. This will include both large and small-cap issuers as well as opportunistic exposure to issuers in the emerging markets. Acadian uses a quantitative model to invest in all cap international value equity.

Domestic equity – These common trust funds are invested and reinvested primarily in a portfolio of equity securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of the entire United States market for publicly traded equity securities. The criterion for selection of investments is the Dow Jones U.S. Total Stock Market Index.

Foreign equity – This category represents investments in Global Equity Long-Only Fund LP, and the Lindsell Train Global Equity Fund.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

The Global Equity Long-Only Fund LP's investment objective is to invest primarily in long-only portfolio of global equities. The Lindsell Train Global Equity Fund's primary objective is to protect the real value of clients' capital and income over time. The aim is to invest only in 'exceptional' companies that have that rare ability to grow the real value of their profits and cash flows over long periods of time. The investments are spread across global markets, and the objective of the underlying funds is to provide investors with capital appreciation and dividend income, while charging a lower expense fee than traditional mutual funds.

Alternative investments

Global Macro ("Caxton Global Investment") – The Fund's objective is capital appreciation. Its principal activity is trading in the international currency, financial, commodities and securities markets. The fund has a broad mandate to trade in all exchange and over-the-counter markets, and to trade in derivative products and other instruments. The fund pursues these activities through the investment of its capital in Caxton International Limited, a BVI business company, through Caxton Intermediate Fund L.P., a BVI international limited partnership, with the exception of certain short-term investments for cash management purposes, strategic investments, and currency hedging transactions with respect to T-Euro Shares, T-GBP Shares, T-AUD Shares, and T-JPY Shares respectively.

Credit Long/Short ("Caspian") – The investment objective of the Fund, the Intermediate fund, and the Master fund is to achieve long-term capital appreciation, on a favorable risk-adjusted basis, by applying a flexible and opportunistic approach to investing which involves evaluating the current attractiveness of various asset classes, including bank loans, bonds, equities, speculative investments, and cash equivalents, and investing its assets accordingly.

PIMCO Bravo II – An opportunistic residential and commercial credit strategy seeking to capitalize on the continued deleveraging and re-regulation of the financial system, with particular focus on bank disposition of assets for noneconomic reasons. The Fund seeks to earn long-term returns by acquiring discounted loans or structured credit tied to residential or commercial real estate markets in the U.S. or Europe, managing assets through restructuring, high-quality specialty servicing, and exerting operational control to extract additional value, purchasing assets with exposure to a potential U.S. housing recovery, and targeting uncrowded areas of global credit markets that fall in between public securities and private real estate markets.

Broad Reach Fund – The Fund will generally focus on seeking an enhanced risk adjusted return through capital appreciation within a macro investment framework, investing primarily in global macro opportunities with a focus on emerging markets securities and related derivatives, across the complete universe of FX, rates, credit and equity as well as commodities. The Fund expects to utilize discretionary macro processes, systematic macro processes and special situation macro processes and aims to deliver returns that are agnostic to the business cycle of emerging markets.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

400 Capital Credit Opportunities Fund – The Fund seeks to achieve high absolute returns with low volatility and low correlation to traditional fixed income and equity markets by investing in credit investments across credit sectors and throughout an issuer’s capital structure with a primary focus on structured credit, which includes secured and structured commercial, consumer and corporate assets. The Fund may also pursue direct lending opportunities, including joint ventures with third parties and debt and/or equity investments in newly formed lending companies. Further, the Fund may use a variety of instruments to manage credit spread duration, interest rate duration and market volatility. The execution of the Investment Manager’s strategy revolves around three core functions: (1) research and quantitative modeling, (2) portfolio and risk management, and (3) surveillance and loss mitigation.

Real Estate (“UBS TPF”) – This is an investment in an actively managed core portfolio of equity real estate that seeks to provide attractive returns while limiting downside risk and has both relative and real return objectives. Its relative performance objective is to outperform the NFI-ODCE index over any given three-to-five-year period. The fund’s real return performance objective is to achieve at least a 5% real rate of return (i.e., inflation-adjusted return), before advisory fees, over any given three-to-five-year period.

Renaissance Equity Fund – Renaissance Technologies, LLC, uses a quantitatively heavy, systematic process to invest long and short in equities. Renaissance has state-of-the-art infrastructure to collect vast amounts of data, which the team analyzes in order to identify market anomalies. The end goal of the strategy is to produce alpha by applying mathematical insights to the liquid, listed equities markets. Renaissance Equity Fund seeks to capitalize on market inefficiencies to produce a differentiated return stream with low volatility and a high Sharpe ratio.

Fixed income mutual funds – This category includes the following funds: Columbus Unconstrained Bond Fund, BlackRock US TIPS, and Wellington CTF Opportunistic. These are comingled funds with an investment strategy that invests across the fixed income spectrum, including TIPS, treasuries, investment grade and high yield credit, and asset backed securities. These funds are valued monthly.

Private markets – Commitments of \$42 million, split between private equity and private debt, were approved by the Investment Committee for 2021. In private equity, commitments of \$10 million to Whitehorse, \$6 million to IPI, \$1.71 million to 5Y Capital Evolution Fund I, \$1.29 million to 5Y Capital Evolution Fund II, \$5 million each to Bain Capital Fund XIII, Mill Point Capital I, and Tiger Infrastructure Partners III, and \$4 million each to Unicorn Partners Fund IV, and Bond Capital II were made. These commitments are in addition to \$5 million in commitments made in 2020, in private equity. Additional commitments will be made throughout the coming years to further diversify the portfolio by strategy and vintage year. Total unfunded commitment at October 31, 2021, was \$44.3 million. The investments can only be redeemed upon liquidation of the underlying assets of the funds. These Funds are illiquid, however, a secondary market exists.

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of October 31:

	2021	2020
	(In Thousands)	(In Thousands)
Land and improvements	\$ 46,227	\$ 16,394
Buildings and improvements	247,220	246,781
Furniture and equipment	30,657	30,093
Construction in progress	80,715	76,383
Leasehold improvement	245	245
Total property and equipment	405,064	369,896
Less: accumulated depreciation	(177,058)	(168,918)
Property and equipment, net	\$ 228,006	\$ 200,978

Depreciation expense for the years ended October 31, 2021 and 2020, totaled \$8,156,000 and \$8,138,000, respectively.

The following disclosure is made pursuant to Section 1790 (a) (3) of the California Health and Safety Code. The Organization is in the process of a facility development project on its campuses in Union City and Covina, which would expand its service offering. On October 10, 2017, in accordance with the Internal Revenue Service Code Section 501(c)(3), Masonic Homes of California submitted an abbreviated COA application to the California Department of Social Services – Continuing Care Branch (“DSS”) in connection with its planned construction of a skilled nursing facility at its Covina, California community. DSS approved the construction project on November 16, 2017 and construction commenced thereafter. Consistent with its charitable mission to provide residential and other services to seniors, the purpose of this construction project is to develop a stand-alone health center, including 32 beds (28 units) of skilled nursing. This new health center will accommodate seniors who, currently, must be placed in off-campus programs to receive skilled nursing services. Memory care services will also be available in the skilled nursing facility. During the fiscal years ended October 31, 2021, Masonic Homes of California expended \$7,881,000 and \$5,972,000, respectively in pre-construction & construction costs in connection with this project, which included permitting fees and fees for architectural, engineering and other professional services as well as building construction hard costs. As of October 31, 2021, these costs have totaled \$34,539,000. The Masonic Homes has committed \$45 million toward this project.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

On April 30, 2020, Masonic Homes of California submitted an abbreviated COA application to DSS in connection with its proposed project to create additional assisted living and memory care capacity at its Union City, California Campus. DSS issued its approval on June 7, 2020. In addition, Masonic Homes is improving existing residential facilities at that Campus, and conducting significant repairs and enhancements to that Campus' landscaping and roadways. Consistent with its charitable mission to provide senior residential and related services, the purpose of the project is to both increase and enhance existing senior services by (i) constructing a two-story residential building which will include 28 memory care and assisted living units, and (ii) repairing and renovating existing residential buildings and other infrastructure. During the fiscal years ended October 31, 2021 and 2020, Masonic Homes of California expended \$24,197,000 and \$38,825,000, respectively in pre-construction & construction costs in connection with this project, including regulatory and professional services fees and construction costs. As of October 31, 2021, these costs have totaled \$71,965,000. The Masonic Homes has committed \$94 million toward this project.

NOTE 6 – ASSETS HELD IN TRUSTS

Assets held in trusts consisted of the following as of October 31:

	2021 (In Thousands)	2020 (In Thousands)
Contributions receivable from split-interest agreements	\$ 358	\$ 303
Assets of pooled income fund	524	626
Assets of split-interest agreements	7,953	7,466
Assets of charitable gift annuities	1,248	962
Beneficial interest in perpetual trusts	<u>3,751</u>	<u>2,654</u>
Total assets held in trusts	<u>\$ 13,834</u>	<u>\$ 12,011</u>

Contributions receivable from split-interest agreements – Contributions receivable from split-interest agreements represent the estimated net present value of Masonic Homes' interest in various irrevocable trusts held by third parties. The net present value of these receivables was determined using the tax deduction methodology from the IRS.

Assets of pooled income fund – Assets of the Pooled Income Fund represent the fair value of assets held in the Pooled Income Fund, which was organized in 1974 as a charitable trust to which donors contribute irrevocable remainder interests in investments while retaining an income interest for life for one or more beneficiaries. All dividend and interest income of the Pooled Income Fund is distributed quarterly to the beneficiaries, based on their proportionate share of the Pooled Income Fund. Upon the death of each donor's last income beneficiary, the remainder interest becomes available for Masonic Homes' use.

Contributions are measured at the fair value of the assets received and discounted for the estimated life expectancy of the donor, which is obtained from life expectancy tables published by the IRS. The amount discounted is reported as discount for future interest and recognized using the straight-line method over the donor's remaining life expectancy. The interest rate used in calculating the discount approximates the average return provided by the fund in the years prior to the applicable contribution. As of October 31, 2021, and 2020, the rate was estimated to be 3.955%.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

Assets of charitable remainder trusts – Assets of charitable remainder trusts consist of cash and other assets received under various irrevocable charitable trusts of which Masonic Homes is the trustee. The assets received under these agreements are recorded at estimated fair market value when received. Masonic Homes utilizes an outside fund consultant to value these assets annually.

Assets of charitable gift annuities – Assets of charitable gift annuities consist of cash and other assets received under irrevocable annuity contracts. These contracts guarantee a specified amount for the life of the donor, or beneficiaries designated by the donor. The assets received are not commingled with the general assets of Masonic Homes. A reserve account has been established and invested in accordance with California statutes. The discount rates used range from 0.4% to 6.2%. Upon the death of the donor, the remaining funds revert to Masonic Homes and are taken into income. The (decrease) increase in present value of the gift annuities for the years ended October 31, 2021 and 2020, was \$98,115 and \$(151,572), respectively.

Beneficial interests in perpetual trusts – Beneficial interests in perpetual trusts represent the net present value of Masonic Homes' irrevocable interest in the income generated from various perpetual trusts held by third-party trustees. The assets of the trusts have been donor restricted for investment in perpetuity.

NOTE 7 – DEFERRED REVENUE

Changes in deferred revenue are as follows for the years ended October 31:

	2021	2020
	(In Thousands)	(In Thousands)
Balance, beginning of period and year	\$ 20,185	\$ 23,757
Received from new residents	1,997	156
Other payments/ settlements	(258)	(131)
Amortizable portion of entrance fee	212	-
Amortized		
Due to deaths and withdrawals	(1,084)	(1,188)
Based on actuarial calculation	(2,103)	(2,409)
Balance, end of period and year	<u>\$ 18,949</u>	<u>\$ 20,185</u>

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 8 – REFUNDABLE ADVANCE FEES

Changes in refundable advance fees are as follows for the years ended October 31:

	<u>2021</u>	<u>2020</u>
	(In Thousands)	(In Thousands)
Balance, beginning of period and year	\$ 38,172	\$ 35,788
Received from new residents	2,458	4,926
Deposits refunded to residents	(1,688)	(2,542)
Amortizable portion of entrance fee	<u>(212)</u>	<u>-</u>
Balance, end of period and year	<u>\$ 38,730</u>	<u>\$ 38,172</u>

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of October 31:

	<u>2021</u>		<u>2020</u>	
	(In Thousands)		(In Thousands)	
	<u>Purpose Restricted</u>	<u>Endowment</u>	<u>Purpose Restricted</u>	<u>Endowment</u>
Available for use in awarding scholarships or other programs related to children	\$ 19,063	\$ 1,595	\$ 5,823	\$ 1,595
Available for use in the activities of the homes in Union City and Covina upon lapse of time restrictions	2,586	153,717	10,469	153,417
Available for use in providing critical relief to Masons and their families	<u>785</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,434</u>	<u>\$ 155,312</u>	<u>\$ 16,292</u>	<u>\$ 155,012</u>

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

Net assets were released from donor restrictions as shown in the following table for the years ended October 31, 2021 and 2020. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2021	2020
	(In Thousands)	(In Thousands)
Use in the activities of the home for adults in Union City, California	\$ 234	\$ 846
Use in the activities of the home for adults/children in Covina, California	1,792	3,908
Use in Masonic Outreach Services	145	87
Use in providing critical relief to Masons and their families	150	243
Use in awarding scholarships and other community sponsorship	57	75
Total net assets released from restrictions	\$ 2,378	\$ 5,159

NOTE 10 – RETIREMENT PLANS

Defined contribution plan – The California Masonic Retirement Plan II (“Retirement Plan”), a defined contribution plan sponsored by the Grand Lodge, was effective on April 1, 2007. Masonic Homes, Acacia Creek – UC, the Grand Lodge, and the Temple participate in the Retirement Plan that covers all employees who meet certain age and service requirements. The Retirement Plan provides for both an employer contribution and an employer match of employee contributions. The total employer contributions and matches made by the Masonic Homes and Acacia Creek – UC to the Plan were \$1,793,000 and \$1,776,000 for the years ended October 31, 2021 and 2020, respectively.

NOTE 11 – RELATED-PARTY TRANSACTIONS

The Grand Lodge provides general and administrative support to Masonic Homes and Acacia Creek – UC, for which the Grand Lodge is reimbursed without mark-up through an allocation of certain expenses. The allocations to the Masonic Homes and Acacia Creek – UC were \$8,361,000 and \$8,299,000 for the years ended October 31, 2021 and 2020, respectively.

NOTE 12 – CONTINGENCIES AND COMMITMENTS

The Organization can potentially be a party to various claims and legal actions in the normal course of business. In the opinion of management, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Organization.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse, statutes, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

In March 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. The Organization’s operations are located in California, which has restricted gatherings of people due to the COVID-19 outbreak. Given the dynamic nature of these circumstances and business disruption, the Organization anticipates a significant short-term impact. The Organization will continue to monitor the situation closely, but given the uncertainty about the ongoing situation, an estimate of the impact to the consolidated financial statements cannot be made at this time.

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 13 – LONG-TERM DEBT

Long-term debt at October 31, 2021 and 2020, consisted of the following:

	2021	2020
	(In Thousands)	(In Thousands)
Association of Bay Area Government Bonds, Series 2013A, variable rate equal to 80% of one month LIBOR plus 47 basis points, annual payments beginning August 1, 2021, continuing to June 30, 2023	\$ 83,929	\$ 87,235
Bank of America term loan, fixed rate of 190 basis points, monthly payments beginning September 15, 2016, amortized over 25 years with a balloon payment due August 15, 2021	-	51,895
Bank of America term loan, fixed rate of 220 basis points, monthly payments beginning September 15, 2021, amortized over 20 years with a balloon payment due on August 14, 2026	49,858	-
Bank of America Public Capital Corporation loan, variable rate equal to one month LIBOR plus 60 basis points, annual payments beginning August 1, 2021, continuing to June 30, 2023	4,085	4,246
	137,872	143,376
Less current portion	5,615	55,362
	132,257	88,014
Less net unamortized cost of issuance	418	422
	\$ 131,839	\$ 87,592

Nontaxable variable rate revenue bonds – Acacia Creek – UC issued \$99,423,000 in Variable Rate Revenue Bonds, Series 2013A on October 29, 2013. The bonds were issued through the Association of Bay Area Governments (“ABAG”) and have a maturity date of July 1, 2038. The bonds were privately placed with Bank of America Public Capital Corporation (“BAPCC”). The Masonic Homes is the guarantor of all obligations of Acacia Creek – UC under the agreement.

The proceeds of the bonds were used to retire the Acacia Creek – UC Variable Rate Revenue Bonds, Series 2008A issued on January 30, 2008, in the amount of \$93,625,000 and to fund the termination cost related to the Morgan Stanley Swap dated December 20, 2007, in the amount of \$5,491,000. The balance of the proceeds in the amount of \$307,000 was used to fund certain issuance costs related to the Series 2013A Variable Rate Revenue Bonds. Other issuance costs related to the 2013A bonds in the amount of \$33,000 were paid directly by Acacia Creek – UC. Total issuance costs therefore related to the 2013A bonds were \$340,000.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

The bonds carry an interest rate equal to 67% of one month LIBOR plus 35 basis points reset on the first business day of every month. The interest formula was effective through July 31, 2021 at which time the interest rate on the bonds would carry a rate equal to 80% of one month LIBOR plus 47 basis points through June 30, 2023. The interest rate at October 31, 2021 and 2020, was 0.537% and 0.462%, respectively. The Masonic Homes guarantees the performance of Acacia Creek's repayment obligations.

Taxable variable rate loan – Acacia Creek – UC entered into a 5-year Taxable Variable Rate Loan through Bank of America, N.A. loan on October 29, 2013, in the amount of \$4,840,000. The maturity date of the loan is November 1, 2038. The Masonic Homes is the guarantor of all obligations of Acacia Creek – UC under the agreement.

The proceeds of the loan were used to fund the termination cost related to the Bank of America swap dated May 25, 2011, in the amount of \$4,840,000. Issuance cost related to the loan was \$30,000 and was paid directly by Acacia Creek – UC.

The loan carries an interest rate equal to one month LIBOR plus 45 basis points reset on the first business day of every month. The interest formula was effective through July 31, 2021 at which time the interest rate on the loan will be one month LIBOR plus 60 basis points through June 30, 2023. The interest rate at October 31, 2021 and 2020, was 0.6840% and 0.591%, respectively. Under the terms of the loan, it is secured by the Masonic Homes.

Term loan – On August 15, 2016, Masonic Homes entered into an unsecured term loan with a bank in the amount of \$60,000,000 to take advantage of favorable interest rates and to fund a portion of the construction costs of the campus master plan projects for Union City Phase I and Covina Phase II. The loan is amortized over 25 years at a rate of 1.9% with monthly payments of \$252,000 and a balloon payment being due on August 15, 2021.

On August 16, 2021, Masonic Homes entered into an unsecured term loan with Bank of America, N.A. in the amount of \$50,193,000. The loan is amortized over 20 years at a rate of 2.2% with a monthly payment of \$259,000 and a balloon payment due on August 14, 2026. The proceeds of the loan were used to pay off the outstanding principal amount of the August 2016 taxable term loan in lieu of the balloon payment.

Future minimum payment schedule – Total annual maturities of long-term debt as of October 31, 2021, are as follows (in thousands):

2022	\$	5,615
2023		5,763
2024		5,938
2025		6,114
2026		6,307
Thereafter		107,717
	\$	<u>137,454</u>

Interest paid for the years ended October 31, 2021 and 2020, on long-term debt was \$1,431,000 and \$2,038,000 respectively.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 14 – UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT (UPMIFA) DISCLOSURES

Board interpretation of law

Interpretation of Relevant Law UPMIFA enacted by California, FMV preservation – The Board of Trustees of the Masonic Homes has interpreted the California Prudent Management of Institutional Funds Act (“CPMIFA”) as requiring the preservation of 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, the Masonic Homes classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted net assets until those amounts are appropriated for expenditure by the Masonic Homes in a manner consistent with the standard of prudence prescribed by CPMIFA. In accordance with CPMIFA, the Masonic Homes considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Masonic Homes and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Masonic Homes
- g. The investment policies of the Masonic Homes

Spending policy, investing policy, and strategy

Return objectives and risk parameters – Masonic Homes has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Masonic Homes must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various market benchmarks appropriate to the investment classes utilized while assuming a moderate level of investment risk. The Masonic Homes expects its endowment funds, over time, to provide an average rate of return of approximately 6.5% to 7.0% over the long term. Actual returns in any given year may vary from this amount.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, Masonic Homes relies 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 Masonic Homes 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.

Spending policy and how the investment objectives relate to spending policy – For 2021/2020, Masonic Homes had a past policy of appropriating for distribution 4.50% to 5.00% of its endowment fund's average fair value over the prior twenty quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Masonic Homes considered the long-term expected return on its endowment. Accordingly, over the long term, the Masonic Homes expects the current spending policy to allow its endowment to grow at an average of 2.00% annually. This is consistent with the Masonic Homes' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Endowments by net asset class, in total and by fund

	October 31, 2021		
	(In Thousands)		
	Without Donor Restriction	Purpose restricted	Endowment
Donor-restricted endowment funds	\$ -	\$ 22,434	\$ 155,312
Board-designated endowment funds	335,081	-	-
Total endowment funds	<u>\$ 335,081</u>	<u>\$ 22,434</u>	<u>\$ 155,312</u>
	October 31, 2020		
	(In Thousands)		
	Unrestricted	With Donor restriction	Endowment
Donor-restricted endowment funds	\$ -	\$ 16,292	\$ 155,012
Board-designated endowment funds	246,145	-	-
Total endowment funds	<u>\$ 246,145</u>	<u>\$ 16,292</u>	<u>\$ 155,012</u>

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

Reconcile beginning and ending balance by net asset class

	Without Donor Restriction	Purpose Restricted	Endowment	Total
Endowment net assets,				
October 31, 2020	\$ 246,145	\$ 16,292	\$ 155,012	\$ 262,437
Investment return:				
Realized gains (losses)	14,028	532	-	14,560
Investment Income	7,830	168	-	7,998
Unrealized gains (losses)	89,513	4,150	-	93,663
Total investment return	111,371	4,850	-	116,221
Contributions	-	3,670	300	3,970
Release from restrictions	-	(2,378)	-	(2,378)
Release/transfer to general fund and/or operation	(19,656)	-	-	(19,656)
Expenses	(2,779)	-	-	(2,779)
Endowment net assets,				
October 31, 2021	<u>\$ 335,081</u>	<u>\$ 22,434</u>	<u>\$ 155,312</u>	<u>\$ 357,815</u>
	Without Donor Restriction	Purpose Restricted	Endowment	Total
Endowment net assets,				
October 31, 2019	\$ 248,439	\$ 16,764	\$ 154,029	\$ 419,232
Investment return:				
Realized gains (losses)	(758)	(88)	-	(846)
Investment Income	4,644	94	-	4,738
Unrealized gains (losses)	13,395	(219)	-	13,176
Total investment return	17,281	(213)	-	17,068
Contributions	-	4,900	983	5,883
Release from restrictions	-	(5,159)	-	(5,159)
Release/transfer to general fund and/or operation	(17,607)	-	-	(17,607)
Expenses	(1,968)	-	-	(1,968)
Endowment net assets,				
October 31, 2020	<u>\$ 246,145</u>	<u>\$ 16,292</u>	<u>\$ 155,012</u>	<u>\$ 417,449</u>

Nature and types of restrictions

Endowment – Masonic Homes' endowment consists of approximately 16 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Aggregate amount of deficiencies for donor-restricted endowments

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Masonic Homes to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, there was no deficiency of this nature that was reported in net assets without donor restrictions as of October 31, 2021 and 2020, respectively.

Masonic Homes of California and Subsidiaries
Notes to Financial Statements

NOTE 15 – FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by function (in thousands) were as follows for the year ended October:

	2021										
	Program Expenses					Supporting Services					
	Acacia Creek Operation	Masonic Homes Operation	Masonic Outreach Services	Masonic Center for Youth and Families	Scholarship	Total Program Expenses	Marketing	Management and General	Fundraising	Total Supporting Services	Total Consolidated
Salaries and wages	2,907	20,617	1,744	2,704	-	27,972	203	-	-	203	28,175
Employee benefits	884	4,488	282	369	-	6,033	46	-	-	46	6,079
Payroll taxes	202	1,392	127	192	-	1,913	14	-	-	14	1,927
Pension plan contributions	186	1,327	107	154	-	1,774	19	-	-	19	1,793
Audit and tax fees	52	97	-	-	-	149	-	-	-	-	149
Legal fees	13	100	-	-	-	113	-	-	-	-	113
Other professional fees	58	120	-	47	-	225	9	-	-	9	234
Operating supplies and services	334	977	107	85	-	1,503	60	-	-	60	1,563
Information technology	2	49	1	4	-	56	-	-	-	-	56
Dues, licenses, and permit	42	290	-	5	-	337	-	-	-	-	337
Insurance	503	1,215	-	66	-	1,784	-	-	-	-	1,784
Property taxes	107	326	-	-	-	433	-	-	-	-	433
Utilities, maintenance, and facility expenses	750	2,560	-	292	-	3,602	-	-	-	-	3,602
Travel	4	57	40	-	-	101	-	-	-	-	101
Resident care services	1,023	7,985	17	10	-	9,035	2	-	-	2	9,037
Non-resident assistance	-	-	3,075	-	-	3,075	-	-	-	-	3,075
Depreciation	2,670	5,453	-	33	-	8,156	-	-	-	-	8,156
Promotion and advertising	-	-	-	-	-	-	48	-	-	48	48
Scholarship and community sponsorship	-	-	-	-	207	207	-	-	-	-	207
Interest expense	424	1,007	-	-	-	1,431	-	-	-	-	1,431
Miscellaneous expenses	16	174	-	21	-	211	3	-	-	3	214
Shared service allocation	-	-	-	-	-	-	-	-	989	-	8,361
Total expenses	\$ 10,177	\$ 48,244	\$ 5,500	\$ 3,982	\$ 207	\$ 68,110	\$ 404	\$ 7,372	\$ 989	\$ 8,765	\$ 76,875

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

	2020										
	Program Expenses					Supporting Services					
	Acacia Creek Operation	Masonic Homes Operation	Masonic Outreach Services	Masonic Center for Youth and Families	Scholarship	Total Program Expenses	Marketing	Management and General	Fundraising	Total Supporting Services	Total Consolidated
Salaries and wages	2,627	26,425	1,619	2,754	-	27,684	166	-	-	166	27,850
Employee benefits	857	4,526	287	-	-	6,017	43	-	-	43	6,060
Payroll taxes	195	1,360	118	185	-	1,858	14	-	-	14	1,872
Pension plan contributions	183	1,322	88	155	-	1,758	18	-	-	18	1,776
Audit and tax fees	31	108	-	-	-	139	-	-	-	-	139
Legal fees	1	155	2	76	-	176	-	-	-	-	176
Professional fees	67	523	27	103	-	720	12	-	-	12	732
Information technology	340	984	78	151	-	1,553	66	-	-	66	1,619
Operating supplies and services	4	55	1	5	-	65	-	-	-	-	65
Dues, licenses, and permit	37	235	-	5	-	277	-	-	-	-	277
Insurance	431	1,084	-	64	-	1,579	-	-	-	-	1,579
Travel	14	424	-	278	-	616	-	-	-	-	616
Utilities, maintenance, and facility expenses	695	2,425	-	-	-	3,488	-	-	-	-	3,488
Travel	3	64	58	15	-	140	-	-	-	-	140
Resident care services	1,022	8,001	53	16	-	9,092	5	-	-	5	9,097
Non resident assistance	-	-	3,867	-	-	3,867	-	-	-	-	3,867
Depreciation and advertising	2,712	5,367	-	59	-	8,138	-	-	-	-	8,136
Scholarship and community sponsorship	-	-	-	-	61	61	31	-	-	31	61
Interest expense	1,015	1,023	-	-	-	2,038	-	-	-	-	2,038
Miscellaneous expenses	118	156	-	7	-	282	-	-	-	-	285
Shared service allocation	-	-	-	-	-	-	-	7,347	952	8,289	8,289
Total expenses	<u>\$ 10,652</u>	<u>\$ 48,333</u>	<u>\$ 6,181</u>	<u>\$ 4,099</u>	<u>\$ 61</u>	<u>\$ 69,326</u>	<u>\$ 388</u>	<u>\$ 7,347</u>	<u>\$ 952</u>	<u>\$ 8,687</u>	<u>\$ 78,013</u>

Expenses, such as depreciation, supplies, personnel, and occupancy costs, are allocated among program services and supporting services classifications on the basis of time records and on estimates made by the Organization's management.

Masonic Homes of California and Subsidiaries

Notes to Financial Statements

NOTE 16 – LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of October 31, available for general expenditure within one year:

	2021	2020
	(In Thousands)	(In Thousands)
Financial assets		
Cash and cash equivalents	\$ 12,365	\$ 12,250
Receivables, net	3,646	2,871
Current portion of related-party receivable	846	534
Assets held for sale	362	856
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 17,219</u>	<u>\$ 16,511</u>

Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The Organization has adequate unrestricted liquid assets to ensure it can meet its current and future obligations. The Organization will be making expenditures on several major long-term capital projects in the next year. These future expenditures are not included in current assets as the amounts are interminable and are included in investments as of October 31, 2021 and 2020.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued.

The Organization has evaluated subsequent events through February 24, 2022, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Masonic Homes of California and Subsidiaries
Consolidating Statements of Financial Position
October 31, 2021 (With Summarized Comparative Information as of October 31, 2020)
(In Thousands)

	Without Donor Restriction		With Donor Restriction		2021 Consolidated	2020 Total Comparative Totals Only
	Acacia Creek Union City	Masonic Homes	Elimination/Reclass	Total		
Assets						
Current assets						
Cash and cash equivalents - unrestricted	\$ 432	\$ 11,933	\$ -	\$ 12,365	\$ -	\$ 12,250
Funds held for residents	-	1,077	-	1,077	-	1,002
Receivables, net	36	3,610	-	3,646	-	2,871
Notes receivable - related party	-	10,000	(10,000)	-	-	-
Prepaid expenses and other assets	3,809	377	-	4,186	-	4,233
Current portion of related party receivable	20	1,960	(1,674)	306	540	617
Assets held for sale	-	362	-	362	-	217
Total current assets	4,297	29,319	(11,674)	21,942	540	21,190
Investments, at fair value	18,908	909,564	-	928,472	165,358	918,538
Long term portion of related party receivable	-	-	-	-	535	867
Property and equipment, net	65,639	162,167	-	228,006	-	200,978
Assets held in trusts	-	-	-	-	13,834	12,011
Funds held for prospective residents	-	-	-	-	539	373
Other assets	-	6,450	(5,787)	663	-	822
Total assets	\$ 89,583	\$ 1,107,500	\$ (17,461)	\$ 1,179,622	\$ 180,267	\$ 1,154,779
Liabilities and net assets						
Current liabilities						
Accounts payable and accrued liabilities	\$ 300	\$ 4,516	\$ -	\$ 4,816	\$ -	\$ 5,779
Accrued payroll and benefits payable	332	2,948	-	3,280	-	3,382
Current portion of long-term debt	-	2,020	-	5,615	-	55,362
Liability for funds held for residents, net	-	1,077	-	1,077	-	1,002
Intercompany debt	10,000	-	(10,000)	-	-	-
Other related parties payable	1,674	401	(1,674)	401	-	4
Total current liabilities	15,901	10,962	(11,674)	15,189	-	65,529
Liability to beneficiaries of split-interest agreements	-	-	-	-	2,521	2,357
Long-term debt, net	84,001	47,838	-	131,839	-	87,582
Liability for funds held for prospective residents	539	-	-	539	-	373
Refundable advance fees	44,517	-	(5,787)	38,730	-	38,172
Deferred revenue	4,258	14,691	-	18,949	-	20,185
Total liabilities	149,216	73,491	(17,461)	205,246	2,521	214,208
Net assets (deficit)						
Total liabilities and net assets (deficit)	(59,633)	1,034,009	-	974,376	177,746	940,571
	\$ 89,583	\$ 1,107,500	\$ (17,461)	\$ 1,179,622	\$ 180,267	\$ 1,154,779

Masonic Homes of California and Subsidiaries
Consolidating Statements of Activities and Changes in Net Assets
Year Ended October 31, 2021 (With Summarized Comparative Information for the Year Ended October 31, 2020)
(In Thousands)

	Acacia Creek Union City		Without Donor Restrictions		Elimination/Reclass		Total		With Donor Restrictions		Year Ended October 31, 2021 Consolidated		Year Ended October 31, 2020 Consolidated	
	\$	-	\$	19	\$	-	\$	19	\$	1,364	\$	1,363	\$	437
Public Support and Revenue														
Contributions				689				689		2,606		3,295		7,077
Requests and memorials		585		1,518				2,103				2,103		2,409
Amortization of deferred revenue		-		5,341				5,341				5,341		5,546
Amount received from pensions assigned by residents		-		11,546				11,768		168		11,936		6,791
Investment income		222		60,802				64,272		532		64,804		2,201
Net unrealized gains on investments		3,470		86,944				88,436				88,436		9,258
Net unrealized gains on equity investments		1,492		1,865				9,140				9,140		9,808
Fee for service		7,275		6,810		(99)		6,711				6,711		7,084
Health service revenue		-		4,193				4,748				4,748		6,066
Other income		555		-				-		2,416		2,416		(691)
Change in value of split-interest agreements		-		2,378				2,378		(2,378)		-		-
Net assets released from restriction		-		-				-		4,708		-		-
		13,599		182,105		(99)		195,605		4,708		200,313		55,988
Expenses														
Program														
Operation of Acacia Creek and Masonic Homes	10,177		48,244					58,421				58,421		58,985
Masonic Outreach Services	-		5,500					5,500				5,500		6,181
Masonic Center for Youth and Families	-		3,982					3,982				3,982		4,099
Scholarship	-		207					207				207		61
	10,177		57,933					68,110				68,110		69,326
Supporting services														
Marketing	503		-		(99)			404				404		388
Fundraising	-		989					989				989		952
Administration/shared services	1,084		6,288					7,372				7,372		7,347
	1,587		7,277		(99)			8,765				8,765		8,687
Total supporting services expenses														
	11,764		65,210		(99)			76,875				76,875		78,013
Total expenses														
Excess (deficit) of revenues over expenses before other changes in net assets	1,835		116,895		-			118,730		4,708		123,438		(22,025)
Net unrealized gains on investments	117		86,261					86,378		1,734		88,112		13,306
Change in net assets	1,952		203,156		-			205,108		6,442		211,550		(8,719)
Net assets at beginning of year	(61,585)		830,853					769,268		171,304		940,572		949,290
Net assets at end of year	(59,633)		1,034,009					974,376		177,746		1,152,122		940,571

Masonic Homes of California and Subsidiaries
Consolidating Statements of Cash Flows
Year Ended October 31, 2021 (With Summarized Comparative Information for the Year
Ended October 31, 2020) (In Thousands)

	Year Ended October 31, 2021				Year Ended October 31, 2020
	Acacia Creek – Union City	Masonic Homes	Elimination	Total	Comparative Total Only
Cash flows from operating activities					
Contributions and bequests received	\$ -	\$ 4,378	\$ -	\$ 4,378	\$ 6,530
Net proceeds from assigned assets	-	1,739	-	1,739	24
Amounts received from assigned assets	-	5,341	-	5,341	5,548
Net proceeds from sale of resident assets	-	(70)	-	(70)	639
Investment income received	222	11,715	-	11,937	6,791
Fee for service	7,275	1,865	-	9,140	9,808
Health service revenue	-	6,810	-	6,810	7,168
Royalty and other income	411	2,644	-	3,055	4,917
Cash paid for operating expenses	(9,760)	(59,390)	-	(69,150)	(68,915)
Net proceeds from split-interest agreements, charitable gift annuity, and pooled income fund	-	756	-	756	(13)
Net cash used in operating activities	(1,852)	(24,212)	-	(26,064)	(27,503)
Cash flows from investing activities					
Net proceeds from sales of investments	8,188	94,292	-	102,480	136,212
Purchase of investments	(2,200)	(34,218)	-	(36,418)	(58,475)
Purchase of property and equipment	(416)	(34,752)	-	(35,168)	(47,960)
Net cash provided by investing activities	5,572	25,322	-	30,894	29,777
Cash flows from financing activities					
Cash received from residents subject to refund	2,908	-	(450)	2,458	4,926
Deposits refunded to residents	(2,831)	-	1,143	(1,688)	(2,542)
Entrance fee (deposit to) refunded from Acacia Creek	-	693	(693)	-	-
Contribution restricted for long term investments	-	300	-	300	982
Funds held for residents	-	(28)	-	(28)	36
Changes in other assets	(12)	-	-	(12)	(42)
Long-term debt proceeds	-	50,193	-	50,193	-
Long-term debt principal installment payment	(3,467)	(52,230)	-	(55,697)	(5,359)
Net cash used in financing activities	(3,402)	(1,072)	-	(4,474)	(1,999)
Net increase in cash, cash equivalents, and restricted cash	318	38	-	356	275
Cash, cash equivalents and restricted cash, beginning of year	653	12,972	-	13,625	13,350
Cash, cash equivalents and restricted cash, end of year	\$ 971	\$ 13,010	\$ -	\$ 13,981	\$ 13,625
Supplemental cash-flow information					
Interest paid	\$ 424	\$ 1,007	\$ -	\$ 1,431	\$ 2,038

Masonic Homes of California and Subsidiaries
Consolidating Statements of Cash Flows (Continued)
Year Ended October 31, 2021 (With Summarized Comparative Information for the Year
Ended October 31, 2020) (In Thousands)

	Year Ended October 31, 2021				Year Ended October 31, 2020
	Acacia Creek - Union City	Masonic Homes	Elimination	Total	Comparative Total Only
Reconciliation of change in net assets to net cash used in operating activities					
Change in net assets	\$ 1,952	\$ 209,598	\$ -	\$ 211,550	\$ (8,719)
Adjustment to reconcile change in net assets to net cash used in operating activities					
Depreciation	2,670	5,486	-	8,156	8,138
Amortization of deferred revenue	(585)	(1,518)	-	(2,103)	(2,409)
Amortization due to death and withdrawal	(302)	(782)	-	(1,084)	(1,187)
Realized and unrealized gains on investments	(5,079)	(236,275)	-	(241,354)	(24,737)
Contribution restricted for long term investments	-	(300)	-	(300)	(982)
Changes in assets and liabilities					
Receivables, net	(8)	(767)	-	(775)	(74)
Prepaid expenses and other assets	(106)	311	-	205	(2,971)
Related parties receivable and payable	(551)	1,039	-	488	253
Assets held for sale	-	(146)	-	(146)	638
Assets held in trust	-	(1,821)	-	(1,821)	834
Funds held for residents and prospective residents	166	77	-	243	76
Accounts payable and accrued liabilities	(9)	(1,019)	-	(1,028)	3,765
Liability to beneficiaries of split-interest agreements	-	165	-	165	(152)
Deferred revenue from assigned assets, net	-	1,740	-	1,740	24
Net cash used in operating activities	<u>\$ (1,852)</u>	<u>\$ (24,212)</u>	<u>\$ -</u>	<u>\$ (26,064)</u>	<u>\$ (27,503)</u>

Masonic Homes of California and Subsidiaries
Supplemental Schedule of Supporting Services Expenses (Unaudited)
Years Ended October 31, 2021 and 2020
(In Thousands)

	2021	2020
	(In Thousands)	(In Thousands)
General and administrative - shared service allocation	\$ 6,288	\$ 6,245
Fund raising and development - shared service allocation	<u>989</u>	<u>952</u>
Masonic Homes general and administrative expenses	7,277	7,197
Acacia Creek general and administrative shared service allocation	<u>1,084</u>	<u>1,102</u>
Total allocation of general and administrative support to Masonic Homes and Acacia Creek	8,361	8,299
Acacia Creek marketing expenses, net of elimination	<u>404</u>	<u>388</u>
Total general, administrative and marketing expenses	<u>\$ 8,765</u>	<u>\$ 8,687</u>