



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

**Masonic Homes of California and Subsidiaries**

*October 31, 2020,  
with summarized comparative information for October 31, 2019*

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## **Report of Independent Auditors**

To the Audit Committee  
Masonic Homes of California and Subsidiaries

### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of Masonic Homes of California and Subsidiaries (collectively, the “Organization”), which comprise the consolidated statements of financial position as of October 31, 2020, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

#### ***Auditor’s Responsibility***

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

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

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

## ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Masonic Homes of California and Subsidiaries as of October 31, 2020, 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 2019 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated February 26, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2019, is consistent, in all material respects, with the audited consolidated financial statements, from which it has been derived.

## ***Other Matters – Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial information as of and for the years ended October 31, 2020 and 2019, included in the accompanying consolidating statements of financial position, consolidating statements of activities and changes in net assets, and consolidating statements of cash flows for the years ended October 31, 2020 and 2019, 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 years ended October 31, 2020 and 2019, included in the accompanying supplemental schedule of supporting services expenses for the years ended October 31, 2020 and 2019, all presented as supplementary information, is presented for the purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



San Francisco, California  
February 24, 2021

**Consolidated Financial Statements**

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**Masonic Homes of California and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**October 31, 2020**  
**(With Summarized Comparative Information as of October 31, 2019)**  
**(In Thousands)**

	Without Donor Restriction	With Donor Restrictions	2020 Consolidated	2019 Total Comparative Totals Only
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents - unrestricted	\$ 12,250	\$ -	\$ 12,250	\$ 12,087
Funds held for residents	1,002	-	1,002	860
Receivables, net	2,871	-	2,871	2,797
Prepaid expenses and other assets	4,233	-	4,233	941
Current portion of related party receivable	111	506	617	534
Assets held for sale	217	-	217	856
Total current assets	<u>20,684</u>	<u>506</u>	<u>21,190</u>	<u>18,075</u>
Investments, at fair value	758,261	160,277	918,538	971,492
Long-term portion of related party receivable	-	867	867	1,236
Property and equipment, net	200,978	-	200,978	161,112
Assets held in trusts	-	12,011	12,011	12,843
Funds held for residents	373	-	373	403
Other assets	822	-	822	1,205
Total assets	<u>\$ 981,118</u>	<u>\$ 173,661</u>	<u>\$ 1,154,779</u>	<u>\$ 1,166,366</u>
<b>Liabilities and net assets</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 5,779	\$ -	\$ 5,779	\$ 2,772
Accrued payroll and benefits payable	3,382	-	3,382	2,622
Current portion of long term debt	55,362	-	55,362	5,359
Liability for funds held for residents, net	1,002	-	1,002	860
Related entities payable	4	-	4	32
Total current liabilities	<u>65,529</u>	<u>-</u>	<u>65,529</u>	<u>11,645</u>
Liability to beneficiaries of split-interest agreements	-	2,357	2,357	2,503
Long term debt, net	87,592	-	87,592	142,980
Liability for funds held for residents	373	-	373	403
Refundable advance fees	38,172	-	38,172	35,788
Deferred revenue from assigned assets	20,185	-	20,185	23,757
Total liabilities	<u>211,851</u>	<u>2,357</u>	<u>214,208</u>	<u>217,076</u>
Net assets	769,267	171,304	940,571	949,290
Total liabilities and net assets	<u>\$ 981,118</u>	<u>\$ 173,661</u>	<u>\$ 1,154,779</u>	<u>\$ 1,166,366</u>

**Masonic Homes of California and Subsidiaries**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Year Ended October 31, 2020**  
**(With Summarized Comparative Information for the Year Ended October 31, 2019)**  
**(In Thousands)**

	Without Donor Restriction	With Donor Restriction	Year Ended October 31, 2020 Total	Year Ended October 31, 2019 Comparative Totals Only
Public Support and Revenue				
Contributions	\$ 17	\$ 420	\$ 437	\$ 2,750
Bequests and memorials	1,614	5,463	7,077	4,317
Amortization of deferred revenue from assigned assets	2,409	-	2,409	2,678
Amount received from pensions assigned by resident	5,548	-	5,548	5,572
Investment income	6,697	94	6,791	10,462
Net realized gain (loss) on investments	2,289	(88)	2,201	24,192
Net unrealized gain on equity investments	9,258	-	9,258	-
Fee for service	9,808	-	9,808	9,524
Health service revenue	7,084	-	7,084	6,973
Other income	6,066	-	6,066	7,069
Change in value of split-interest agreements	-	(691)	(691)	924
Net assets released from restriction	5,159	(5,159)	-	-
Total public support and revenue	<u>55,949</u>	<u>39</u>	<u>55,988</u>	<u>74,461</u>
Expenses				
Program				
Operation of Acacia Creek and Masonic Homes (including interest expense of \$2,038 and \$3,199 in 2020 and 2019, respectively)	58,985	-	58,985	57,585
Masonic Outreach Services	6,181	-	6,181	5,563
Masonic Center for Youth and Families	4,099	-	4,099	3,976
Scholarship	61	-	61	114
Total program expenses	<u>69,326</u>	<u>-</u>	<u>69,326</u>	<u>67,238</u>
Supporting services				
Marketing	388	-	388	429
Fundraising	952	-	952	990
Administration/shared services	7,347	-	7,347	7,121
Total supporting services expenses	<u>8,687</u>	<u>-</u>	<u>8,687</u>	<u>8,540</u>
Total expenses	<u>78,013</u>	<u>-</u>	<u>78,013</u>	<u>75,778</u>
(Deficit) excess of revenues over expenses before other changes in net assets	(22,064)	39	(22,025)	(1,317)
Net unrealized gain on investments	12,834	472	13,306	53,028
Change in net assets	(9,230)	511	(8,719)	51,711
Net assets at beginning of year	<u>778,497</u>	<u>170,793</u>	<u>949,290</u>	<u>897,579</u>
Net assets at end of year	<u>\$ 769,267</u>	<u>\$ 171,304</u>	<u>\$ 940,571</u>	<u>\$ 949,290</u>

See accompanying notes.

**Masonic Homes of California and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended October 31, 2020 and 2019**  
**(In Thousands)**

	Year Ended October 31, 2020	Year Ended October 31, 2019
Cash flows from operating activities		
Contributions and bequests received	\$ 6,530	\$ 6,457
Net proceeds from assigned assets	24	2,513
Amounts received from pension assigned assets	5,548	5,572
Net proceeds from sale of resident assets	639	585
Investment income received	6,791	10,461
Fee for service	9,808	9,524
Health service revenue	7,168	7,043
Royalty and other income	4,917	5,712
Cash paid for expenses	(68,915)	(70,182)
Net proceeds from split-interest agreements, charitable gift annuity and pooled income fund	(13)	472
Net cash used in operating activities	<u>(27,503)</u>	<u>(21,843)</u>
Cash flows from investing activities		
Net proceeds from sales of investments	136,212	156,236
Purchase of investments	(58,475)	(106,638)
Purchase of property and equipment	(47,960)	(18,471)
Net cash provided by investing activities	<u>29,777</u>	<u>31,127</u>
Cash flows from financing activities		
Cash received from residents subject to refund	4,926	4,364
Deposits refunded to residents	(2,542)	(3,657)
Contributions restricted for long term investments	982	608
Funds held for residents	36	(4)
Changes in other assets	(42)	(21)
Loan principal installment payment	(5,359)	(5,218)
Net cash used in financing activities	<u>(1,999)</u>	<u>(3,928)</u>
Net increase in cash, cash equivalents, and restricted cash	275	5,356
Cash, cash equivalents, and restricted cash beginning of year	<u>13,350</u>	<u>7,994</u>
Cash, cash equivalents, and restricted cash end of year	<u>\$ 13,625</u>	<u>\$ 13,350</u>
Supplemental cash flow information		
Interest paid	<u>\$ 2,038</u>	<u>\$ 3,199</u>



**Masonic Homes of California and Subsidiaries**  
**Consolidated Statements of Cash Flows (continued)**  
**Years Ended October 31, 2020 and 2019**  
**(In Thousands)**

	Year Ended October 31, 2020	Year Ended October 31, 2019
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ (8,719)	\$ 51,711
Adjustment to reconcile change in net assets to net cash used in operating activities		
Depreciation	8,138	8,181
Amortization of deferred revenue	(2,409)	(2,678)
Amortization due to death and withdrawals	(1,187)	(1,868)
Realized and unrealized gains on investments	(24,737)	(77,222)
Contributions restricted for long term investments	(982)	(608)
Changes in assets and liabilities		
Receivables	(74)	222
Prepaid expenses and other assets	(2,971)	(134)
Related entities receivable and payable	253	(1,891)
Assets held for sale	638	584
Assets held in trust	834	(263)
Funds held for residents	76	192
Accounts payable and accrued liabilities	3,765	(486)
Liability to beneficiaries of split interest agreements	(152)	(96)
Deferred revenue from assigned assets, net	24	2,513
Net cash used in operating activities	\$ (27,503)	\$ (21,843)

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Masonic Homes is subject to statutory reserve requirements. As of October 31, 2020, 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, 2019, from which the summarized information was derived.

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

*Without donor restriction* – without donor restriction net assets represent resources that are not subject to donor-imposed restrictions and are available to support Masonic Homes’ activities. The Board of Trustees has designated certain net assets without donor restrictions as operating reserves, capital replacement and development reserves, uninsured risk reserves, and strategic initiative reserves. As of October 31, 2020, and 2019, board-designated reserve funds consisted of the following:

	2020	2019
	(In Thousands)	(In Thousands)
Operating reserve fund	\$ 7,884	\$ 4,297
Capital reserve fund	6,963	11,906
Uninsured risk fund	14,404	14,460
Strategic reserve fund	1,014	970
Advance care reserve fund	1,792	-
Total board designated net assets	<u>\$ 32,057</u>	<u>\$ 31,633</u>

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

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

Funds held for residents 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).

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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

	2020	2019
	(In Thousands)	(In Thousands)
Operating cash	\$ 2,986	\$ 1,572
Money market	9,264	10,515
Funds held for residents	1,375	1,263
Total cash, cash equivalents, and restricted cash	<u>\$ 13,625</u>	<u>\$ 13,350</u>

During 2020, the Organization adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230)*, which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This pronouncement is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Due to the adoption of ASU 2016-18 the Organization adjusted the consolidated statements of cash flows to include the change in cash, cash equivalents, and restricted cash.

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

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

**Related party receivable** – As a part of the California Masonic Foundation fundraising campaign, the Organization has a grant receivable for the amounts designated by the grantors for the benefit of the Organization. The total receivable balance was \$1,484,000 and \$1,770,000 as of October 31, 2020 and 2019, respectively.

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

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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

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

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

The Organization evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Measurement of the amount of impairment may be based on market values of similar assets or estimates of future discounted cash flows resulting from use and ultimate disposition of the assets. No asset impairment was recognized during the years ended October 31, 2020 and 2019.

**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.

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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

#### **Liability to beneficiaries of split-interest agreements**

*Deferred revenue from pooled income fund* – Deferred revenue from pooled income fund represents the discount for future investment earnings on Masonic Homes' remainder interest in the Masonic Homes Pooled Income Fund (the "Pooled Income Fund") (Note 6). Masonic Homes has determined the amount deferred using the tax deduction methodology from Internal Revenue Service ("IRS") Publication 1457 tables, and a discount rate of 3.955% and 2.716% as of October 31, 2020 and 2019, respectively. Deferred revenue from the Pooled Income Fund included in liability to beneficiaries of split-interest agreements in the consolidated statements of financial position was \$261,000 and \$218,000 as of October 31, 2020 and 2019, 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, 2020 and 2019. Liabilities to beneficiaries of charitable remainder trusts included in liabilities to beneficiaries in the consolidated statements of financial position were \$1,642,000 and \$1,819,000 as of October 31, 2020 and 2019, respectively.

*Other liabilities to beneficiaries of split-interest arrangements* – Other liabilities to beneficiaries of split-interest agreements include charitable remainder trusts and other gift annuities for which the Organization is obligated. These arrangements included in liabilities to beneficiaries in the consolidated statements of financial position were \$454,000 and \$466,000 as of October 31, 2020 and 2019, respectively.

**Obligation to provide future services to current residents** – The Organization is required to accrue a liability in the consolidated financial statements to cover future services to current residents if deferred residency fees and future anticipated income are not sufficient to cover these costs. The interest rate used to estimate this liability was 3% to 4% as of October 31, 2020 and 2019, respectively. Management has determined that no such accrual is required in the accompanying consolidated financial statements.

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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### 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, 2020, and 2019, deferred revenues from assigned assets subject to refund, were \$0 and \$77,000, 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 revenue – Masonic Homes* – Financially qualified adult residents may enter Masonic Homes by paying a monthly rental fee; such amounts vary with an option to pay an entrance fee. In the event of withdrawal, residents are refunded entrance fees ratably over the first 36 or 60 months.

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

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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#### **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, 2020, and 2019, entrance fees subject to refund were \$44,652,000 and \$42,268,000, respectively. The nonrefundable portion is amortized over the life of the resident and is included in deferred revenue.

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

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

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

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

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



## Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

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

**New accounting pronouncements** – During 2020, the Organization adopted the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10)*. The standard requires entities to measure equity investments that are not accounted for under the equity method or do not result in consolidation to be recorded at fair value and recognize any changes in fair value in the performance indicator. The new standard was adopted by the Organization on November 1, 2019. The standard requires the use of the cumulative effect transition method, except for equity securities without readily determinable fair values, for which the standard requires the application of the prospective transition method. As a result, unrealized gains of \$9,258,000 for the year end October 31, 2020 are presented within (deficit) excess of revenues over expenses; had the standard been comparative, unrealized gains of \$33,542,000 would have been presented within (deficit) excess of revenues over expenses for the year ended October 31, 2019. Management determined no cumulative effect adjustment was necessary.

During 2020, the Organization adopted the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which provides guidance on eight specific cash flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The pronouncement is effective for fiscal years beginning after December 15, 2018. The adoption did not have a material impact on the Organization's consolidated financial statements.

During 2020, the Organization adopted 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 fiscal years beginning after December 15, 2018. The adoption did not have a material impact on the Organization's consolidated financial statements.

In 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to allow an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This pronouncement is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of adoption on the consolidated financial statements which will be effective for the Organization for fiscal year 2021.

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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

In 2018, the FASB issued ASU No. 2018-13 *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, to modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including consideration of costs and benefits. This pronouncement is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of adoption on the consolidated financial statements which will be effective for the Organization for fiscal year 2021.

In 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to provide guidance and ease potential burden in accounting for (or recognizing the effects of) reference rate reform on financial report stemming from the cessation of the London Interbank Offered Rate (LIBOR). Management is currently evaluating the impact of adoption on the consolidated financial statements which will be effective for the Organization for fiscal year 2021.

### NOTE 2 – FUNDS HELD FOR RESIDENTS

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

	<u>2020</u>	<u>2019</u>
	(In Thousands)	(In Thousands)
Acacia Creek - UC	\$ 373	\$ 403
Masonic Homes Union City	238	153
Masonic Homes Covina	<u>764</u>	<u>707</u>
Total funds held for residents	<u>\$ 1,375</u>	<u>\$ 1,263</u>

### 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.

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

Investments consisted of the following as of October 31:

	2020	2019
	(In Thousands)	(In Thousands)
Corporate stocks	\$ 226,092	\$ 224,435
Equity mutual funds	325,576	337,485
Alternative investments	141,610	153,916
Fixed income mutual funds	199,635	189,195
Private markets	25,625	15,424
Treasury notes	-	51,037
Total investments	<u>\$ 918,538</u>	<u>\$ 971,492</u>

**Corporate stocks** – These are U.S. equity, non-U.S. equity, global equity, and emerging market equity 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, Real Estate, hedge funds, and Opportunistic Futures. The Organization’s investment policy states that the Organization believes the capital markets are “mean-reverting” by nature. Therefore, it adheres to long-term asset allocation strategies and periodic, regular rebalancing. The Organization believes market timing is ineffective as a long-term investment strategy and will remain fully invested in all long-term mandates.

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

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

**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.

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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

Alternative investment strategy	Number of funds	2020		2019	
		(In Thousands)		(In Thousands)	
Real estate investment trust	1	\$ 16,580	1	\$ 18,722	
Global Macro (caxton)	1	19,439	1	20,180	
Credit Long / Short (caspian)	1	26,852	1	25,849	
Opportunistic (bravo ii)	1	12,400	1	20,148	
EM Macro (broad reach)	1	18,622	1	20,832	
European L/S Equity (engadine)	-	-	1	23,587	
Structured Credit (400 capital)	1	24,261	1	24,598	
Institutional Equities (renaissance)	1	23,456	-	-	
<b>Total alternative investments</b>	<b>7</b>	<b>\$ 141,610</b>	<b>7</b>	<b>\$ 153,916</b>	

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, 2020 and 2019:

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

  

	2019					
	(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	\$ -	\$ -	\$ 56,369	\$ (8,000)	\$ 56,369	\$ (8,000)
Equity Mutual Funds	-	-	71,095	(8,724)	71,095	(8,724)
Alternative investments	-	-	43,735	(6,796)	43,735	(6,796)
<b>Total temporarily impaired investments</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 171,199</b>	<b>\$ (23,520)</b>	<b>\$ 171,199</b>	<b>\$ (23,520)</b>

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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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, 2020 and 2019, 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 are significant to the fair value of the assets or liabilities.

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

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

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

	2019			
	(In Thousands)			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Corporate stocks				
Domestic stocks	\$ 133,512	\$ 133,512	\$ -	\$ -
Foreign stocks	45,910	45,910	-	-
Equity mutual funds				
Domestic equity (BGI, Kaspick)	37,091	37,091	-	-
Foreign equity (GMO, CG, Kas)	117,709	117,709	-	-
Alternative investments	68,919	68,919	-	-
Fixed income mutual funds	51,037	51,037	-	-
Total investments	<u>454,178</u>	<u>454,178</u>	<u>-</u>	<u>-</u>
Assets held in trust				
Corporate stocks				
Domestic stocks	324	-	-	324
Equity mutual funds				
Domestic stocks	4,667	3,085	-	1,582
Foreign stocks	2,064	1,596	-	468
Alternative investments	80	-	-	80
Fixed income mutual funds	5,338	4,470	-	868
Money market accounts	370	252	-	118
Total assets held in trust	<u>12,843</u>	<u>9,403</u>	<u>-</u>	<u>3,440</u>
Total	<u>\$ 467,021</u>	<u>\$ 463,581</u>	<u>\$ -</u>	<u>\$ 3,440</u>

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

	2020	2019
	(In Thousands)	(In Thousands)
Investments measured at NAV		
Corporate stocks		
Foreign stocks	\$ 45,418	\$ 45,014
Equity mutual funds		
Domestic equity (BGI, Kaspick)	87,508	91,306
Foreign equity (GMO, CG, Kas)	89,340	90,720
Alternative investments	141,610	153,916
Fixed income mutual funds	135,633	121,687
Private Markets	25,625	14,671
Total	<u>\$ 525,134</u>	<u>\$ 517,314</u>

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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

	Asset Held in Trust
Balance, October 31, 2018	\$ 3,279
Total realized and unrealized gain and loss	
Included in changes in net assets with donor restrictions	161
Balance, October 31, 2019	3,440
Total realized and unrealized gain and loss	
Included in changes in net assets with donor restrictions	(480)
Balance, October 31, 2020	\$ 2,960

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, 2020 and 2019 :

Fund Type	Fair Value (in thousands) October 31, 2020	Fair Value (in thousands) October 31, 2019	Unfunded Commitments (in thousands) October 31, 2020	Unfunded Commitments (in thousands) October 31, 2019	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Redemption Restriction
Corporate stocks							
Foreign stocks	\$ 45,418	\$ 45,014	\$ -	\$ -	Monthly	30 days	None
Equity mutual funds							
Domestic equity	87,508	91,306	-	-	Daily	1 to 5 days	None
Foreign equity	89,340	90,720	-	-	Daily, Monthly	0 days	None or minimum of \$250
Alternative investments							
Global Macro (Caxton Global Investment)	19,439	20,180	-	-	Quarterly	Quarterly	45 days, lock-up 1st year
Credit Long/Short (Caspian)	26,852	25,849	-	-	Quarterly	Quarterly	45 days
PIMCO Bravo II	12,400	20,148	-	-	n/a	n/a	n/a
Broad Reach	18,622	20,832	-	-	Quarterly	Quarterly	90 days
Engadine	-	23,587	-	-	Quarterly	Quarterly	45 days
400 Capital	24,261	24,597	-	-	Quarterly	Quarterly	60 days
Real Estate (UBS TPF)	16,580	18,723	-	-	Quarterly	Quarterly	60 days
Renaissance	23,456	-	-	-	Monthly	30 days	30 days
Fixed income mutual funds	135,633	121,687	-	-	Daily	0 to 3 days	None
Private markets	25,625	14,671	39,312	33,800	n/a	n/a	n/a
	<u>\$ 525,134</u>	<u>\$ 517,314</u>	<u>\$ 39,312</u>	<u>\$ 33,800</u>			

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

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

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



# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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

### Alternative investments

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

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

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

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

*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.

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

**Private markets** – Commitments of \$36 million, split between private equity and private debt, and \$10 million in private real assets, were approved by the Investment Committee for 2020. In private equity, commitments of \$2.67 million to Spark Capital Growth Fund III, \$1.33 million to Spark Capital VI, and \$4 million each to Ocean Avenue Fund IV, and Unicorn Partners Fund III, and AEA Investors Small Business Fund IV were made. These commitments are in addition to \$40 million in commitments made in 2019, split between private equity and private credit. Additional commitments will be made throughout the coming years to further diversify the portfolio by strategy and vintage year. Total unfunded commitment at October 31, 2020, was \$39.3 million. The investments can only be redeemed upon liquidation of the underlying assets of the funds. These Funds are illiquid, however, a secondary market exists.

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

#### NOTE 5 – PROPERTY AND EQUIPMENT

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

	2020	2019
	(In Thousands)	(In Thousands)
Land and improvements	\$ 16,394	\$ 16,338
Buildings and improvements	246,807	245,623
Furniture and equipment	30,067	28,635
Construction in progress	76,383	31,095
Leasehold improvement	245	245
Total property and equipment	369,896	321,936
Less: accumulated depreciation	(168,918)	(160,824)
Property and equipment, net	\$ 200,978	\$ 161,112

Depreciation expense for the years ended October 31, 2020 and 2019, totaled \$8,138,000 and \$8,181,000, respectively.

The following disclosure is made pursuant to Section 1790 (a) (3) of the California Health and Safety Code. The Organization is in the process of a facility development project on its campuses in Union City and Covina, which would expand its service offering. On October 10, 2017, in accordance with the Internal Revenue Service Code Section 501(c)(3), Masonic Homes of California submitted an abbreviated COA application to the California Department of Social Services – Continuing Care Branch (“DSS”) in connection with its planned construction of a skilled nursing facility at its Covina, California community. DSS approved the construction project on November 16, 2017 and construction commenced thereafter. Consistent with its charitable mission to provide residential and other services to seniors, the purpose of this construction project is to develop a stand-alone health center, including 32 beds (28 units) of skilled nursing. This new health center will accommodate seniors who, currently, must be placed in off-campus programs to receive skilled nursing services. Memory care services will also be available in the skilled nursing facility. During the fiscal years ended October 31, 2020 and 2019, Masonic Homes of California expended \$5,972,000 and \$11,224,000, respectively in pre-construction & construction costs in connection with this project, which included permitting fees and fees for architectural, engineering and other professional services as well as building construction hard costs. As of October 31, 2020, these costs have totaled \$26,658,000. The Masonic Homes has committed \$35 million toward this project.

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

On April 30, 2020, Masonic Homes of California submitted an abbreviated COA application to the California Department of Social Services – Continuing Care Branch (“DSS”) in connection with its proposed project to create additional assisted living and memory care capacity at its Union City, California Campus. DSS issued its approval on June 7, 2020. In addition, Masonic Homes is improving existing residential facilities at that Campus, and conducting significant repairs and enhancements to that Campus’ landscaping and roadways. Consistent with its charitable mission to provide senior residential and related services, the purpose of the project is to both increase and enhance existing senior services by (i) constructing a two-story residential building which will include 28 memory care and assisted living units, and (ii) repairing and renovating existing residential buildings and other infrastructure. During the fiscal years ended October 31, 2020 and 2019, Masonic Homes of California expended \$38,825,000 and \$5,226,000, respectively in pre-construction & construction costs in connection with this project, including regulatory and professional services fees and constructions costs. As of October 31, 2020, these costs have totaled \$47,768,000. The Masonic Homes has committed \$93 million toward this project

#### NOTE 6 – ASSETS HELD IN TRUSTS

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

	2020	2019
	(In Thousands)	(In Thousands)
Contributions receivable from split-interest agreements	\$ 303	\$ 306
Assets of pooled income fund	626	644
Assets of split-interest agreements	7,466	7,702
Assets of charitable gift annuities	962	1,056
Beneficial interest in perpetual trusts	2,654	3,135
Total assets held in trusts	<u>\$ 12,011</u>	<u>\$ 12,843</u>

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

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

Contributions are measured at the fair value of the assets received and discounted for the estimated life expectancy of the donor, which is obtained from life expectancy tables published by the IRS. The amount discounted is reported as discount for future interest and recognized using the straight-line method over the donor’s remaining life expectancy. The interest rate used in calculating the discount approximates the average return provided by the fund in the years prior to the applicable contribution. As of October 31, 2020, and 2019, the rate was estimated to be 3.955% and 4.08% respectively.

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Assets of charitable gift annuities** – Assets of charitable gift annuities consist of cash and other assets received under irrevocable annuity contracts. These contracts guarantee a specified amount for the life of the donor, or beneficiaries designated by the donor. The assets received are not commingled with the general assets of Masonic Homes. A reserve account has been established and invested in accordance with California statutes. The discount rates used range from 0.4% to 6.2%. Upon the death of the donor, the remaining funds revert to Masonic Homes and are taken into income. The (decrease) increase in present value of the gift annuities for the years ended October 31, 2020 and 2019, was \$(151,572) and \$88,800, respectively.

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

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

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

	<u>2020</u>	<u>2019</u>
	(In Thousands)	(In Thousands)
Balance, beginning of year	\$ 23,757	\$ 25,791
Received from new residents	156	2,840
Other payments/ settlements	(132)	(328)
Amortized		
Due to death and withdrawals	(1,187)	(1,868)
Based on actuarial calculation	<u>(2,409)</u>	<u>(2,678)</u>
Balance, end of year	<u>\$ 20,185</u>	<u>\$ 23,757</u>

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

### NOTE 8 – REFUNDABLE ADVANCE FEES

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

	<u>2020</u>	<u>2019</u>
	(In Thousands)	(In Thousands)
Balance, beginning of year	\$ 35,788	\$ 35,081
Received from new residents	4,926	4,364
Deposits refunded to residents	<u>(2,542)</u>	<u>(3,657)</u>
Balance, end of year	<u>\$ 38,172</u>	<u>\$ 35,788</u>

### NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>		<u>2019</u>	
	(In Thousands)		(In Thousands)	
	Purpose Restricted	Endowment	Purpose Restricted	Endowment
Available for use in awarding scholarships or other programs related to children	\$ 5,823	\$ 1,595	\$ 5,598	\$ 1,595
Available for use in the activities of the homes in Union City and Covina upon lapse of time restrictions	<u>10,469</u>	<u>153,417</u>	<u>11,157</u>	<u>152,435</u>
	<u>\$ 16,292</u>	<u>\$ 155,012</u>	<u>\$ 16,755</u>	<u>\$ 154,030</u>

Net assets were released from donor restrictions as shown in the following table for the years ended October 31, 2020 and 2019. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2020</u>	<u>2019</u>
	(In Thousands)	(In Thousands)
Use in the activities of the home for adults in Union City, California	\$ 846	\$ 1,276
Use in the activities of the home for adults/children in Covina, California	4,233	123
Use in Masonic Outreach Services	5	168
Use in awarding scholarships and other community sponsorship	<u>75</u>	<u>72</u>
Total net assets released from restrictions	<u>\$ 5,159</u>	<u>\$ 1,639</u>

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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### 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 \$1,776,000 and \$1,534,000 for the years ended October 31, 2020 and 2019, 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 \$8,291,000 and \$8,111,000 for the years ended October 31, 2020 and 2019, 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, statutes, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

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

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

#### NOTE 13 – LONG-TERM DEBT

Long-term debt at October 31, 2020 and 2019, consisted of the following:

	2020 <u>(In Thousands)</u>	2019 <u>(In Thousands)</u>
Association of Bay Area Government Bonds, Series 2013A, variable rate equal to one month LIBOR plus 35 basis points, annual payments beginning November 1, 2016 continuing to July 1, 2038	\$ 87,235	\$ 90,585
Bank of America term loan, fixed rate of 190 basis points, monthly payments beginning September 15, 2016, amortized over 25 years with a balloon payment due August 15, 2021	51,895	53,898
Bank of America N.A. loan, variable rate equal to one month LIBOR plus 45 basis points, annual payments beginning November 1, 2016 continuing to November 1, 2038	<u>4,246</u>	<u>4,251</u>
	143,376	148,734
Less current portion	<u>55,362</u>	<u>5,358</u>
	88,014	143,376
Less net unamortized cost of issuance	<u>422</u>	<u>396</u>
	<u>\$ 87,592</u>	<u>\$ 142,980</u>

**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 80% of one month LIBOR plus 35 basis points reset on the first business day of every month. The interest rate at October 31, 2020 was 0.462%. The interest is effective through March 31, 2021, at which time the interest rate will be re-negotiated with Bank of America Public Capital Corporation (“BAPCC”) or the loan will be retired. Under the terms of the bonds they are secured by the investments held by the Masonic Homes.



## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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

The proceeds of the loan were used to fund the termination cost related to the Bank of America swap dated May 25, 2011, in the amount of \$4,840,000. Issuance cost related to the loan was \$30,003 and was paid directly by Acacia Creek – UC.

The loan carries an interest rate equal to one month LIBOR plus 45 basis points reset on the first business day of every month. The interest rate at October 31, 2020 was 0.591%. The interest is effective through March 31, 2021, at which time the interest rate will be re-negotiated with Bank of America N.A. or the loan will be retired. Under the terms of the loan it is secured by the investments held by the Masonic Homes.

**Term loan** – On August 15, 2016, Masonic Homes entered into an unsecured term loan with a bank in the amount of \$60,000,000 to take advantage of favorable interest rates and to fund a portion of the construction costs of the campus master plan projects for Union City Phase I and Covina Phase II. The loan is amortized over 25 years at a rate of 1.9% with monthly payments of \$252,000 and a balloon payment due on August 21, 2021.

**Future minimum payment schedule** – Total annual maturities of long-term debt as of October 31, 2020, are as follows (In Thousands):

2021	\$	55,362
2022		3,577
2023		3,694
2024		3,822
2025		3,950
Thereafter		72,549
	<u>\$</u>	<u>142,954</u>

Interest paid for the years ended October 31, 2020 and 2019, on long-term debt was \$2,038,000 and \$3,199,000, respectively.

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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

#### Board interpretation of law

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

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

#### Spending policy, investing policy, and strategy

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

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

*Strategies employed for achieving objectives* – To satisfy its long-term rate-of-return objectives, Masonic Homes relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Masonic Homes targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

*Spending policy and how the investment objectives relate to spending policy* – For 2019/2020, Masonic Homes had a past policy of appropriating for distribution 4.50% to 5.00% of its endowment fund's average fair value over the prior twenty quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Masonic Homes considered the long-term expected return on its endowment. Accordingly, over the long term, the Masonic Homes expects the current spending policy to allow its endowment to grow at an average of 2.00% annually. This is consistent with the Masonic Homes' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

#### Endowments by net asset class, in total and by fund

	October 31, 2020 (In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Endowment
Donor-restricted endowment funds	\$ -	\$ 16,292	\$ 155,012
Board-designated endowment funds	246,145	-	-
Total endowment funds	<u>\$ 246,145</u>	<u>\$ 16,292</u>	<u>\$ 155,012</u>
	October 31, 2019 (In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Endowment
Donor-restricted endowment funds	\$ -	\$ 16,764	\$ 154,029
Board-designated endowment funds	248,439	-	-
Total endowment funds	<u>\$ 248,439</u>	<u>\$ 16,764</u>	<u>\$ 154,029</u>

# Masonic Homes of California and Subsidiaries

## Notes to Consolidated Financial Statements

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

	Without Donor Restrictions	With Donor Restrictions	Endowment	Total
	(In Thousands)			
Endowment net assets,				
October 31, 2019	\$ 248,439	\$ 16,764	\$ 154,029	\$ 419,232
Investment return:				
Realized gains (losses)	(758)	(88)	-	(846)
Investment Income	4,644	94	-	4,738
Unrealized gains (losses)	13,395	(219)	-	13,176
Total Investment Return	17,281	(213)	-	17,068
Contributions	-	4,900	983	5,883
Release from restrictions	-	(5,159)	-	(5,159)
Release/transfer to general fund and/or operation	(17,607)	-	-	(17,607)
Expenses	(1,968)	-	-	(1,968)
Endowment net assets,				
October 31, 2020	<u>\$ 246,145</u>	<u>\$ 16,292</u>	<u>\$ 155,012</u>	<u>\$ 417,449</u>
	Without Donor Restrictions	With Donor Restrictions	Endowment	Total
	(In Thousands)			
Endowment net assets,				
October 31, 2018	\$ 231,224	\$ 13,466	\$ 153,425	\$ 398,115
Investment return:				
Realized gains (losses)	10,667	243	-	10,910
Investment Income	5,635	109	-	5,744
Unrealized gains (losses)	20,032	1,427	-	21,459
Total Investment Return	36,334	1,779	-	38,113
Contributions	-	3,158	604	3,762
Release from restrictions	-	(1,639)	-	(1,639)
Release/transfer to general fund and/or operation	(17,303)	-	-	(17,303)
Expenses	(1,816)	-	-	(1,816)
Endowment net assets,				
October 31, 2019	<u>\$ 248,439</u>	<u>\$ 16,764</u>	<u>\$ 154,029</u>	<u>\$ 419,232</u>

### Nature and types of restrictions

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

## Masonic Homes of California and Subsidiaries

### Notes to Consolidated Financial Statements

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#### **Aggregate amount of deficiencies for donor-restricted endowments**

*Funds with deficiencies* – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Masonic Homes to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, there was no deficiency of this nature that was reported in net assets without donor restrictions as of October 31, 2020 and 2019, respectively.

**Masonic Homes of California and Subsidiaries**  
**Notes to Financial Statements**

**NOTE 15 – FUNCTIONAL CLASSIFICATION OF EXPENSES**

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

	2020										
	Program Expenses					Supporting Services					Total Consolidated
	Acacia Creek Operation	Masonic Homes Operation	Masonic Outreach Services	Masonic Center for Youth and Families	Scholarship and Community Sponsorship	Total Program Expenses	Marketing	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 2,827	\$ 20,485	\$ 1,618	\$ 2,754	\$ -	\$ 27,684	\$ 196	\$ -	\$ -	\$ 196	\$ 27,880
Employee benefits	857	4,526	267	367	-	6,017	43	-	-	43	6,060
Payroll taxes	195	1,360	118	185	-	1,858	14	-	-	14	1,872
Pension plan contributions	183	1,322	98	155	-	1,758	18	-	-	18	1,776
Audit and tax fees	31	108	-	-	-	139	-	-	-	-	139
Legal fees	1	155	2	18	-	176	-	-	-	-	176
Other professional fees	67	593	20	20	-	700	12	-	-	12	712
Operating supplies and services	340	984	78	151	-	1,553	66	-	-	66	1,619
Information technology	4	55	1	5	-	65	-	-	-	-	65
Dues, licenses and permit	37	235	-	5	-	277	-	-	-	-	277
Insurance	431	1,084	-	64	-	1,579	-	-	-	-	1,579
Property taxes	114	320	-	-	-	434	-	-	-	-	434
Utilities, maintenance and facility expenses	695	2,495	-	278	-	3,468	-	-	-	-	3,468
Travel	3	64	58	15	-	140	-	-	-	-	140
Resident care and services	1,022	8,001	53	16	-	9,092	5	-	-	5	9,097
Non resident assistance	-	-	3,867	-	-	3,867	-	-	-	-	3,867
Depreciation	2,712	5,367	-	59	-	8,138	-	-	-	-	8,138
Promotion and advertising	-	-	-	-	-	-	31	-	-	31	31
Scholarship and community sponsorship	-	-	-	-	61	61	-	-	-	-	61
Interest expense	1,015	1,023	-	-	-	2,038	-	-	-	-	2,038
Miscellaneous expenses	118	156	1	7	-	282	3	-	-	3	285
Shared service allocation	-	-	-	-	-	-	-	7,347	952	8,299	8,299
<b>Total program expenses</b>	<b>\$ 10,652</b>	<b>\$ 48,333</b>	<b>\$ 6,181</b>	<b>\$ 4,099</b>	<b>\$ 61</b>	<b>\$ 69,326</b>	<b>\$ 388</b>	<b>\$ 7,347</b>	<b>\$ 952</b>	<b>\$ 8,687</b>	<b>\$ 78,013</b>

## Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

	2019					Total Program Expenses	Supporting Services				Total Consolidated
	Program Expenses						Marketing	Management and General	Fundraising	Total Supporting Services	
	Acacia Creek Operation	Masonic Homes Operation	Masonic Outreach Services	Masonic Center for Youth and Families	Scholarship and Community Sponsorship						
Salaries and wages	\$ 2,574	\$ 18,844	\$ 1,456	\$ 2,576	\$ -	\$ 25,450	\$ 192	-	-	\$ 192	\$ 25,642
Employee benefits	668	4,397	256	348	-	5,669	37	-	-	37	5,706
Payroll taxes	183	1,268	105	179	-	1,735	14	-	-	14	1,749
Pension plan contributions	158	1,150	79	130	-	1,517	17	-	-	17	1,534
Audit and tax fees	34	121	-	-	-	155	-	-	-	-	155
Legal fees	3	323	-	6	-	332	-	-	-	-	332
Other professional fees	108	161	2	88	-	359	23	-	-	23	382
Operating supplies and services	377	1,103	109	124	-	1,713	88	-	-	88	1,801
Information technology	4	65	1	10	-	80	-	-	-	-	80
Dues, licenses and permit	40	238	-	14	-	292	-	-	-	-	292
Insurance	365	1,015	-	54	-	1,434	-	-	-	-	1,434
Property taxes	118	282	-	-	-	400	-	-	-	-	400
Utilities, maintenance and facility expenses	743	2,651	-	293	-	3,687	-	-	-	-	3,687
Travel	20	177	139	47	-	383	-	-	-	-	383
Resident care and services	952	7,877	28	35	-	8,892	19	-	-	19	8,911
Non resident assistance	-	-	3,386	-	-	3,386	-	-	-	-	3,386
Depreciation	2,684	5,437	-	60	-	8,181	-	-	-	-	8,181
Promotion and advertising	-	-	-	-	-	-	37	-	-	37	37
Scholarship and community sponsorship	-	-	-	-	114	114	-	-	-	-	114
Interest expense	2,140	1,059	-	-	-	3,199	-	-	-	-	3,199
Miscellaneous expenses	25	221	2	12	-	260	2	-	-	2	262
Shared service allocation	-	-	-	-	-	-	-	7,121	990	8,111	8,111
<b>Total program expenses</b>	<b>\$ 11,196</b>	<b>\$ 46,389</b>	<b>\$ 5,563</b>	<b>\$ 3,976</b>	<b>\$ 114</b>	<b>\$ 67,238</b>	<b>\$ 429</b>	<b>\$ 7,121</b>	<b>\$ 990</b>	<b>\$ 8,540</b>	<b>\$ 75,778</b>

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

# Masonic Homes of California and Subsidiaries

## Notes to Financial Statements

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### NOTE 16 – LIQUIDITY AND AVAILABILITY

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

	<u>2020</u>	<u>2019</u>
	(In Thousands)	(In Thousands)
Financial assets		
Cash and cash equivalents	\$ 12,250	\$ 12,087
Receivables, net	2,871	2,797
Related party receivables	617	534
Assets held for sale	<u>217</u>	<u>856</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 15,955</u>	<u>\$ 16,274</u>

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

### NOTE 17 – SUBSEQUENT EVENTS

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

The Organization has evaluated subsequent events through February 24, 2021, which is the date the consolidated financial statements were available to be issued.



## **Supplementary Information**

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**Masonic Homes of California and Subsidiaries**  
**Consolidating Statements of Financial Position**  
**October 31, 2020 (With Summarized Comparative Information as of October 31, 2019)**  
**(In Thousands)**

	Without Donor Restriction			With Donor Restriction	October 31, 2020 Consolidated	October 31, 2019 Total	
	Acacia Creek Union City	Masonic Homes	Elimination/ Reclass	Total			Masonic Homes
						Consolidated Comparative Totals Only	
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents - unrestricted	\$ 280	\$ 11,970	\$ -	\$ 12,250	\$ -	\$ 12,250	\$ 12,087
Funds held for residents	-	1,002	-	1,002	-	1,002	860
Receivables, net	28	2,843	-	2,871	-	2,871	2,797
Notes receivable - related party	-	10,000	(10,000)	-	-	-	-
Prepaid expenses and other assets	3,703	530	-	4,233	-	4,233	941
Current portion of related party receivable	-	2,312	(2,201)	111	506	617	534
Assets held for sale	-	217	-	217	-	217	856
Total current assets	<u>4,011</u>	<u>28,874</u>	<u>(12,201)</u>	<u>20,684</u>	<u>506</u>	<u>21,190</u>	<u>18,075</u>
Investments, at fair value	19,817	738,444	-	758,261	160,277	918,538	971,492
Long term portion of related party receivable	-	-	-	-	867	867	1,236
Property and equipment, net	68,078	132,900	-	200,978	-	200,978	161,112
Assets held in trusts	-	-	-	-	12,011	12,011	12,843
Funds held for residents	373	-	-	373	-	373	403
Other assets	-	7,302	(6,480)	822	-	822	1,205
Total assets	<u>\$ 92,279</u>	<u>\$ 907,520</u>	<u>\$ (18,681)</u>	<u>\$ 981,118</u>	<u>\$ 173,661</u>	<u>\$ 1,154,779</u>	<u>\$ 1,166,366</u>

**Masonic Homes of California and Subsidiaries**  
**Consolidating Statements of Financial Position (Continued)**  
**October 31, 2020 (With Summarized Comparative Information as of October 31, 2019)**  
**(In Thousands)**

	Without Donor Restriction			With Donor Restriction	October 31, 2020 Consolidated	October 31, 2019 Total Consolidated Comparative Totals Only	
	Acacia Creek Union City	Masonic Homes	Elimination/ Reclass	Total			Masonic Homes
Liabilities and net assets							
Current liabilities							
Accounts payable and accrued liabilities	\$ 329	\$ 5,450	\$ -	\$ 5,779	\$ -	\$ 5,779	\$ 2,772
Accrued payroll and benefits payable	312	3,070	-	3,382	-	3,382	2,622
Current portion of long term debt	3,467	51,895	-	55,362	-	55,362	5,359
Liability for funds held for residents, net	-	1,002	-	1,002	-	1,002	860
Intercompany debt	10,000	-	(10,000)	-	-	-	-
Related entities payable	2,205	-	(2,201)	4	-	4	32
Total current liabilities	<u>16,313</u>	<u>61,417</u>	<u>(12,201)</u>	<u>65,529</u>	<u>-</u>	<u>65,529</u>	<u>11,645</u>
Liability to beneficiaries of split-interest agreements	-	-	-	-	2,357	2,357	2,503
Long term debt, net	87,592	-	-	87,592	-	87,592	142,980
Liability for funds held for residents, net	373	-	-	373	-	373	403
Refundable advance fees	44,652	-	(6,480)	38,172	-	38,172	35,788
Deferred revenue from assigned assets	4,934	15,251	-	20,185	-	20,185	23,757
Total liabilities	<u>153,864</u>	<u>76,668</u>	<u>(18,681)</u>	<u>211,851</u>	<u>2,357</u>	<u>214,208</u>	<u>217,076</u>
Net (deficit) assets	<u>(61,585)</u>	<u>830,852</u>	<u>-</u>	<u>769,267</u>	<u>171,304</u>	<u>940,571</u>	<u>949,290</u>
Total liabilities and net assets	<u>\$ 92,279</u>	<u>\$ 907,520</u>	<u>\$ (18,681)</u>	<u>\$ 981,118</u>	<u>\$ 173,661</u>	<u>\$ 1,154,779</u>	<u>\$ 1,166,366</u>

**Masonic Homes of California and Subsidiaries**  
**Consolidating Statements of Activities and Changes in Net Assets**  
**Year Ended October 31, 2020 (With Summarized Comparative Information for the Year Ended October 31, 2019)**  
**(In Thousands)**

	Without Donor Restrictions			Total	With Donor Restrictions	October 31, 2020 Consolidated	October 31, 2019 Total Consolidated Comparative Total Only
	Acacia Creek Union City	Masonic Homes	Elimination/ Reclass		Masonic Homes		
<b>Public Support and Revenue</b>							
Contributions	\$ -	\$ 17	\$ -	\$ 17	\$ 420	\$ 437	\$ 2,750
Bequests and memorials	-	1,614	-	1,614	5,463	7,077	4,317
Amortization of deferred revenue from assigned assets	598	1,811	-	2,409	-	2,409	2,678
Amount received from pensions assigned by residents	-	5,548	-	5,548	-	5,548	5,572
Investment income	95	6,602	-	6,697	94	6,791	10,462
Net realized gain (loss) on investments	643	1,646	-	2,289	(88)	2,201	24,192
Net unrealized gain on equity investments	211	9,047	-	9,258	-	9,258	-
Fee for service	7,611	2,197	-	9,808	-	9,808	9,524
Health service revenue	-	7,168	(84)	7,084	-	7,084	6,973
Other income	1,008	5,058	-	6,066	-	6,066	7,069
Change in value of split-interest agreements	-	-	-	-	(691)	(691)	924
Net assets released from restriction	-	5,159	-	5,159	(5,159)	-	-
Total public support and revenue	10,166	45,867	(84)	55,949	39	55,988	74,461
<b>Expenses</b>							
<b>Program</b>							
Operation of Acacia Creek and Masonic Homes (including interest expense of \$2,038 and \$3,199 in 2020 and 2019, respectively)	10,652	48,333	-	58,985	-	58,985	57,585
Masonic Outreach Services	-	6,181	-	6,181	-	6,181	5,563
Masonic Center for Youth and Families	-	4,099	-	4,099	-	4,099	3,976
Scholarship	-	61	-	61	-	61	114
Total program expenses	10,652	58,674	-	69,326	-	69,326	67,238
<b>Supporting services</b>							
Marketing	472	-	(84)	388	-	388	429
Fundraising	-	952	-	952	-	952	990
Administration/shared services	1,102	6,245	-	7,347	-	7,347	7,121
Total supporting services expenses	1,574	7,197	(84)	8,687	-	8,687	8,540
Total expenses	12,226	65,871	(84)	78,013	-	78,013	75,778

**Masonic Homes of California and Subsidiaries**  
**Consolidating Statements of Activities and Changes in Net Assets (continued)**  
**Year Ended October 31, 2020 (With Summarized Comparative Information for the Year Ended October 31, 2019)**  
**(In Thousands)**

	Without Donor Restrictions			Total	With Donor Restrictions Masonic Homes	October 31, 2020 Consolidated	October 31, 2019 Total Consolidated Comparative Total Only
	Acacia Creek Union City	Masonic Homes	Elimination/ Reclass				
(Deficit) excess of revenues over expenses before other changes in net assets	(2,060)	(20,004)	-	(22,064)	39	(22,025)	(1,317)
Net unrealized gain on investments	771	12,063	-	12,834	472	13,306	53,028
Change in net assets	(1,289)	(7,941)	-	(9,230)	511	(8,719)	51,711
Net assets at beginning of year	(60,296)	838,793	-	778,497	170,793	949,290	897,579
Net assets at end of year	<u>\$ (61,585)</u>	<u>\$ 830,852</u>	<u>\$ -</u>	<u>\$ 769,267</u>	<u>\$ 171,304</u>	<u>\$ 940,571</u>	<u>\$ 949,290</u>

**Masonic Homes of California and Subsidiaries**  
**Consolidating Statements of Cash Flows**  
**Year Ended October 31, 2020 (With Summarized Comparative Information for the Year**  
**Ended October 31, 2019) (In Thousands)**

	Year Ended October 31, 2020			Year Ended October 31, 2019
	Acacia Creek – Union City	Masonic Homes	Total	Consolidated Comparative Total Only
Cash flows from operating activities				
Contributions and bequests received	\$ -	\$ 6,530	\$ 6,530	\$ 6,457
Net proceeds from assigned assets	59	(35)	24	2,513
Amounts received from pension assigned assets	-	5,548	5,548	5,572
Net proceeds from sale of resident assets	-	639	639	585
Investment income received	95	6,696	6,791	10,461
Fee for service	7,611	2,197	9,808	9,524
Health service revenue	-	7,168	7,168	7,043
Royalty and other income	292	4,625	4,917	5,712
Cash paid for expenses	(12,657)	(56,258)	(68,915)	(70,182)
Net proceeds from split-interest agreements, charitable gift annuity and pooled income fund	-	(13)	(13)	472
Net cash used in operating activities	(4,600)	(22,903)	(27,503)	(21,843)
Cash flows from investing activities				
Net proceeds from sales of investments	11,460	124,752	136,212	156,236
Purchase of investments	(5,521)	(52,954)	(58,475)	(106,638)
Purchase of property and equipment	(312)	(47,648)	(47,960)	(18,471)
Net cash provided by investing activities	5,627	24,150	29,777	31,127
Cash flows from financing activities				
Cash received from residents subject to refund	4,926	-	4,926	4,364
Deposits refunded to residents	(2,542)	-	(2,542)	(3,657)
Contributions restricted for long-term investments	-	982	982	608
Funds held for residents	-	36	36	(4)
Changes in other assets	(42)	-	(42)	(21)
Loan principal installment payment	(3,356)	(2,003)	(5,359)	(5,218)
Net cash used in financing activities	(1,014)	(985)	(1,999)	(3,928)
Net increase in cash	13	262	275	5,356
Cash, cash equivalents, and restricted cash, beginning of year	640	12,710	13,350	7,994
Cash, cash equivalents, and restricted cash, end of year	\$ 653	\$ 12,972	\$ 13,625	\$ 13,350
Supplemental cash flow information				
Interest paid	\$ 1,015	\$ 1,023	\$ 2,038	\$ 3,199

**Masonic Homes of California and Subsidiaries**  
**Consolidating Statements of Cash Flows (Continued)**  
**Year Ended October 31, 2020 (With Summarized Comparative Information for the Year**  
**Ended October 31, 2019) (In Thousands)**

	Year Ended October 31, 2020			Year Ended October 31, 2019
	Acacia Creek – Union City	Masonic Homes	Total	Consolidated Comparative Total Only
Reconciliation of change in net assets to net cash used in operating activities				
Change in net assets	\$ (1,289)	\$ (7,430)	\$ (8,719)	\$ 51,711
Adjustment to reconcile change in net assets to net cash used in operating activities				
Depreciation	2,712	5,426	8,138	8,181
Amortization of deferred revenue	(598)	(1,811)	(2,409)	(2,678)
Amortization due to death and withdrawals	(678)	(509)	(1,187)	(1,868)
Realized and unrealized gains on investments	(1,624)	(23,113)	(24,737)	(77,222)
Contributions restricted for long term investments	-	(982)	(982)	(608)
Changes in assets and liabilities				
Receivables, net	(9)	(65)	(74)	222
Prepaid expenses and other assets	(3,418)	447	(2,971)	(134)
Related entities receivable and payable	175	78	253	(1,891)
Assets held for sale	-	638	638	584
Assets held in trust	-	834	834	(263)
Funds held for residents	(30)	106	76	192
Accounts payable and accrued liabilities	100	3,665	3,765	(486)
Liability to beneficiaries of split interest agreements	-	(152)	(152)	(96)
Deferred revenue from assigned assets, net	59	(35)	24	2,513
Net cash used in operating activities	<u>\$ (4,600)</u>	<u>\$ (22,903)</u>	<u>\$ (27,503)</u>	<u>\$ (21,843)</u>

**Masonic Homes of California and Subsidiaries**  
**Supplemental Schedule of Supporting Services Expenses (Unaudited)**  
**Years Ended October 31, 2020 and 2019**  
**(In Thousands)**

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	2020	2019
	(In Thousands)	(In Thousands)
General and Admin - shared service allocation	\$ 6,245	\$ 6,048
Fund raising and development - shared service allocation	952	990
Masonic Homes general and administrative expenses	7,197	7,038
Acacia Creek general and admin shared service allocation	1,102	1,073
Total allocation of general and administrative support to Masonic Homes and Acacia Creek	8,299	8,111
Acacia Creek marketing expenses, net of elimination	388	429
Total general, administrative and marketing expenses	<u>\$ 8,687</u>	<u>\$ 8,540</u>