*Report of Independent Auditors and Continuing Care Liquid Reserve Schedules with Supplementary Schedules*

# Acacia Creek, A Senior Living Community

*October 31, 2018*

MOSSADAMS

# Acacia Creek, A Senior Living Community
# Continuing Care Contract Annual Report
# Part 1

ACACIA CREEK

February 22, 2019

Annette Kite
DSS
744 P St.
MS 10-90
Sacramento, CA 95814

Dear Ms. Kite:

I am the Grand Secretary of the Grand Lodge of California, the parent company for the Masonic Homes of California, 34400 Mission Boulevard, Union City, California. In connection with the Annual Report of Acacia Creek, a Senior Living Community as of and for the year ended October 31, 2018, I hereby certify to the following:

1. The annual reports attached hereto are to the best of my knowledge correct.

2. Each continuing care contract form in use by the Acacia Creek, a Senior Living Community for new residents has been approved by the Department of Social Services.

3. The required liquid reserves are being maintained for prepaid continuing care contracts.

This letter is intended to fulfill the requirements of Section 3 of the Annual Report Instructions and is considered an integral part of this filing.

If you have questions regarding this matter, please feel free to contact me at (415) 292-9140.

Sincerely,

Allan Casalou

Allan Casalou
Grand Secretary
Grand Lodge of California

# Acacia Creek, A Senior Living Community
# Continuing Care Contract Annual Report
# Part 2

## FORM 1-1
## RESIDENT POPULATION

| Line | Continuing Care Residents | TOTAL |
|---|---|---|
| [1] | Number at beginning of fiscal year | 142 |
| [2] | Number at end of fiscal year | **137** |
| [3] | Total Lines 1 and 2 | 279 |
| [4] | Multiply Line 3 by .50 and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 139.5 |
| | **All Residents** | |
| [6] | Number at beginning of fiscal year | 193 |
| [7] | Number at end of fiscal year | **202** |
| [8] | Total Lines 6 and 7 | 395 |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10 | x .50 |
| [10] | Mean number of all residents | 197.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of all residents (Line 10) and enter the result (round to two decimal places) | 0.71 |

## FORM 1-2
## ANNUAL PROVIDER FEE

| Line | | | | TOTAL |
|---|---|---|---|---|
| [1] | | Total Operating Expenses | | $11,946,934 |
| | [a] | Depreciation | $2,638,404 | |
| | [b] | Debt Service (Interest Only) | $1,837,924 | |
| [2] | | Subtotal (add Line 1a and 1b) | | $4,476,328 |
| [3] | | Subtract Line 2 from Line 1 and enter result | | $7,470,606 |
| [4] | | Percentage allocated to continuing care residents (Form 1-1, Line 11) | | 71% |
| [5] | | Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4) | | $5,304,130 |
| | | | | x .001 |
| [6] | | **Total Amount Due (multiply Line 5 by .001)** | | $5,304 |

**PROVIDER:** Acacia Creek, a Senior Living Community
**COMMUNITY:** Union City

# Acacia Creek, A Senior Living Community
# Continuing Care Contract Annual Report
# Part 3

# Grand Lodge Free & Accepted Masons of California and Masonic Homes of California
# April 1, 2018 to April 1, 2019
# Insurance Summary

## Property Policy – Lexington Insurance Co.
## Policy No. 021317952
## Policy Term: 04/01/2017 to 04/01/2019
## Covers Grand Lodge/Masonic Homes/Acacia Creek/Hall Associations

| | | |
|---|---|---|
| Policy Limit | $ | 200,000,000 |
| Maximum Amount payable - Halls Only | | 130% stated value |
| Buildings & Personal Property | | Incl in Policy Limit |
| Electronic Data Processing Equipment* | $ | 1,500,000 |
| Business Income | $ | Included |
| Extra Expense* | $ | Included in BI |
| Acacia Creek Entrance Fees | | Included |
| Equipment Breakdown / Boiler & Machinery | $ | Included |
| Earthquake Sprinkler Leakage | | Included |
| Accounts Receivable* | $ | 1,000,000 |
| Contingent Time Element* | $ | 500,000 |
| Valuable Papers* | $ | 1,000,000 |
| Endomosaic Window at Grand Lodge* | $ | 4,000,000 |
| Framed Mosaic Emile Norman at Grand Lodge* | $ | 190,000 |
| Antique Windows at Acacia Creek & Stained Glass Windows in Seminoff Chapel* | $ | 500,000 |
| Stained Glass Window above the stairway at the entrance of Masonic Homes* | $ | 150,000 |
| **Total Fine Arts** incl Paraphernalia ($1M per occur $100,000 Maximum Any One Item)* Policy Limit | $ | 6,000,000 |
| Newly Acquired Real & Personal Prop. (90 Days)* | $ | 2,500,000 |
| Building Ordinance* | $ | 10,000,000 |
| Terrorism | | Declined |
| Transit* | $ | 1,000,000 |
| Sewer Back-up (GL/MH/AC/MCYF)* | $ | 2,500,000 |
| Sewer Back-up (Halls)* | $ | 100,000 |
| Deeded Property (270 Days)* | $ | 2,500,000 |
| Foundations, Footings and Pavements at GL-SF, MH Union City and Covina, AC and MCY&F* | $ | 10,000,000 |
| All other locations* | $ | 2,500,000 |
| Buildings and Additions Under Construction* | $ | 1,000,000 |
| Earth Movement and Flood* (GL-SF, MH, MHCY&F only) | $ | 20,000,000 |
| *Deductibles* | | |
| Grand Lodge/Masonic Homes/Acacia Creek | $ | 50,000 |
| Hall Associations (All Covs. ex. Sewer Backup) | $ | 1,000 |
| Business Income/Rental Value | | 24 Hours |
| Valuable Papers and Fine Arts (including Paraphernalia) | $ | 1,000 |
| *Except* windows at GL-SF and Acacia Creek | $ | 5,000 |
| Earth Movement and Flood | | 5% min $100,000 |
| Sewer Back-up (Halls) | $ | 2,500 |
| Total Insured Values | $ | 843,107,521 |
| **Premium:** | **$** | **1,463,571**** plus taxes |

***TRIA Rejected***

*Sub-limits are included and not in addition to the policy limit.
**Premium shown is only for the 2018-2019 annual policy year.

## Property Terrorism – Hiscox
## Lloyd's of London (Non-Admitted)
## Policy No. UTS2551103.18
## Covers Grand Lodge/Masonic Homes/Acacia Creek/Hall Associations

| | | |
|---|---|---|
| Policy Limit | $ | 125,000,000 |
| Basis of Limit | | Each and every occurrence |
| Total Insurable Values | $ | 843,107,521 |
| Deductible | $ | 25,000 |

**Active Shooter and Malicious Attack**

| | | |
|---|---|---|
| Policy Limit | $ | $1,000,000 occurrence/agg |
| Deductble | $ | 0 |

**Refer to policy for sublimits**

**Premium: $ 37,250 plus taxes**

## DIC (Earth Movement/Flood) – *Acacia Creek Only*
## United Specialty Insurance Company (Non-Admitted)
## Policy No. RDF100931

***Covers Acacia Creek Only***

| | | |
|---|---|---|
| Policy Limit | $ | 20,000,000 |
| Fine Arts Sublimit | $ | 350,000 |
| Deductible | | 5% per unit/min $50,000<br>$50,000 Flood<br>$25,000 All Other Perils |
| Total Declared Values | $ | 100,281,599 |
| **Premium:** | **$** | **150,000** plus taxes |
| **Inspection / CAT Fees** | **$** | **200** |

***TRIA Rejected***

Dated: 5/10/2018

This document is a brief synopsis of coverage only; the policy or policies contain additions, exclusions and/or limitations that are not shown here. Please contact Marsh Risk & Insurance Services with any coverage questions.

# Grand Lodge Free & Accepted Masons of California and Masonic Homes of California
## April 1, 2018 to April 1, 2019
## Insurance Summary

### General Liability (Grand Lodge & Halls) – Liberty Mutual Fire Ins. Co.
**Policy No. TB2-Z91-445049-038**
**Covers Grand Lodge & Halls Only**

**General Liability**

| | | |
|---|---|---|
| General Aggregate | $ | 2,000,000 |
| Per Location Aggregate | $ | 2,000,000 |
| *Subject to Annual Policy Aggregate* | $ | 15,000,000 |
| Products/Completed Operations Aggregate | $ | 2,000,000 |
| Each Occurrence | $ | 1,000,000 |
| Personal & Advertising Injury | $ | 1,000,000 |
| Damage To Premises Rented To You | $ | 1,000,000 |
| Medical Expense | $ | 10,000 |
| **Premium:** | **$** | **409,352** |

**Employee Benefits (Claims Made)***

| | | |
|---|---|---|
| Each Employee | $ | 1,000,000 |
| Annual Aggregate | $ | 2,000,000 |
| *Deductible* | *$* | 0 |
| Retroactive Date | | 7/1/2000 |
| **Premium:** | | **Included Above** |

*TRIA Purchased*

**Employee Benefits Liability not applicable to halls*

### Liquor Liability – Liberty Mutual Fire Ins. Co.
**Policy No. TO2-Z91-445049-068**
**Covers Grand Lodge & Halls Only**

| | | |
|---|---|---|
| Aggregate Limit | $ | 2,000,000 |
| Each Common Cause | $ | 1,000,000 |
| **Premium** | **$** | **758** |

*TRIA Included*

### Business Automobile – Employers Ins. Co. of Wausau
**Policy No. ASC-Z91-445049-028**
**Covers Grand Lodge/Masonic Homes/Acacia Creek/Hall Associations**
**Halls covered for Non-Owned/Hired Only**

| | | |
|---|---|---|
| Combined Auto Liability Single Limit | $ | 1,000,000 |
| Auto Medical Payment Each Person | $ | 5,000 |
| Uninsured Motorists | $ | 1,000,000 |
| Physical Damage | | Actual Cash Value |
| *Deductibles* | | |
| *Comprehensive ($2,500 for buses over 21 Pass.)* | *$* | *1,000* |
| *Collision ($2,500 for buses over 21 Pass.)* | *$* | *1,000* |
| *Comp./Collision for Non-Owned/Hired* | *$* | *1,000* |
| *Number of Vehicles* | *$* | *25* |
| **Provisional Premium:** | **$** | **77,701** |

*TRIA Not Applicable*

### Umbrella Liability – Liberty Insurance Corporation
**Policy No. TH7-Z91-445049-058**
**Covers Grand Lodge and Hall Associations for General Liability**
**Covers Grand Lodge/Masonic Homes/Acacia Creek/Hall Associations for Auto**
**Covers Grand Lodge/Masonic Homes/Acacia Creek for E/L**

| | | |
|---|---|---|
| Each Occurrence | $ | 25,000,000 |
| General Aggregate | $ | 25,000,000 |
| Crisis Management Coverage | $ | 250,000 |
| Self-Insured Retention | $ | 10,000 |
| **Premium:** | **$** | **117,537** |

*TRIA Purchased*

### Workers' Compensation – The First Liberty Ins. Corp.
**Policy No. WC6-Z91-445049-048 (Guaranteed Cost)**
**Covers Grand Lodge**

| | | |
|---|---|---|
| Workers Compensation | | Statutory |
| Employers Liability | $ | 1,000,000 |
| Deductible | $ | 0 |
| Estimated Annual Payroll (Grand Lodge Only) | $ | 8,535,785 |
| **Estimated Annual Premium:** | **$** | **58,858** includes surcharges |

*TRIA Included*

***Halls Associations not covered***

### Workers' Compensation – United State Fire Ins. Co.
***Masonic Homes/Acacia Creek* - Policy No. 406-730269-8 (Deductible Program)**

| | | |
|---|---|---|
| Workers Compensation | | Statutory |
| Employers Liability | $ | 1,000,000 |
| Deductible (MH/AC Only) | $ | 250,000 |
| Policy Agg./Maximum Deductible | $ | 2,092,535 |
| Estimated Annual Payroll | $ | 22,872,919 |
| **Estimated Annual Premium (Fixed Costs):** | **$** | **405,899** incl surcharges |

*TRIA Included*

Dated: 5/10/2018

This document is a brief synopsis of coverage only; the policy or policies contain additions, exclusions and/or limitations that are not shown here. Please contact Marsh Risk & Insurance Services with any coverage questions.

# Grand Lodge Free & Accepted Masons of California and Masonic Homes of California
# April 1, 2018 to April 1, 2019
# Insurance Summary

## Fiduciary Liability – Great American Ins. Co.
**Policy No. FDP6660691 (Claims Made)**
Covers Grand Lodge/Masonic Homes/Acacia Creek

| | | |
|---|---|---|
| Limit of Liability | $ | 5,000,000 |
| Pending or Prior Date | | 1/1/1987 |
| *Retention – Insured Persons Non-Indemnifiable* | *$* | *0* |
| *Retention – Company, Plan or IP for Indemnifiable* | *$* | *10,000* |
| **Premium:** | **$** | **9,800** |

*TRIA Included*

## Directors & Officers Liability incl. EPLI and Crime (*Grand Lodge*)
**Federal Ins. Co. - Policy No. 8208-1512 (Claims Made)**
Covers Grand Lodge

**Directors & Officers Liability:**

| | | |
|---|---|---|
| Combined Maximum Aggregate D&O/EPLI | $ | 3,000,000 |
| D&O Limit of Liability / Agg. Incl Defense Costs | $ | 3,000,000 |
| EPLI Limits of Liability / Agg: | $ | 2,000,000 |
| *Retention (Grand Lodge)* | *$* | *50,000* |
| *Retention (Individual Lodges)* | *$* | *10,000* |
| Pending/Prior Date: | | 7/1/97 |

**Employers Practices Liability:**

| | | |
|---|---|---|
| Limit of Liability / Aggregate | $ | 1,000,000 |
| *Retention* | *$* | *75,000* |
| Pending/Prior Date | | 7/1/97 |

| | | |
|---|---|---|
| **Crime:** | $ | 2,000,000 |
| Forgery Coverage | | |
| Premises Coverage | $ | 2,000,000 |
| Transit Coverage | $ | 2,000,000 |
| Computer Fraud/Funds Transfer Fraud | $ | 2,000,000 |
| Money Orders/Counterfeit Paper Currency | $ | 2,000,000 |
| Social Engineering | $ | 50,000 |
| *Retention* | $ | 10,000 |
| **Premium:** | **$** | **89,770** |

*TRIA Included*
*Capping off Limits with Masonic Homes policy 8242-6231 and Halls policy 8208-1493*

## Directors & Officers Liability incl. EPLI and Crime (*Hall Associations*)
**Federal Ins. Co. - Policy No. 8208-1493 (Claims Made)**
Covers Hall Associations Only

**Directors & Officers:**

| | | |
|---|---|---|
| Limit of Liability / Aggregate Incl Defense Costs | $ | 1,000,000 |
| *Retention* | *$* | *10,000* |
| Pending/Prior Date | | 8/1/05 |

**Employers Practices Liability:**

| | | |
|---|---|---|
| Limit of Liability / Aggregate | $ | 1,000,000 |
| *Retention* | *$* | *75,000* |
| Pending/Prior Date | | 8/1/05 |

Criime

| | | |
|---|---|---|
| Premises Coverage | $ | 1,000,000 |
| Transit Coverage | $ | 1,000,000 |
| Computer Fraud/Funds Transfer Fraud | $ | 1,000,000 |
| Money Orders/Counterfeit Paper Currency | $ | 1,000,000 |
| *Retention – Hall Associations* | $ | 25,000 |
| *Premium:* | **$** | **82,489** |

*TRIA Included*
*Capping off Limits with Masonic Homes policy 8242-6231 and Grand Lodge policy 8208-1512*

## Cyber Liability
**Grand Lodge, Masonic Homes, Acacia Creek**
**Lloyd's of London - Beazley**
**Policy No: W17A63180401**

| | | |
|---|---|---|
| **Policy Aggregate Limit of Liability** | $ | 3,000,000 |
| Aggregate Limit Applicable to Regulatory Defense | $ | 3,000,000 |
| Aggregate Limit Applicable to PCI Fines, Expenses & Costs | $ | 500,000 |
| Privacy Breach Response Services | $ | 100,000 |
| Computer Expert, Legal, Crisis Mngmt Services | $ | 1,000,000 |
| Retention | $ | 25,000 |
| **Premium:** | **$** | **22,230 plus taxes** |

*TRIA Included*

## Masons of California – Tulip Program
**Atlantic Specialty Insurance Company**
**Policy No: General Liability: GL01391-09**

**General Liability**

| | | |
|---|---|---|
| Each Occurrence Limit: | $ | 1,000,000 |
| Products Competed Operations Aggregate Limit | $ | 1,000,000 |
| Personal & Advertising Injury Aggregate Limit | *$* | 1,000,000 |
| Fire Damage (Any One Fire) | *$* | 50,000 |
| Medical Expenses Limit | | Excluded |
| General Aggregate Limit | | None |
| Liquor Liability – Each Common Cause | *$* | 1,000,000 |
| Liquor Liability – Each Declared Event | *$* | 1,000,000 |
| **Premium:** | **$** | **Paid by Lessors** |

*TRIA Included*

## Masons of California – Tulip Program
**Atlantic Specialty Insurance Company**
**Policy No: Property: PF00622-08**

**Property:**

| | | |
|---|---|---|
| Third Party Property Damage | *$* | 1,000,000 |
| Third Party Property Damage - Deductible | *$* | 1,000 |
| **Premium:** | **$** | **Paid by Lessors** |

*TRIA Included*

## Employed Lawyers Professional Liability – Federal Ins. Co.
**Policy No. 8247-1101**
Covers Grand Lodge

| | | |
|---|---|---|
| Maximum Aggregate Limit | *$* | 2,000,000 |
| Retentions: Individual Indemnified | *$* | 5,000 |
| Non-Indemnified | *$* | *0* |
| Pending/Prior Date | | 3/03/2016 |
| **Premium:** | **$** | **4,770** |

Dated: 5/10/2018

This document is a brief synopsis of coverage only; the policy or policies contain additions, exclusions and/or limitations that are not shown here. Please contact Marsh Risk & Insurance Services with any coverage questions.

# Grand Lodge Free & Accepted Masons of California and Masonic Homes of California
# April 1, 2018 to April 1, 2019
# Insurance Summary

### Masonic Homes – General Liability & Professional Liability - Lloyds (Non-Admitted)
### Policy No. B0509FINPH1700064 (Claims Made)
**Covers Masonic Homes Only**

| | | |
|---|---|---|
| Professional Liability Per Claim Limit | $ | 5,000,000 |
| Professional Liability in the Aggregate Annual Limit | $ | 5,000,000 |
| General Liability Per Claim Limit | $ | 5,000,000 |
| General Liability in the Aggregate Limit | $ | 5,000,000 |
| Products/Completed Ops. Aggregate Limit | $ | 1,000,000 |
| Fire Damage Limit | $ | 100,000 |
| Medical Expense | | Excluded |
| Subject to an Overall Aggregate Limit of | $ | 5,000,000 |
| *Self Insured Retention* Each Medical Incident | $ | 500,000 |
| Retroactive Date (Adult Homes) | | 7/1/2002 |
| Retroactive Date (Sexual Abuse & Childrens Hm PL) | | 7/1/2003 |
| Retroactive Date (Childrens Hm GL) | | 4/1/2009 |
| Sexual Abuse Coverage | | Included |
| **Premium:** | **$** | **190,830 plus taxes** |

*Terrorism Rejected*

### Masonic Homes – Excess General Liability & Professional Liability - Lloyds (Non-Admitted)
### Policy No. B0509FINPH1800093 (Claims Made)
**Covers Masonic Homes Only**

| | | |
|---|---|---|
| Per Claim Limit | $ | 5,000,000 |
| In the Annual Aggregate Limit | $ | 5,000,000 |
| *Excess Of* | | *$5M / $5M* |
| *Excess of Self Insured Retention* | *$* | *500,000* |
| Sexual Abuse Coverage | | Included |
| Retroactive Date (For Increased Limits) | | 4/1/11 |
| **Premium:** | **$** | **46,875 plus taxes** |

*Terrorism Rejected*

### Acacia Creek – General Liability & Professional Liability – Illinois Union (Non-Admitted)
### Policy No. HPLG23639154008 (Claims Made)
**Covers Acacia Creek Only**

| | | |
|---|---|---|
| Professional Liability Per Incident Limit | $ | 1,000,000 |
| Professional Liability Aggregate Limit | $ | 3,000,000 |
| Abuse and Molestation Sub-Limit | $ | 1,000,000 |
| Liquor Liability – Each Common Cause/Agg | $ | 1,000,000 |
| General Liability – Each Occurrence Limit | $ | 1,000,000 |
| General Liability – General Aggregate | $ | 3,000,000 |
| Products/Completed Ops. Aggregate | $ | 1,000,000 |
| Personal/Advertising Limit | $ | 1,000,000 |
| Medical Payments | $ | 5,000 |
| *Deductible* | $ | 10,000 |
| Retroactive Date | | 2/15/2010 |
| ***Premium:*** | **$** | **58,810 plus taxes** |

*TRIA Included*

### Acacia Creek – Excess General Liability & Professional Liability – Illinois Union (Non-Admitted)
### Policy No. XHLG23639166008 (Claims Made)
**Covers Acacia Creek Only**

| | | |
|---|---|---|
| Each Loss Event | $ | 4,000,000 |
| Aggregate Limit | $ | 4,000,000 |
| *Excess Of* | *$* | *1M / $3M* |
| *Excess of Deductible* | *$* | *10,000* |
| Sexual Abuse Coverage | | Included |
| **Premium:** | **$** | **51,082 plus taxes** |

*TRIA Included*

### Masonic Homes – Terrorism Liability - Lloyds (Non-Admitted)
### Policy No. UTS2543922.18
### Policy Term: 04/07/2017 to 04/01/2018
### Covers Masonic Homes Only

| | | |
|---|---|---|
| Each occ & in the agg for all coverages combined | *$* | 10,000,000 |
| Deductible | *$* | *25,000* |
| **Premium:** | **$** | **9,800 plus taxes** |

### MCYF - General Liability & Professional Liability – Lexington Ins. Co. (Non-Admitted)
### Policy No. 6796873 (PL Claims-Made/GL Occurrence)
**Covers Masonic Center for Youth & Families Only**

| | | |
|---|---|---|
| Professional Liability Each Medical Incident Limit | $ | 1,000,000 |
| Professional Liability Aggregate Limit | $ | 3,000,000 |
| Sexual Abuse | | Included |
| General Liability – Each Occurrence Limit | $ | 1,000,000 |
| General Liability – General Aggregate | $ | 3,000,000 |
| Products/Completed Ops. Aggregate | $ | 1,000,000 |
| Personal/Advertising Limit | $ | 1,000,000 |
| *Deductible* | | None |
| Retroactive Date | | 10/1/2010 |
| **Premium:** | **$** | **13,938 plus taxes** |

*Terrorism Included*

### MCYF – Excess General Liability & Professional Liability
### Lexington Ins. Co. (Non-Admitted)
### Policy No. 6796874
**Covers Masonic Center for Youth & Families Only**

| | | |
|---|---|---|
| Each Medical Incident/Occurrence: | $ | 5,000,000 |
| General Aggregate Limit | $ | 5,000,000 |
| *Excess Of* | *$* | *1M / 3M* |
| Sexual Abuse Coverage | | Included |
| **Premium:** | **$** | **25,500 plus taxes** |

*Terrorism Included*

### Directors & Officers Liability (*Masonic Homes*) incl. Crime, EPLI
### Federal Insurance Co. – Policy No. 8242-6231
**Covers Masonic Homes/Acacia Creek**

| | | |
|---|---|---|
| Combined Maximum Aggregate D&O/EPLI | $ | 3,000,000 |
| D&O Limit of Liability / Agg. Incl. Defense Costs | $ | 3,000,000 |
| EPLI Limits of Liability / Agg: | $ | 3,000,000 |
| *D&O Retention* | *$* | *25,000* |
| *EPLI Retention* | *$* | *100,000* |
| Pending/Prior Date: | | 7/1/97 |
| Employee Theft | $ | 2,000,000 |
| Forgery Coverage | $ | 2,000,000 |
| Premises Coverage | $ | 2,000,000 |
| Transit Coverage | $ | 2,000,000 |
| Computer Fraud/Funds Transfer Fraud | $ | 2,000,000 |
| Money Orders/Counterfeit Paper Currency | $ | 2,000,000 |
| *Crime Deductible* | $ | 10,000 |
| **Premium:** | **$** | **60,199** |

*TRIA Included*

*Capping off Limits with Masonic Homes policy 8242-6231 and Grand Lodge policy 8208-1512*

Dated: 5/10/2018

This document is a brief synopsis of coverage only; the policy or policies contain additions, exclusions and/or limitations that are not shown here. Please contact Marsh Risk & Insurance Services with any coverage questions.

# Acacia Creek, A Senior Living Community
# Continuing Care Contract Annual Report
# Part 4

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

# Masonic Homes of California and Subsidiaries

*October 31, 2018 with summarized comparative information for*
*October 31, 2017*

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# Table of Contents

# Report of Independent Auditors

To the Audit Committee
Masonic Homes of California and Subsidiaries

## Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Masonic Homes of California and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statement of financial position as of October 31, 2018, 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 Consolidated 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, 2018, 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 2017 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated February 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2017, 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 year ended October 31, 2018 and 2017, included in the accompanying consolidating statement of financial position, consolidating statement of activities and changes in net assets, and consolidating statement of cash flows for the year ended October 31, 2018 and 2017, 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 as of and for the year ended October 31, 2018 and 2017, included in the accompanying supplemental schedules of program expenses and supporting services expenses for the years ended October 31, 2018 and 2017, 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 financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

San Francisco, California
February 22, 2019

# Consolidated Financial Statements

# Masonic Homes of California and Subsidiaries
## Consolidated Statements of Financial Position
## October 31, 2018
## (With Summarized Comparative Information as of October 31, 2017)
## (In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2018 Total | 2017 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 7,013 | $ - | $ - | $ 7,013 | $ 6,530 |
| Funds held for residents | 668 | - | - | 668 | 538 |
| Receivables, net | 3,019 | - | - | 3,019 | 1,304 |
| Prepaid expenses and other assets | 976 | - | - | 976 | 954 |
| Related entities receivable | 57 | - | - | 57 | - |
| Assets held for sale | 1,442 | - | - | 1,442 | 1,967 |
| Total current assets | 13,175 | - | - | 13,175 | 11,293 |
| Investments, at fair value | 786,867 | 1,969 | 155,037 | 943,873 | 988,696 |
| Property and equipment, net | 150,805 | - | - | 150,805 | 151,529 |
| Assets held in trusts | - | 11,918 | 570 | 12,488 | 13,438 |
| Funds held for residents | 313 | - | - | 313 | 404 |
| Other assets | 1,001 | - | - | 1,001 | 503 |
| Total assets | $ 952,161 | $ 13,887 | $ 155,607 | $ 1,121,671 | $ 1,165,863 |
| Liabilities and net assets | | | | | |
| Current liabilities | | | | | |
| Accounts payable and accrued liabilities | $ 3,466 | $ - | $ - | $ 3,466 | $ 2,008 |
| Accrued payroll and benefits payable | 2,386 | - | - | 2,386 | 2,188 |
| Current portion of long term debt | 5,215 | - | - | 5,215 | 5,071 |
| Liability for funds held for residents | 668 | - | - | 668 | 538 |
| Related entities payable | 209 | - | - | 209 | 134 |
| Total current liabilities | 11,944 | - | - | 11,944 | 9,939 |
| Liability to beneficiaries of split-interest agreements | - | 421 | 2,182 | 2,603 | 2,885 |
| Long term debt, net | 148,344 | - | - | 148,344 | 153,578 |
| Liability for funds held for residents | 313 | - | - | 313 | 404 |
| Refundable advance fees | 35,081 | - | - | 35,081 | 32,723 |
| Deferred revenue from assigned assets | 25,791 | - | - | 25,791 | 26,197 |
| Total liabilities | 221,473 | 421 | 2,182 | 224,076 | 225,726 |
| Net assets | 730,688 | 13,466 | 153,425 | 897,579 | 940,137 |
| Total liabilities and net assets | $ 952,177 | $ 13,887 | $ 155,607 | $ 1,121,671 | $ 1,165,863 |

 See accompanying notes.

# Masonic Homes of California and Subsidiaries
## Consolidated Statements of Activities and Changes in Net Assets
## Year Ended October 31, 2018
## (With Summarized Comparative Information for the Year Ended October 31, 2017)
## (In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2018 Total | 2017 |
|---|---|---|---|---|---|
| Revenues, gains and other support: | | | | | |
| Contributions | $ 28 | $ 820 | $ 9 | $ 857 | $ 562 |
| Bequests and memorials | 2,378 | 1,946 | 2,949 | 7,273 | 7,198 |
| Amortization of deferred revenue from assigned assets | 2,822 | - | - | 2,822 | 2,964 |
| Amounts received from pensions assigned by resident | 5,344 | - | - | 5,344 | 5,048 |
| Investment income | 9,808 | 95 | - | 9,903 | 15,114 |
| Net realized gain on investments | 35,295 | 322 | - | 35,617 | 103,462 |
| Fee for service | 9,625 | - | - | 9,625 | 8,105 |
| Health service revenue | 6,211 | - | - | 6,211 | 5,791 |
| Royalty and other income | 6,791 | - | - | 6,791 | 6,271 |
| Change in value of split-interest agreements | - | (305) | - | (305) | 1,025 |
| Net assets released from restriction | 2,997 | (2,997) | - | - | - |
| Total revenue, gains and other support | 81,299 | (119) | 2,958 | 84,138 | 155,540 |
| Expenses | | | | | |
| Program | | | | | |
| Operation of Acacia Creek and Masonic Homes | 50,977 | - | - | 50,977 | 48,885 |
| Masonic Outreach Services | 6,007 | - | - | 6,007 | 5,989 |
| Masonic Center for Youth and Families | 4,057 | - | - | 4,057 | 3,357 |
| Scholarship | 91 | - | - | 91 | 152 |
| Total program expenses | 61,132 | - | - | 61,132 | 58,383 |
| Supporting services | | | | | |
| Marketing | 419 | - | - | 419 | 392 |
| Fundraising | 952 | - | - | 952 | 938 |
| Administration/shared services | 7,148 | - | - | 7,148 | 6,917 |
| Total supporting services expenses | 8,519 | - | - | 8,519 | 8,247 |
| Total expenses | 69,651 | - | - | 69,651 | 66,630 |
| Excess (deficit) of revenues over expenses before other items | 11,648 | (119) | 2,958 | 14,487 | 88,910 |
| Interest expense | (2,934) | - | - | (2,934) | (2,438) |
| Total other items | (2,934) | - | - | (2,934) | (2,438) |
| Excess (deficit) of revenues over expenses | 8,714 | (119) | 2,958 | 11,553 | 86,472 |
| Net unrealized (loss) gain on investments | (48,109) | (403) | - | (48,512) | 15,278 |
| Write off of discontinued capital project | (5,599) | - | - | (5,599) | - |
| Change in net assets | (44,994) | (522) | 2,958 | (42,558) | 101,750 |
| Net assets at beginning of year | 775,682 | 13,988 | 150,467 | 940,137 | 838,387 |
| Net assets at end of year | $ 730,688 | $ 13,466 | $ 153,425 | $ 897,579 | $ 940,137 |

See accompanying notes.

# Masonic Homes of California and Subsidiaries
## Consolidated Statements of Cash Flows
## Years Ended October 31, 2018 and 2017
## (In Thousands)

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities | | |
| Contributions and bequests received | $ 5,171 | $ 6,365 |
| Net proceeds from assigned assets | 3,797 | 5,499 |
| Amounts received from assigned pension assets | 5,344 | 5,048 |
| Net proceeds from sale of resident assets | 526 | 419 |
| Investment income received | 9,903 | 15,114 |
| Fee for service | 9,625 | 8,105 |
| Health Service Revenue | 6,272 | 5,855 |
| Royalty and other income | 3,684 | 4,707 |
| Cash paid for expenses | (65,627) | (61,711) |
| Net proceeds from split-interest agreements, charitable gift annuity, and pooled income fund | 359 | - |
| Net cash used in operating activities | (20,946) | (10,599) |
| Cash flows from investing activities | | |
| Net proceeds from sales of investments | 75,572 | 52,473 |
| Purchase of investments | (43,646) | (32,796) |
| Proceeds from sales of equipment | 17 | - |
| Purchase of equipment/construction | (12,973) | (7,870) |
| Net cash provided by investing activities | 18,970 | 11,807 |
| Cash flows from financing activities | | |
| Cash received from residents subject to refund | 4,608 | 993 |
| Deposits refunded to residents | 39 | 32 |
| Contribution restricted for long term investments | 2,958 | 1,395 |
| Funds held for residents | (39) | (32) |
| Changes in other assets | (33) | - |
| Loan principal installment payment | (5,074) | (4,911) |
| Net cash used in (provided by) financing activities | 2,459 | (2,523) |
| Net increase (decrease) in cash | 483 | (1,315) |
| Cash and cash equivalents, beginning of year | 6,530 | 7,845 |
| Cash and cash equivalents, end of year | $ 7,013 | $ 6,530 |



See accompanying notes.

**(In Thousands)**

| | 2018 | 2017 |
|---|---|---|
| Reconciliation of change in net assets to | | |
| net cash used in operating activities | | |
| Change in net assets | $ (42,558) | $ 101,750 |
| Adjustment to reconcile change in net assets to net cash | | |
| used in operating activities | | |
| Depreciation | 8,113 | 8,139 |
| Amortization of deferred revenue from assigned assets | (2,822) | (2,964) |
| Amortization due to deaths and withdrawals | (1,381) | (1,608) |
| Write off of discontinued capital project | 5,599 | - |
| Gain on disposal of property and equipment | (17) | - |
| Realized and unrealized loss (gain) on investments | 12,895 | (118,740) |
| Contribution restricted for long term investments | (2,958) | (1,395) |
| Changes in assets and liabilities | | |
| Receivables, net | (1,715) | (256) |
| Prepaid expenses and other assets | (2,771) | 69 |
| Related entities receivable and payable | 20 | (273) |
| Assets held for sale | 525 | 419 |
| Assets held in trust | 950 | (681) |
| Accounts payable and accrued liabilities | 1,656 | (455) |
| Liability to beneficiaries of split interest agreements | (282) | (102) |
| Deferred revenue from assigned assets, net | 3,800 | 5,498 |
| Net cash used in operating activities | $ (20,946) | $ (10,599) |

See accompanying notes.

## 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 Retirement Living Community in 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, 2018, 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, 2017, 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:

*Unrestricted* – Unrestricted 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 unrestricted net assets as operating reserves, capital replacement and development reserves, uninsured risk reserves, and strategic initiative reserves. As of October 31, 2018 and 2017, board-designated reserve funds consisted of the following:

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Operating reserve fund | $ 12,311 | $ 17,302 |
| Capital reserve fund | 15,614 | 19,311 |
| Uninsured risk fund | 13,838 | 13,242 |
| Strategic reserve fund | 1,148 | 1,392 |
| Total | $ 42,911 | $ 51,247 |

*Temporarily restricted* – Temporarily restricted net assets represent 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 from temporarily restricted net assets and reported as unrestricted. If a restriction is fulfilled in the same fiscal year in which the contribution was received, the contribution is reported as temporarily restricted support and net assets released from restrictions in that period.

*Permanently restricted* – Permanently restricted net assets represent contributions to be held in perpetuity as directed by the donor.

**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 comparables, qualified opinions, and discount rates and mortality tables for split-interest agreements.

**Cash and cash equivalents** – 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.

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

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Operating cash | $ 2,124 | $ 1,819 |
| Money market | 4,889 | 4,711 |
| Total cash and cash equivalents | $ 7,013 | $ 6,530 |

**Funds held for residents** – Funds held for 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).

**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.

**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.

**Investments** – Investments in debt 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 financial statements as well as interim 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 - 50 years |
| Equipment | 3 - 35 years |
| Furniture and fixtures | 5 - 20 years |
| Vehicles | 3 - 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, 2018 and 2017.

**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." The policy covers all occurrences that happen during the policy term up to $5,000,000, subject to a $500,000 self-insured retention. Should this policy 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.

**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 3.384% and 4.075% as of October 31, 2018 and 2017, respectively. Deferred revenue from Pooled Income Fund included in liability to beneficiaries of split-interest agreements in the consolidated statements of financial position was $251,000 and $297,000 as of October 31, 2018 and 2017, 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, 2018 and 2017. Liabilities to beneficiaries of charitable remainder trusts included in liabilities to beneficiaries in the consolidated statements of financial position were $1,833,000 and $2,018,000 as of October 31, 2018 and 2017, respectively.

*Other liabilities to beneficiaries of split interest arrangements* – Other liabilities to beneficiaries of split interest agreements include charitable reminder 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 $514,000 and $567,000 as of October 31, 2018 and 2017, 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 plus future anticipated income are not sufficient to cover these costs. The interest rate used to estimate this liability was 6% as of October 31, 2018 and 2017, respectively. Management has determined that no such accrual is required in the accompanying 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, 2018, and October 31, 2017, deferred revenues from assigned assets subject to refund, were $1,621,000 and $333,000, respectively. The remaining portion is amortized over the life of the resident and is included in deferred revenue.

The fair-market value of real and personal property assigned to Masonic Homes by residents entering into a continuing care contract is deferred and amortized over the actuarially determined individual or joint and last survivor life expectancy (using the straight-line method), with any unamortized balance recognized as income upon death of the individual or last survivor.

*Health service revenue – Masonic Homes* – Health service revenues are recognized in the month in which services are provided and collectability is reasonably assured. In addition, health service revenue 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.

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.

*Fee for service – 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.

***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, 2018 and 2017, refundable entrance fees subject to refund were $39,761,000 and $35,153,000, respectively. The nonrefundable portion is amortized over the life of the resident and is included in deferred revenue.

*Fee for service – 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 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Functional expense allocations** – 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.

**Performance indicator –** "Excess (deficit) of revenues over expenses" in unrestricted net assets as reflected in the accompanying consolidated statements of activities and changes in net assets is the performance indicator. Changes in unrestricted net assets, which are excluded from excess (deficit) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on available-for-sale investments, and write off of discontinued capital projects.

**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.

**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.

On July 1, 2008, the Organization adopted ASC 740, *Income Taxes.* This statement is effective for fiscal years beginning after December 15, 2006. The interpretation establishes a single model to address accounting for uncertainty in income tax positions. It prescribes a minimum recognition threshold that an income tax position is required to meet before being recognized in the consolidated financial statements. To recognize the position, the filing position would be sustained upon examination. The interpretation also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition of uncertain tax positions. There was no impact as a result of adopting the provisions of ASC 740.

**New accounting pronouncements** – In 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* to allow and 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 the fiscal year beginning after December 15, 2018. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In 2015, FASB issued ASU No. 2015-07 *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* to allow for the use of a practical expedient in the disclosure of investment fair values. This pronouncement is effective for the fiscal year beginning after December 15, 2016. The Organization adopted ASU 2015-07 during the year ended October 31, 2018. The adoption did not have a material impact on the Organization’s consolidated financial statements.

In 2016, FASB issued ASU No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* to simplify financial reporting and disclosure of temporarily and permanently restricted net assets. This pronouncement is effective for the fiscal year beginning after December 15, 2017. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In 2016, 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 the fiscal year beginning after December 15, 2019. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In 2018, FASB issued ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to provide clarifying guidance on accounting for the grants and contracts of nonprofit organizations as they relate to the new revenue standard, and aims to minimize diversity in the classification of grants and contracts that exists under current guidance. This pronouncement is effective for the fiscal year beginning after December 15, 2018. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In 2018, 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 the fiscal year beginning after December 15, 2019. Management is currently evaluating the impact of adoption on the consolidated financial statements.

**Reclassifications** – Certain financial statement reclassifications have been made to prior year balances for comparability purposes and had no impact on changes in net assets or net assets as previously reported.

### NOTE 2 – FUNDS HELD FOR RESIDENTS

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

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Acacia Creek - UC | $ 313 | $ 404 |
| Masonic Homes Union City | 181 | 74 |
| Masonic Homes Covina | 487 | 464 |
| Total funds held for residents | $ 981 | $ 942 |

### 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:

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Corporate stocks | $ 213,104 | $ 241,592 |
| Equity mutual funds | 319,605 | 312,509 |
| Alternative investments | 187,879 | 233,787 |
| Fixed income mutual funds | 202,779 | 200,808 |
| Private markets | 4,400 | - |
| Treasury notes | 16,106 | - |
| Total investments | $ 943,873 | $ 988,696 |

**Corporate stocks** – These are small cap value stocks. The fund seeks stocks that must yield at least 1% value, with low relative valuation, and with a fundamental catalyst (improve earnings, cost structure). A sell decision focuses on the changes or a decline in the three factors.

**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 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.

**Treasury notes** – This is a marketable U.S. government debt security issued on November 28, 2017 with a coupon rate of 2.125% and has a maturity date on August 15, 2021.

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

| | | 2018 (In Thousands) | | 2017 (In Thousands) |
|---|---|---|---|---|
| Alternative investment strategy | Number of funds | | Number of funds | |
| Real estate investment trust | 1 | $ 31,617 | 1 | $ 45,320 |
| Hedge fund of funds | - | - | 1 | 50,394 |
| Global Macro (caxton) | 1 | 19,740 | 1 | 47,731 |
| Credit Long / Short (caspian) | 1 | 37,163 | 1 | 48,072 |
| Opportunistic (bravo ii) | 1 | 29,762 | 1 | 42,270 |
| EM Macro (broad reach) | 1 | 18,451 | - | - |
| European L/S Equity (engadine) | 1 | 25,798 | - | - |
| Structured Credit (400 capital) | 1 | 25,348 | - | - |
| Total alternative investments | 7 | $ 187,879 | 5 | $ 233,787 |

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, 2018 and 2017:

| | 2018 (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 | $ 44,955 | $ (1,435) | $ 43,285 | $ (703) | $ 88,240 | $ (2,138) |
| Equity mutual funds | 86,088 | (2,101) | 41,164 | (9,618) | 127,252 | (11,719) |
| Alternative investments | 61,793 | (4,515) | 108,516 | (11,820) | 170,309 | (16,335) |
| Total temporarily impaired investments | $ 192,836 | $ (8,051) | $ 192,965 | $ (22,141) | $ 385,801 | $ (30,192) |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | (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 | $ 43,719 | $ (243) | $ - | $ - | $ 43,719 | $ (243) |
| Equity mutual funds | 44,221 | (396) | 59,375 | (5,571) | 103,596 | (5,967) |
| Alternative investments | 47,731 | (827) | 42,270 | (826) | 90,001 | (1,653) |
| Total temporarily impaired investments | $ 135,671 | $ (1,466) | $ 101,645 | $ (6,397) | $ 237,316 | $ (7,863) |

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, 2018 and 2017, 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.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that 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:

**Available-for-sale securities/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, hedge fund of funds, and other less liquid securities using investment appropriate models like the income approach for real estate investments and an NAV approach for the hedge fund of funds. For those assets held in trusts classified as Level 3, the fair value is based on the fair value of underlying investments and Masonic Homes' percentage of interest in the trusts.

The following table presents 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:

| | 2018 (In Thousands) | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Available-for-sale | | | | |
| Corporate stocks | | | | |
| Domestic stocks | $ 129,023 | $ 129,023 | $ - | $ - |
| Foreign stocks | 41,060 | 41,060 | - | - |
| Equity mutual funds | | | | |
| Domestic equity | 52,761 | 52,761 | - | - |
| Foreign equity | 88,647 | 88,647 | - | - |
| Fixed income mutual funds | 71,052 | 71,052 | - | - |
| Treasury notes | 16,106 | 16,106 | - | - |
| Total available-for-sale investments | 398,649 | 398,649 | - | - |
| Assets held in trust | | | | |
| Corporate stocks | | | | |
| Domestic stocks | 339 | - | - | 339 |
| Foreign stocks | - | - | - | - |
| Equity mutual funds | | | | |
| Domestic stocks | 4,125 | 2,868 | - | 1,257 |
| Foreign stocks | 2,099 | 1,519 | - | 580 |
| Alternative investments | 217 | - | - | 217 |
| Fixed income mutual funds | 5,298 | 4,509 | - | 789 |
| Money market accounts | 410 | 313 | - | 97 |
| Total assets held in trust | 12,488 | 9,209 | - | 3,279 |
| Total | $ 411,137 | $ 407,858 | $ - | $ 3,279 |

| | 2017 (In Thousands) | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Available-for-sale | | | | |
| Corporate stocks | | | | |
| Domestic stocks | $ 144,937 | $ 144,937 | $ - | $ - |
| Foreign stocks | 51,010 | 51,010 | - | - |
| Equity mutual funds | | | | |
| Domestic equity | 34,667 | 34,667 | - | - |
| Foreign equity | 93,676 | 93,676 | - | - |
| Fixed income mutual funds | 70,914 | 70,914 | - | - |
| Total available-for-sale investments | 395,204 | 395,204 | - | - |
| Assets held in trust | | | | |
| Corporate stocks | | | | |
| Domestic stocks | 349 | - | - | 349 |
| Foreign stocks | - | - | - | - |
| Equity mutual funds | | | | |
| Domestic stocks | 4,490 | 3,304 | - | 1,186 |
| Foreign stocks | 2,470 | 1,730 | - | 740 |
| Alternative investments | 292 | - | - | 292 |
| Fixed income mutual funds | 5,438 | 4,629 | - | 809 |
| Money market accounts | 399 | 307 | - | 92 |
| Total assets held in trust | 13,438 | 9,970 | - | 3,468 |
| Total | $ 408,642 | $ 405,174 | $ - | $ 3,468 |

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

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Available-for-sale investments measured at NAV: | | |
| Corporate stocks | | |
| Foreign stocks | $ 43,020 | $ 45,645 |
| Equity mutual funds | | |
| Domestic equity | 88,431 | 93,888 |
| Foreign equity | 89,767 | 90,278 |
| Alternative investments | 187,879 | 233,787 |
| Fixed income mutual funds | 131,727 | 129,894 |
| Private markets | 4,400 | - |
| Total | $ 545,224 | $ 593,492 |

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:

| | Assets Held in Trust (In Thousands) |
|---|---|
| Balance, October 31, 2016 | $ 3,180 |
| Total realized and unrealized gain | |
| Included in excess of revenues and expenses | - |
| Included in changes in unrestricted net assets | - |
| Included in changes in temporarily restricted net assets | 288 |
| Purchases, issuances, and settlements | |
| Purchases | - |
| Balance, October 31, 2017 | $ 3,468 |
| Total realized and unrealized gain | |
| Included in excess of revenues and expenses | - |
| Included in changes in unrestricted net assets | 46 |
| Included in changes in temporarily restricted | - |
| net assets | - |
| Purchases, issuances, and settlements | |
| Purchases (settlements) | (235) |
| Balance, October 31, 2018 | $ 3,279 |

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, 2018 and 2017 :

| Fund Type | Fair Value (in thousands) October 31, 2018 | Fair Value (in thousands) October 31, 2017 | Unfunded Commitments (in thousands) October 31, 2018 | Unfunded Commitments (in thousands) October 31, 2017 | Redemption Frequency (if Currently Eligible) | Redemption Notice Period | Redemption Restriction |
|---|---|---|---|---|---|---|---|
| Corporate stocks | | | | | | | |
| Foreign stocks | $ 43,020 | $ 45,645 | $ - | $ - | Monthly | 30 days | None |
| Equity mutual funds | | | | | | | |
| Domestic equity | 88,431 | 93,888 | - | - | Daily | 1 - 5 days | None |
| Foreign equity | 89,767 | 90,278 | | | Daily, Monthly | 0 days | None or minimum of $250 |
| Alternative investments | | | | | | | |
| Global Macro (Caxton Global Investment) | 19,740 | 47,731 | - | - | Quarterly | Quarterly | 45 days, lock-up 1st year |
| Credit Long/Short (Caspian) | 37,163 | 48,072 | - | - | Quarterly | Quarterly | 45 days |
| PIMCO Bravo II | 29,762 | 42,270 | - | - | n/a | n/a | n/a |
| Broad Reach | 18,451 | - | - | - | Quarterly | Quarterly | 90 days |
| Engadine | 25,798 | - | - | - | Quarterly | Quarterly | 45 days |
| 400 Capital | 25,348 | - | - | - | Quarterly | Quarterly | 60 days |
| Real Estate (UBS TPF) | 31,617 | 45,320 | - | - | Quarterly | Quarterly | 60 days |
| Blackrock IV | - | 50,394 | - | - | Quarterly | Quarterly | 90-180 days |
| Fixed income mutual funds | 131,727 | 129,894 | - | - | Daily | 0 - 3 days | None |
| Private markets | 4,400 | - | 27,795 | - | n/a | n/a | n/a |
| | $ 545,224 | $ 593,492 | $ 27,795 | $ - | | | |

**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, formerly known as Fiera USA Global Equities Fund LP, and Hexavest Global Equity Fund.

The Global Equity Long-Only Fund LP's investment objective is to invest primarily in long-only portfolio of global equities. The Hexavest Global Equity Fund's investment objective is to provide investors with capital appreciation, and or income generated from investments in securities of issuers located in developed market countries. 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.

*Engadine Equity Fund* - The Fund's primary investment focus will be long and short position in equity securities of issuers from developed markets. The Investment Manager will carry out detailed fundamental analysis and proprietary valuation assessments to construct a portfolio of high conviction ideas, with gross and net market exposures managed carefully with the aim of generating positive returns in all market environments. The portfolio will be the result of a bottom-up analysis agnostic to sector or to geography. Both long and short positions are targeted to generate positive returns.

*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.

*Blackrock BAF IV* – The Fund's investment objective is to seek, over time, to achieve net returns commensurate with the long-run return on public equities with half the volatility and low beta to the public equity markets. The Fund is a diversified, commingled investment vehicle that seeks to generate positive absolute returns. The Fund invests in alternative strategies that, as a portfolio, seek to generate returns while minimizing market risk, including risks related to the overall direction of the equity markets and interest rates.

**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** – A commitment of $40 million, split between private equity and private debt, was approved by the Investment Committee for 2018. In private equity, commitments of $4,000,000 each have been made to Georgian Partners Growth Fund IV, Glendower Capital Secondary Opportunities Fund IV, SK Capital Partners Fund V, Thoma Bravo Fund XIII, and Lakestar Growth I. Within private debt, commitments of $10,000,000 each have been made to PSC Credit Opportunities III and VWH Partners Fund I. Additional commitments will be made throughout the coming years to further diversify the portfolio by strategy and vintage year; unfunded commitment at October 31, 2018 was $27,796,000. The investments can only be redeemed upon liquidation of the underlying assets of the funds. These Funds are illiquid, however, a secondary market exists.

The following methods were used to estimate the fair value of other financial instruments:

**Long-term debt** – The fair value of long-term debt is estimated based on discounted cash flow analyses, based on Masonic Homes' current incremental borrowing rates for similar types of borrowing arrangements. The debt instruments as of October 31, 2018 and 2017, materially approximate their carrying values (Note 13).

**NOTE 5 – PROPERTY AND EQUIPMENT**

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

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Land and improvements | $ 16,311 | $ 16,188 |
| Buildings and improvements | 244,707 | 241,169 |
| Furniture and equipment | 27,762 | 26,986 |
| Construction in progress | 14,459 | 11,560 |
| Leasehold improvement | 227 | 190 |
| Total property and equipment | 303,466 | 296,093 |
| Less: accumulated depreciation | (152,661) | (144,564) |
| Property and equipment, net | $ 150,805 | $ 151,529 |

Depreciation expense for the years ended October 31, 2018 and 2017, totaled $8,113,000 and $8,139,000, respectively.

## NOTE 6 – ASSETS HELD IN TRUSTS

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

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Contributions receivable from split-interest agreements | $ 300 | $ 318 |
| Assets of pooled income fund | 676 | 696 |
| Assets of split-interest agreements | 7,444 | 7,975 |
| Assets of charitable gift annuities | 1,088 | 1,299 |
| Beneficial interest in perpetual trusts | 2,980 | 3,150 |
| Total assets held in trusts | $ 12,488 | $ 13,438 |

**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, 2018 and 2017, the rate was estimated to be 4.08%.

**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 1.20% to 6.00%. Upon the death of the donor, the remaining funds revert to Masonic Homes and are taken into income. The increase in present value of the gift annuities for the years ended October 31, 2018 and 2017, was $211,000 and $157,000, 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. The beneficial interest in perpetual trusts included in the consolidated statements of financial position is $2,980,000 and $3,150,000 at October 31, 2018 and 2017, respectively.

**NOTE 7 – DEFERRED REVENUE FROM ASSIGNED ASSETS**

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

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Balance, beginning of period and year | $ 26,197 | $ 25,270 |
| Received from new residents | 3,797 | 5,499 |
| Amortized | | |
| Due to deaths and withdrawals | (1,381) | (1,608) |
| Based on actuarial calculation | (2,822) | (2,964) |
| Balance, end of period and year | $ 25,791 | $ 26,197 |

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted net assets consisted of the following as of October 31:

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Available for use in awarding scholarships or other programs related to children | $ 5,002 | $ 5,244 |
| Available for use in the activities of the homes in Union City and Covina upon lapse of time restrictions | 8,464 | 8,744 |
| Total temporarily restricted net assets | $ 13,466 | $ 13,988 |

Net assets were released from donor restrictions as shown in the following table for the years ended October 31, 2018 and 2017. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Use in the activities of the home for adults in Union City, California | $ 1,095 | $ 668 |
| Use in the activities of the home for adults/children in Covina, California | 1,394 | 351 |
| Use in Masonic Outreach Services | 417 | 606 |
| Use in awarding scholarships and other community sponsorship | 91 | 152 |
| Total net assets released from restrictions | $ 2,997 | $ 1,777 |

## NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following activities as of October 31:

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Use in the activities of Masonic Homes | $ 151,830 | $ 148,872 |
| Use in awarding scholarships | 1,595 | 1,595 |
| Total permanently restricted net assets | $ 153,425 | $ 150,467 |

## 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 $1,487,000 and $1,373,000 for the years ended October 31, 2018 and 2017, 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 through an allocation of certain expenses. The allocations to the Masonic Homes and Acacia Creek – UC, were $8,100,000 and $7,855,000 for the years ended October 31, 2018 and 2017, 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.

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, 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.

## NOTE 13 – LONG-TERM DEBT

Long-term debt at October 31, 2018 and 2017, consisted of the following:

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Association of Bay Area Government Bonds, Series 2013A, variable rate equal to one month LIBOR plus 60 basis points, annual payments beginning November 1, 2016 continuing to July 1, 2038 | $ 93,533 | $ 96,532 |
| 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 | 55,865 | 57,795 |
| Bank of America Public Capital Corporation loan, variable rate equal to one month LIBOR plus 75 basis points, annual payments beginning November 1, 2016 continuing to November 1, 2038 | 4,553 | 4,699 |
| | 153,951 | 159,026 |
| Less current portion | 5,215 | 5,071 |
| | 148,736 | 153,955 |
| Less net unamortized cost of issuance | 392 | 377 |
| | $ 148,344 | $ 153,578 |

**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.

The bonds carry an interest rate equal to 67% of one month LIBOR plus 60 basis points reset on the first business day of every month. The interest is effective through March 31, 2020, at which time the interest rate will be re-negotiated with Bank of America Public Capital Corporation ("BAPCC") or the loan will be retired.

**Taxable Variable Rate Loan** – Acacia Creek – UC entered into a 5-year Taxable Variable Rate Loan through BAPCC 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 $30,003 and was paid directly by Acacia Creek – UC.

The loan carries an interest rate equal to one month LIBOR plus 75 basis points reset on the first business day of every month. The interest is effective through March 31, 2020, at which time the interest rate will be re-negotiated with BAPCC or the loan will be retired.

**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 to help support its operations. The loan is amortized over 25 years at a rate of 1.9% with monthly payments of $252,000 and a balloon payment due on August 21, 2021.

**Future Minimum Payment Schedule** – Total annual maturities of long-term debt as of October 31, 2018, are as follows (In Thousands):

| | |
|---|---|
| 2019 | $ 5,215 |
| 2020 | 5,342 |
| 2021 | 55,348 |
| 2022 | 3,578 |
| 2023 | 3,695 |
| Thereafter | 80,381 |
| | $ 153,559 |

Interest paid for the years ended October 31, 2018 and 2017, on long-term debt was $2,934,000 and $2,438,000, respectively.

## 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% – 7.0% annually. Actual returns in any given year may vary from this amount.

*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 2017/2018, Masonic Homes had a past policy of appropriating for distribution 4.25% – 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, 2018 (In Thousands) | | | October 31, 2017 (In Thousands) | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Donor-restricted endowment funds | $ - | $ 13,466 | $ 153,425 | $ - | $ 13,988 | $ 150,467 |
| Board-designated endowment funds | 231,224 | - | - | 248,387 | - | - |
| Total endowment funds | $ 231,224 | $ 13,466 | $ 153,425 | $ 248,387 | $ 13,988 | $ 150,467 |

**Reconcile beginning and ending balance by net asset class**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| | (In Thousands) | | | |
| Endowment net assets | | | | |
| October 31, 2017 | $ 248,387 | $ 13,988 | $ 150,467 | $ 412,842 |
| Investment return | | | | |
| Realized gains | 13,726 | 322 | - | 14,048 |
| Investment Income | 6,050 | 95 | - | 6,145 |
| Unrealized loss | (18,214) | (708) | - | (18,922) |
| Total Investment Return | 1,562 | (291) | - | 1,271 |
| Contributions | - | 2,766 | 2,958 | 5,724 |
| Release from restrictions | (78) | (2,997) | - | (3,075) |
| Release/transfer to general fund and/or operation | (16,681) | - | - | (16,681) |
| Expenses | (1,966) | - | - | (1,966) |
| Endowment net assets | | | | |
| October 31, 2018 | $ 231,224 | $ 13,466 | $ 153,425 | $ 398,115 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| | | (In Thousands) | | |
| Endowment net assets | | | | |
| October 31, 2016 | $ 214,334 | $ 12,027 | $ 149,072 | $ 375,433 |
| Investment return | | | | |
| Realized gain | 32,421 | 794 | - | 33,215 |
| Investment income | 8,805 | 132 | - | 8,937 |
| Unrealized gain | 13,186 | 1,278 | - | 14,464 |
| Total Investment Return | 54,412 | 2,204 | - | 56,616 |
| Contributions | - | 1,534 | 1,395 | 2,929 |
| Release from restrictions | (50) | (1,777) | - | (1,827) |
| Release/transfer to general fund and/or operation | (16,296) | - | - | (16,296) |
| Expenses | (4,013) | - | - | (4,013) |
| Endowment net assets | | | | |
| October 31, 2017 | $ 248,387 | $ 13,988 | $ 150,467 | $ 412,842 |

### 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.

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only):

| | 2018 | 2017 |
|---|---|---|
| Permanently restricted net assets | '(In Thousands) | (In Thousands) |
| The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation | $ 153,425 | $ 150,467 |
| Total endowment funds classified as permanently restricted net assets | $ 153,425 | $ 150,467 |
| Temporarily restricted net assets | $ 13,466 | $ 13,988 |
| Total endowment funds classified as temporarily restricted net assets | $ 13,466 | $ 13,988 |

**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 unrestricted net assets as of October 31, 2018 and 2017, respectively.

## NOTE 15 – 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 22, 2019, 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, 2018 (With Summarized Comparative Information as of October 31, 2017)
## (In Thousands)

| | Unrestricted | | | | Temporary Restricted | Permanently Restricted | | |
|---|---|---|---|---|---|---|---|---|
| | Acacia Creek Union City | Masonic Homes | Elimination/ Reclass | Total | Masonic Homes | Masonic Homes | 2018 Consolidated | 2017 |
| Assets | | | | | | | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents | $ 1,260 | $ 5,753 | $ - | $ 7,013 | $ - | $ - | $ 7,013 | $ 6,530 |
| Funds held for residents | - | 668 | - | 668 | - | - | 668 | 538 |
| Receivables, net | 15 | 3,004 | - | 3,019 | - | - | 3,019 | 1,304 |
| Notes receivable - related party | - | 10,000 | (10,000) | - | - | - | - | - |
| Prepaid expenses | 297 | 679 | - | 976 | - | - | 976 | 954 |
| Related entities receivable | - | 7,274 | (7,217) | 57 | - | - | 57 | - |
| Assets held for sale | - | 1,442 | - | 1,442 | - | - | 1,442 | 1,967 |
| Total current assets | 1,572 | 28,820 | (17,217) | 13,175 | - | - | 13,175 | 11,293 |
| Investments, at fair value | 24,423 | 762,444 | - | 786,867 | 1,969 | 155,037 | 943,873 | 988,696 |
| Property and equipment, net | 72,524 | 78,281 | - | 150,805 | - | - | 150,805 | 151,529 |
| Assets held in trusts | - | - | - | - | 11,918 | 570 | 12,488 | 13,438 |
| Funds held for residents | 313 | - | - | 313 | - | - | 313 | 404 |
| Other assets | - | 5,681 | (4,680) | 1,001 | - | - | 1,001 | 503 |
| Total assets | $ 98,832 | $ 875,226 | $ (21,897) | $ 952,161 | $ 13,887 | $ 155,607 | $ 1,121,671 | $ 1,165,863 |

## (In Thousands)

| | Unrestricted | | | | Temporary Restricted | Permanently Restricted | | |
|---|---|---|---|---|---|---|---|---|
| | Acacia Creek Union City | Masonic Homes | Elimination/ Reclass | Total | Masonic Homes | Masonic Homes | 2018 Consolidated | 2017 |
| Liabilities and net assets | | | | | | | | |
| Current liabilities | | | | | | | | |
| Accounts payable and accrued liabilities | $ 328 | $ 3,138 | $ - | $ 3,466 | $ - | $ - | $ 3,466 | $ 2,008 |
| Accrued payroll and benefits payable | 224 | 2,162 | - | 2,386 | - | - | 2,386 | 2,188 |
| Current portion of long term debt | 3,250 | 1,965 | - | 5,215 | - | - | 5,215 | 5,071 |
| Liability for funds held for residents,net | - | 668 | - | 668 | - | - | 668 | 538 |
| Intercompany debt | 10,000 | - | (10,000) | - | - | - | - | - |
| Guaranty payable - related party | 5,203 | - | (5,203) | - | - | - | - | - |
| Other related entities payable | 2,033 | 190 | (2,014) | 209 | - | - | 209 | 134 |
| Total current liabilities | 21,038 | 8,123 | (17,217) | 11,944 | - | - | 11,944 | 9,939 |
| Liability to beneficiaries of split-interest agreements | - | - | - | - | 421 | 2,182 | 2,603 | 2,885 |
| Long term debt | 94,444 | 53,900 | - | 148,344 | - | - | 148,344 | 153,578 |
| Liability for funds held for residents,net | 313 | - | - | 313 | - | - | 313 | 404 |
| Refundable advance fees | 39,761 | - | (4,680) | 35,081 | - | - | 35,081 | 32,723 |
| Deferred revenue from assigned assets | 7,489 | 18,302 | - | 25,791 | - | - | 25,791 | 26,197 |
| Total liabilities | 163,045 | 80,325 | (21,897) | 221,473 | 421 | 2,182 | 224,076 | 225,726 |
| Net (deficit) assets | (64,213) | 794,901 | - | 730,688 | 13,466 | 153,425 | 897,579 | 940,137 |
| Total liabilities and net assets | $ 98,832 | $ 875,226 | $ (21,881) | $ 952,177 | $ 13,887 | $ 155,607 | $ 1,121,671 | $ 1,165,863 |

# Masonic Homes of California and Subsidiaries
## Consolidating Statements of Activities and Changes in Net Assets
## Year Ended October 31, 2018 (With Summarized Comparative Information for the Year Ended October 31, 2017)
## (In Thousands)

| | Unrestricted | | | | Temporary Restricted | Permanently Restricted | | |
|---|---|---|---|---|---|---|---|---|
| | Acacia Creek Union City | Masonic Homes | Elimination/ Reclass | Total | Masonic Homes | Masonic Homes | 2018 Consolidated | 2017 Total Comparative Totals Only |
| Revenues, gains and other support: | | | | | | | | |
| Contributions | $ - | $ 28 | $ - | $ 28 | $ 820 | $ 9 | $ 857 | $ 562 |
| Bequests and memorials | - | 2,378 | - | 2,378 | 1,946 | 2,949 | 7,273 | 7,198 |
| Amortization of deferred revenue | 699 | 2,123 | - | 2,822 | - | - | 2,822 | 2,964 |
| Amounts received from pensions assigned by resident | - | 5,344 | - | 5,344 | - | - | 5,344 | 5,048 |
| Investment income | 114 | 9,694 | - | 9,808 | 95 | - | 9,903 | 15,114 |
| Net realized gain on investments | 998 | 34,297 | - | 35,295 | 322 | - | 35,617 | 103,462 |
| Fee for service | 7,030 | 2,595 | - | 9,625 | - | - | 9,625 | 8,105 |
| Health service revenue | - | 6,272 | (61) | 6,211 | - | - | 6,211 | 5,791 |
| Royalty and other income | 350 | 6,441 | - | 6,791 | - | - | 6,791 | 6,271 |
| Change in value of split-interest agreements | - | - | - | - | (305) | - | (305) | 1,025 |
| Net assets released from restriction | - | 2,997 | - | 2,997 | (2,997) | - | - | - |
| Total revenues, gains and other support | 9,191 | 72,169 | (61) | 81,299 | (119) | 2,958 | 84,138 | 155,540 |
| Expenses | | | | | | | | |
| Program | | | | | | | | |
| Operation of Acacia Creek and Masonic Homes | 8,581 | 42,396 | - | 50,977 | - | - | 50,977 | 48,885 |
| Masonic Outreach Services | - | 6,007 | - | 6,007 | - | - | 6,007 | 5,989 |
| Masonic Center for Youth and Families | - | 4,057 | - | 4,057 | - | - | 4,057 | 3,357 |
| Scholarship | - | 91 | - | 91 | - | - | 91 | 152 |
| Total program expenses | 8,581 | 52,551 | - | 61,132 | - | - | 61,132 | 58,383 |
| Supporting services | | | | | | | | |
| Marketing | 480 | - | (61) | 419 | - | - | 419 | 392 |
| Fundraising | - | 952 | - | 952 | - | - | 952 | 938 |
| Administration/shared services | 1,048 | 6,100 | - | 7,148 | - | - | 7,148 | 6,917 |
| Total supporting services expenses | 1,528 | 7,052 | (61) | 8,519 | - | - | 8,519 | 8,247 |
| Total expenses | $ 10,109 | $ 59,603 | $ (61) | $ 69,651 | $ - | $ - | $ 69,651 | $ 66,630 |

# Masonic Homes of California and Subsidiaries
## Consolidating Statements of Activities and Changes in Net Assets
## Year Ended October 31, 2018 (With Summarized Comparative Information for the Year Ended October 31, 2017)
## (In Thousands)

| | Unrestricted | | | | Temporary Restricted | Permanently Restricted | | |
|---|---|---|---|---|---|---|---|---|
| | Acacia Creek Union City | Masonic Homes | Elimination/ Reclass | Total | Masonic Homes | Masonic Homes | 2018 Consolidated | 2017 Total Comparative Totals Only |
| (Deficit) excess of revenues over expenses before other items | $ (918) | $ 12,566 | $ - | $ 11,648 | $ (119) | $ 2,958 | $ 14,487 | $ 88,910 |
| Intercompany guaranty (expense) income | (490) | 490 | - | - | - | - | - | - |
| Interest expense | (1,838) | (1,096) | - | (2,934) | - | - | (2,934) | (2,438) |
| Total other items | (2,328) | (606) | - | (2,934) | - | - | (2,934) | (2,438) |
| (Deficit) excess of revenues over expenses | (3,246) | 11,960 | - | 8,714 | (119) | 2,958 | 11,553 | 86,472 |
| Net unrealized (loss) gain on investments | (1,274) | (46,835) | - | (48,109) | (403) | - | (48,512) | 15,278 |
| Write off of discontinued capital project | - | (5,599) | - | (5,599) | - | - | (5,599) | - |
| Change in net assets | (4,520) | (40,474) | - | (44,994) | (522) | 2,958 | (42,558) | 101,750 |
| Net (deficit) assets at beginning of year | (59,693) | 835,375 | - | 775,682 | 13,988 | 150,467 | 940,137 | 838,387 |
| Net (deficit) assets at end of year | $ (64,213) | $ 794,901 | $ - | $ 730,688 | $ 13,466 | $ 153,425 | $ 897,579 | $ 940,137 |

# Masonic Homes of California and Subsidiaries
## Consolidating Statements of Cash Flows
## Year Ended October 31, 2018 (With Summarized Comparative Information for the Year Ended October 31, 2017) (In Thousands)

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | Acacia Creek – Union City | Masonic Homes | Total | |
| Cash flows from operating activities | | | | |
| Contributions and bequests received | $ - | $ 5,171 | $ 5,171 | $ 6,365 |
| Net proceeds from assigned assets | 1,445 | 2,352 | 3,797 | 5,499 |
| Amounts received from assigned pension assets | - | 5,344 | 5,344 | 5,048 |
| Net proceeds from sale of resident assets | - | 526 | 526 | 419 |
| Investment income received | 114 | 9,789 | 9,903 | 15,114 |
| Fee for service | 7,030 | 2,595 | 9,625 | 8,105 |
| Health service revenue | - | 6,272 | 6,272 | 5,855 |
| Royalty and other income | 347 | 3,337 | 3,684 | 4,707 |
| Cash paid for operating expenses | (10,200) | (55,427) | (65,627) | (61,711) |
| Net proceeds from split-interest agreements, charitable gift annuity and pooled income fund | - | 359 | 359 | - |
| Net cash used in operating activities | (1,264) | (19,682) | (20,946) | (10,599) |
| Cash flows from investing activities | | | | |
| Net proceeds from sales of investments | 8,402 | 67,170 | 75,572 | 52,473 |
| Purchase of investments | (7,181) | (36,465) | (43,646) | (32,796) |
| Proceeds from sales of equipment | - | 17 | 17 | - |
| Purchase of property and equipment | (652) | (12,321) | (12,973) | (7,870) |
| Net cash provided by investing activities | 569 | 18,401 | 18,970 | 11,807 |
| Cash flows from financing activities | | | | |
| Cash received from residents subject to refund | 4,608 | - | 4,608 | 993 |
| Deposits refunded to residents | (91) | 130 | 39 | 32 |
| Contribution restricted for long term investments | - | 2,958 | 2,958 | 1,395 |
| Funds held for residents | 91 | (130) | (39) | (32) |
| Changes in other assets | (33) | - | (33) | - |
| Loan principal installment payment | (3,144) | (1,930) | (5,074) | (4,911) |
| Net cash provided by (used in) financing activities | 1,431 | 1,028 | 2,459 | (2,523) |
| Net increase (decrease) in cash | 736 | (253) | 483 | (1,315) |
| Cash and cash equivalents, beginning of year | 524 | 6,006 | 6,530 | 7,845 |
| Cash and cash equivalents, end of year | $ 1,260 | $ 5,753 | $ 7,013 | $ 6,530 |

**Year Ended October 31, 2018 (With Summarized Comparative Information for the Year Ended October 31, 2017 (In Thousands)**

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | Acacia Creek – Union City | Masonic Homes | Total | Comparative Total Only |
| Reconciliation of change in net assets to net cash used in operating activities | | | | |
| Change in net assets | $ (4,520) | $ (38,038) | $ (42,558) | $ 101,750 |
| Adjustment to reconcile change in net assets to net cash used in operating activities | | | | |
| Depreciation | 2,638 | 5,475 | 8,113 | 8,139 |
| Amortization of deferred revenue from assigned assets | (699) | (2,123) | (2,822) | (2,964) |
| Amortization due to deaths and withdrawals | (51) | (1,330) | (1,381) | (1,608) |
| Write off of discontinued capital project | - | 5,599 | 5,599 | - |
| Gain on disposal of property and equipment | - | (17) | (17) | - |
| Realized and unrealized loss (gain) on investments | 276 | 12,619 | 12,895 | (118,740) |
| Contribution restricted for long term investments | - | (2,958) | (2,958) | (1,395) |
| Changes in assets and liabilities | | | | |
| Receivables, net | 47 | (1,762) | (1,715) | (256) |
| Prepaid expenses and other assets | (34) | (2,737) | (2,771) | 69 |
| Related entities receivable and payable | (457) | 477 | 20 | (273) |
| Assets held for sale | - | 525 | 525 | 419 |
| Assets held in trust | - | 950 | 950 | (681) |
| Accounts payable and accrued liabilities | 91 | 1,565 | 1,656 | (455) |
| Liability to beneficiaries of split interest agreements | - | (282) | (282) | (102) |
| Deferred revenue from assigned assets, net | 1,445 | 2,355 | 3,800 | 5,498 |
| Net cash used in operating activities | $ (1,264) | $ (19,682) | $ (20,946) | $ (10,599) |

# Masonic Homes of California and Subsidiaries
## Supplemental Schedule of Program Expenses (Unaudited)
## Years Ended October 31, 2018 and 2017
## (In Thousands)

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| Salaries and wages | $ 17,085 | $ 16,055 |
| Resident care and services | 7,567 | 7,217 |
| Employee Benefits | 6,410 | 6,249 |
| Depreciation | 5,423 | 5,514 |
| Utilities | 1,487 | 1,455 |
| Insurance | 1,000 | 1,024 |
| Operating services | 796 | 793 |
| Facilities and maintenance services | 863 | 716 |
| Professional fees | 345 | 421 |
| Taxes | 282 | 325 |
| Travel expenses | 168 | 123 |
| Employment expense and education | 194 | 177 |
| Operating Supplies | 141 | 148 |
| Miscellaneous and other expenses | 154 | 166 |
| Dues and licenses | 212 | 166 |
| Vehicle expense | 115 | 113 |
| Maintenance supplies | 154 | 96 |
| Masonic Homes operation | 42,396 | 40,758 |
| Acacia Creek operation | 8,581 | 8,127 |
| Masonic Outreach Services | 6,007 | 5,989 |
| Masonic Center for Youth and Families (MCYAF) | 4,057 | 3,357 |
| Scholarship | 91 | 152 |
| Total program operations | $ 61,132 | $ 58,383 |

# Masonic Homes of California and Subsidiaries
## Supplemental Schedule of Supporting Services Expenses (Unaudited)
## Years Ended October 31, 2018 and 2017
## (In Thousands)

| | 2018 (In Thousands) | 2017 (In Thousands) |
|---|---|---|
| General and Admin - shared service allocation | $ 6,100 | $ 5,895 |
| Fund raising and development - shared service allocation | 952 | 938 |
| Masonic Homes general and administrative expenses | 7,052 | 6,833 |
| Acacia Creek general and admin shared service allocation | 1,048 | 1,022 |
| Total allocation of general and administrative support to Masonic Homes and Acacia Creek | 8,100 | 7,855 |
| Acacia Creek marketing expenses, net of elimination | 419 | 392 |
| Total general, administrative and marketing expenses | $ 8,519 | $ 8,247 |

# Acacia Creek, A Senior Living Community
# Continuing Care Contract Annual Report
# Part 5

# Table of Contents

# Report of Independent Auditors

To the Board of Trustees
Acacia Creek, A Senior Living Community

## Report on the Financial Statements

We have audited the accompanying financial statements of Acacia Creek, a Senior Living Community, which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5, as of and for the year ended October 31, 2018.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the continuing care reserves of Acacia Creek, a Senior Living Community as of and for the year ended October 31, 2018, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

### *Basis of Accounting*

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by Acacia Creek, a Senior Living Community on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

### *Other Matter*

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedules of Form 5-4 and Form 5-5, Reconciliations, Additional Disclosures, and Notes to Reserve Reports on pages 9 – 11, presented as supplementary schedules, are presented for the purpose of additional analysis and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements, taken as a whole.

### *Restriction on Use*

Our report is intended solely for the information and use of the Board of Directors and management of Acacia Creek, a Senior Living Community and for filing with the California Department of Social Services, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

San Francisco, California
February 22, 2019

**FORM 5-1**
**LONG-TERM DEBT INCURRED**
**IN A PRIOR FISCAL YEAR**
**(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Principal Paid During Fiscal Year | (c) Interest Paid During Fiscal Year | (d) Credit Enhancement Premiums Paid in Fiscal Year | (e) Total Paid (columns (b) + (c) + (d)) |
|---|---|---|---|---|---|
| 1 | 10/29/13 | $3,143,832 | $1,837,924 | $0 | $4,981,756 |
| 2 | | (see note ****) | | | $0 |
| 3 | | | | | $0 |
| 4 | | | | | $0 |
| 5 | | | | | $0 |
| 6 | | | | | $0 |
| 7 | | | | | $0 |
| 8 | | | | | $0 |
| | | **TOTAL:** | $1,837,924 | $0 | $4,981,756 |

*(Transfer this amount to Form 5-3, Line 1)*

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**** On October 29, 2013, Acacia Creek-UC issued $99,423,319 in Variable Rate Revenue Bonds Series 2013A. The bonds were issued through the ABAG and have a maturity date of July 1, 2038. The proceeds from the Variable Rate Revenue Bond Series 2013A were used to (a) retire/settle the Variable Rate Revenue Bonds Series 2008A in the amount of $93,625,000; (b) fund the termination cost related to the Morgan Stanley Swap in the amount of $5,491,000; and (c) fund certain issuance costs related to the Series 2013 Variable Rate Revenue Bonds in the amount of $307,319.

Likewise, Acacia Creek-UC entered into a 5-year Taxable Variable Rate loan through BAPCC on October 29, 2013, in the amount of $4,840,000. The maturity date of the loan is on November 1, 2038. The proceeds of the loan were used to fund the termination cost related to the Bank of America swap in the amount of $4,840,000.

**PROVIDER:** Acacia Creek, a Senior Living Community

**FORM 5-2**
**LONG-TERM DEBT INCURRED**
**DURING FISCAL YEAR**
**(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Total Interest Paid During Fiscal Year | (c) Amount of Most Recent Payment on the Debt | (d) Number of Payments over next 12 months | (e) Reserve Requirement (see instruction 5) (columns (c) x (d)) |
|---|---|---|---|---|---|
| 1 | | | | | $0 |
| 2 | | | | | $0 |
| 3 | | | | | $0 |
| 4 | | | | | $0 |
| 5 | | | | | $0 |
| 6 | | | | | $0 |
| 7 | | | | | $0 |
| 8 | | | | | $0 |
| | **TOTAL:** | $0 | $0 | 0 | $0 |

*(Transfer this amount to Form 5-3, Line 2)*

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**FORM 5-3**
**CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | | TOTAL |
|---|---|---|
| [1] | Total from Form 5-1 bottom of Column (e) | $4,981,756 |
| [2] | Total from Form 5-2 bottom of Column (e) | $0 |
| [3] | Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | $0 |
| [4] | **TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:** | $4,981,756 |

**PROVIDER:** Acacia Creek, a Senior Living Community

**FORM 5-4**
**CALCULATION OF NET OPERATING EXPENSES**

| Line | | | Amounts | TOTAL |
|---|---|---|---|---|
| [1] | | Total operating expenses from financial statements | | $11,946,934 |
| [2] | | Deductions: | | |
| | [a] | Interest paid on long-term debt (see instructions) | $1,837,924 | |
| | [b] | Credit enhancement premiums paid for long-term debt (see instructions) | $0 | |
| | [c] | Depreciation | $2,638,404 | |
| | [d] | Amortization | $0 | |
| | [e] | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | $1,881,586 | |
| | [f] | Extraordinary expenses approved by the Department | $0 | |
| [3] | | Total Deductions | | $6,357,914 |
| [4] | | Net Operating Expenses | | $5,589,020 |
| [5] | | Divide Line 4 by 365 and enter the result. | | $15,312 |
| [6] | | **Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount. | | $1,148,400 |

**PROVIDER:** Acacia Creek, a Senior Living Community
**COMMUNITY:** Union City

# Acacia Creek, A Senior Living Community
## Form 5-5, Annual Reserve Certification

**FORM 5-5**
**ANNUAL RESERVE CERTIFICATION**

Provider Name: Acacia Creek, a Senior Living Community
Fiscal Year Ended: 10/31/2018

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 10/31/2018 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year, are as follows:

| | | **Amount** |
|---|---|---|
| [1] | Debt Service Reserve Amount | $4,981,756 |
| [2] | Operating Expense Reserve Amount | $1,148,400 |
| [3] | **Total Liquid Reserve Amount:** | $6,130,156 |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| | | **Amount (Market Value at End of Quarter)** | | |
|---|---|---|---|---|
| | **Qualifying Asset Description** | **Debt Service Reserve** | | **Operating Reserve** |
| [4] | Cash and Cash Equivalents | $127,771 | | $1,132,270 |
| [5] | Investment Securities | $4,853,985 | | $16,130 |
| [6] | Equity Securities | $0 | | $0 |
| [7] | Unused/Available Lines of Credit | $0 | | $0 |
| [8] | Unused/Available Letters of Credit | $0 | | $0 |
| [9] | Debt Service Reserve | $0 | | (not applicable) |
| [10] | Other: (describe qualifying asset) | $0 | | $0 |
| | **Total Amount of Qualifying Assets Listed for Reserve Obligation:** [11] | $4,981,756 | [12] | $1,148,400 |
| | **Reserve Obligation Amount:** [13] | $4,981,756 | [14] | $1,148,400 |
| | **Surplus/(Deficiency):** [15] | $0 | [16] | $0 |

There are no other designated Reserve Funds for Acacia Creek.

Signature:

Thomas J. Boyle

(Authorized Representative)

Date: 2/22/19

Chief Financial Officer
(Title)

# Supplementary Schedules

Form 5-4 reconciliation

**Operating Expenses**

| | | |
|---|---|---|
| Total operating expenses from financial statements | $ | 11,946,934 |
| Less: interest expense | | (1,837,924) |
| Operating expenses per audited financial statements | $ | 10,109,010 |

**Non CCRC revenue**

| | | |
|---|---|---|
| Fee for service (non CCRC revenue) - Form 5-4 line 2e | $ | 1,881,586 |
| Monthly fees (CCRC revenue) | | 5,147,983 |
| Fee for service per audited financial statements | $ | 7,029,569 |

Form 5-5 reconciliation

**Cash and cash equivalents - Form 5-5 line 4**

| | | |
|---|---|---|
| Cash and cash equivalents for debt service reserve | $ | 127,771 |
| Cash and cash equivalents for operating reserve | | 1,132,270 |
| Cash and cash equivalents per audited financial statements | $ | 1,260,041 |

**Investment Securities - Form 5-5 line 5**

| | | |
|---|---|---|
| Investment securities for debt service reserve | $ | 4,853,985 |
| Investment securities for operating reserve | | 16,130 |
| Other investment securities | | 19,553,092 |
| Investment securities per audited financial statements | $ | 24,423,207 |

**Additional Disclosures - H & SC Sections 1790(a)(2) and (3) - Reserves**

| | | |
|---|---|---|
| Operating Reserves - Form 5-5, line 12 | $ | 1,148,400 |
| Debt Service Reserve - Form 5-5, line 11 | $ | 4,981,756 |
| **The following identified investment security reserves at BNY Mellon General Fund** | $ | 4,870,115 |
| Acacia Creek census as of 10.31.18 | | 202 |
| Acacia Creek net operating expenses | $ | 5,589,020 |
| Per capita costs of operation for Acacia Creek | $ | 27,668 |

**NOTE 1 – BASIS OF ACCOUNTING**

The accompanying continuing care liquid reserve reports have been prepared in accordance with the provisions of Health and Safety Code Section 1792 administered by the State of California Department of Social Services, and are not intended to be a complete presentation of Acacia Creek, a Senior Living Community's assets, liabilities, revenues, and expenses.

# Acacia Creek, A Senior Living Community
# Continuing Care Contract Annual Report
# Part 6

# Continuing Care Retirement Community
# Disclosure Statement
# General Information

Date Prepared: 02/21/2019

FACILITY NAME: Acacia Creek a Masonic Senior Living Community

ADDRESS: 34400 Mission Blvd Building A, Union City ZIP CODE: 94587 PHONE: 510-441-3700

PROVIDER NAME: Acacia Creek a Masonic Senior Living FACILITY OPERATOR: ____

RELATED FACILITIES: ____ RELIGIOUS AFFILIATION: ____

YEAR OPENED: 2010 # OF ACRES: ____ ☐ SINGLE STORY ☑ MULTI-STORY ☐ OTHER: ____ MILES TO SHOPPING CTR: ____ MILES TO HOSPITAL: ____

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

**NUMBER OF UNITS:**

| RESIDENTIAL LIVING | | HEALTH CARE | |
|---|---|---|---|
| APARTMENTS – STUDIO: | | ASSISTED LIVING: | |
| APARTMENTS – 1 BDRM: | 60 | SKILLED NURSING: | |
| APARTMENTS – 2 BDRM: | 90 | SPECIAL CARE: | |
| COTTAGES/HOUSES: | 2 | DESCRIPTION: > | |
| RLU OCCUPANCY (%) AT YEAR END: | 92% | > | |

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

**TYPE OF OWNERSHIP:** ☑ NOT-FOR-PROFIT ☐ FOR- PROFIT ACCREDITED?: ☐ YES ☐ NO BY: ____

**FORM OF CONTRACT:** *(Check all that apply)*
☑ CONTINUING CARE ☐ LIFE CARE ☐ ENTRANCE FEE ☐ FEE FOR SERVICE
☐ ASSIGNMENT OF ASSETS ☐ EQUITY ☐ MEMBERSHIP ☑ RENTAL

**REFUND PROVISIONS:** *(Check all that apply)* ☑ 90% ☐ 75% ☑ 50% ☑ FULLY AMORTIZED ☑ OTHER: 100%

**RANGE OF ENTRANCE FEES:** $199,000 - $785,400 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ YES ■ NO

**HEALTH CARE BENEFITS INCLUDED IN CONTRACT:** 10 SNF + 10 SNF Free days or unlimited after Medicare stay

**ENTRY REQUIREMENTS:** MIN. AGE: 60 PRIOR PROFESSION: ____ OTHER: ____

**RESIDENT REPRESENTATIVE(S) TO, AND RESIDENT MEMBER(S) ON, THE BOARD** (briefly describe provider's compliance and residents' role): >

>

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

## FACILITY SERVICES AND AMENITIES

| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|---|---|---|---|---|---|
| BEAUTY/BARBER SHOP | ☑ | ☐ | HOUSEKEEPING (4 TIMES/MONTH) | ☑ | ☑ |
| BILLIARD ROOM | ☑ | ☐ | MEALS (1 or 3/DAY) | ☑ | ☑ |
| BOWLING GREEN | ☐ | ☐ | SPECIAL DIETS AVAILABLE | ☑ | ☐ |
| CARD ROOMS | ☑ | ☐ | | | |
| CHAPEL | ☐ | ☐ | 24-HOUR EMERGENCY RESPONSE | ☑ | ☐ |
| COFFEE SHOP | ☐ | ☐ | ACTIVITIES PROGRAM | ☑ | ☑ |
| CRAFT ROOMS | ☑ | ☐ | ALL UTILITIES EXCEPT PHONE | ☐ | ☑ |
| EXERCISE ROOM | ☑ | ☐ | APARTMENT MAINTENANCE | ☑ | ☑ |
| GOLF COURSE ACCESS | ☐ | ☐ | CABLE TV | ☑ | ☑ |
| LIBRARY | ☑ | ☐ | LINENS FURNISHED | ☐ | ☐ |
| PUTTING GREEN | ☐ | ☐ | LINENS LAUNDERED | ☑ | ☑ |
| SHUFFLEBOARD | ☑ | ☐ | MEDICATION MANAGEMENT | ☐ | ☑ |
| SPA | ☑ | ☐ | NURSING/WELLNESS CLINIC | ☑ | ☑ |
| SWIMMING POOL-INDOOR | ☑ | ☐ | PERSONAL HOME CARE | ☐ | ☐ |
| SWIMMING POOL-OUTDOOR | ☐ | ☐ | TRANSPORTATION-PERSONAL | ☑ | ☑ |
| TENNIS COURT | ☐ | ☐ | TRANSPORTATION-PREARRANGED | ☑ | ☑ |
| WORKSHOP | ☑ | ☐ | OTHER ____ | ☐ | ☐ |
| OTHER Horseshoe and Art Studio | ☑ | ☐ | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

**PROVIDER NAME:** Acacia Creek a Masonic Senior Living

| OTHER CCRCs | LOCATION (City, State) | PHONE (with area code) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

| MULTI-LEVEL RETIREMENT COMMUNITIES | LOCATION (City, State) | PHONE (with area code) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |

| FREE-STANDING SKILLED NURSING | LOCATION (City, State) | PHONE (with area code) |
|---|---|---|
| | | |
| | | |
| | | |

| SUBSIDIZED SENIOR HOUSING | LOCATION (City, State) | PHONE (with area code) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |

**NOTE:** PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

**PROVIDER NAME:** Acacia Creek a Masonic Senior Living

| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| **INCOME FROM ONGOING OPERATIONS** | | | | |
| **OPERATING INCOME** (Excluding amortization of entrance fee income) | 5,809,371 | 6,708,194 | 6,953,592 | 7,379,328 |
| **LESS OPERATING EXPENSES** (Excluding depreciation, amortization, and interest) | 6,921,382 | 7,199,806 | 7,457,671 | 7,470,606 |
| **NET INCOME FROM OPERATIONS** | (1,112,011) | (491,612) | (504,079) | (91,278) |
| **LESS INTEREST EXPENSE** | 774,379 | 949,768 | 1,837,924 | 1,837,924 |
| **PLUS CONTRIBUTIONS** | 0 | 0 | 0 | 0 |
| **PLUS NON-OPERATING INCOME (EXPENSES)** (excluding extraordinary items) | 56,250 | 721,640 | (162,043) | (162,043) |
| **NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION** | (1,830,140) | (719,740) | (2,504,046) | (2,091,245) |
| **NET CASH FLOW FROM ENTRANCE FEES** (Total Deposits Less Refunds) | 5,567,263 | 0 | 0 | 0 |

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

**DESCRIPTION OF SECURED DEBT** *(as of most recent fiscal year end)*

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| Bank of America N. A. | 97,693,422 | Variable | 10/29/2013 | 07/01/2038 | 25 years |
| | | | | | |
| | | | | | |

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

**FINANCIAL RATIOS** (see next page for ratio formulas)

| | 2017 CCAC Medians 50th Percentile *(optional)* | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| **DEBT TO ASSET RATIO** | | 0.99 | 0.96 | 0.96 |
| **OPERATING RATIO** | | 0.96 | 0.97 | 0.92 |
| **DEBT SERVICE COVERAGE RATIO** | | N/A | N/A | N/A |
| **DAYS CASH ON HAND RATIO** | | 1,248 | 1,258 | 1,255 |

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

**HISTORICAL MONTHLY SERVICE FEES** (Average Fee and Change Percentage)

| | 2015 | % | 2016 | % | 2017 | % | 2018 |
|---|---|---|---|---|---|---|---|
| STUDIO | | | | | | | |
| ONE BEDROOM | $2,902 | 3% | $2,902 | 3% | $2,989 | 6% | $3,168 |
| TWO BEDROOM | $3,557 | 3% | $3,557 | 3% | $3,664 | 6% | $3,884 |
| COTTAGE/HOUSE | $4,118 | 3% | $4,118 | 3% | $4,242 | 6% | $4,496 |
| ASSISTED LIVING | | | | | | | |
| SKILLED NURSING | | | | | | | |
| SPECIAL CARE | | | | | | | |

* * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * * *

**COMMENTS FROM PROVIDER:** >

>

>

**PROVIDER NAME:** Acacia Creek a Masonic Senior Living

## FINANCIAL RATIO FORMULAS

### LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

### OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

### DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

### DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash \& Investments} + \text{Unrestricted Non-Current Cash \& Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

**NOTE:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

# Acacia Creek, A Senior Living Community
# Continuing Care Contract Annual Report
# Part 7

**FORM 7-1**

**REPORT ON CCRC MONTHLY SERVICE FEES**

| | | RESIDENTIAL LIVING | ASSISTED LIVING | SKILLED NURSING |
|---|---|---|---|---|
| [1] | **Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)** | Market Rate based on varying features of units | Market Rate based on varying features of units | Market Rate based on varying features of units |
| [2] | **Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)** | 3% | n/a | n/a |

**☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)**

[3] **Indicate the date the fee increase was implemented: 05/01/18**
**(If more than 1 increase was implemented, indicate the dates for each increase.)**

[4] **Check each of the appropriate boxes:**

**☐ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.**

**☐ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.**

**☐ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.**

**☐ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.**

**☐ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.**

**☐ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.**

[5] **On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.**

PROVIDER NAME: Acacia Creek, A Senior Living Community
COMMUNITY NAME: Acacia Creek

MOSSADAMS