



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

Masonic Homes of California and Subsidiaries

*October 31, 2022,
with summarized comparative information for October 31, 2021*



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Report of Independent Auditors

The Audit Committee
Masonic Homes of California and Subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Masonic Homes of California and Subsidiaries as of October 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Masonic Homes of California and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Masonic Homes of California and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the Masonic Homes of California and Subsidiaries' 2021 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated February 24, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements, from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Organization's basic consolidated financial statements. The financial information as of and for the years ended October 31, 2022 and 2021, included in the accompanying consolidating statements of financial position, consolidating statements of activities and changes in net assets, and consolidating statements of cash flows are presented for purposes of additional analysis and are not a required part of the basic 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 basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic consolidated financial statements or to the basic 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 supplementary information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

The summarized information for the years ended October 31, 2022 and 2021, included in the accompanying supplemental schedule of supporting services expenses for the years ended October 31, 2022 and 2021, 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California
February 24, 2023

Consolidated Financial Statements

Masonic Homes of California and Subsidiaries
Consolidated Statements of Financial Position
October 31, 2022
(With Summarized Comparative Information as of October 31, 2021)
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	October 31, 2022 Consolidated	October 31, 2021 Comparative Totals Only
Assets				
Current assets				
Cash and cash equivalents	\$ 15,017	\$ -	\$ 15,017	\$ 12,365
Funds held for residents	1,056	-	1,056	1,077
Receivables, net	3,618	-	3,618	3,646
Prepaid expenses and other assets	4,402	-	4,402	4,186
Current portion of related party receivable	-	296	296	846
Assets held for sale	1,214	-	1,214	362
Total current assets	<u>25,307</u>	<u>296</u>	<u>25,603</u>	<u>22,482</u>
Investments, at fair value	698,258	171,502	869,760	1,093,830
Related party receivable, net	-	296	296	535
Property and equipment, net	255,578	-	255,578	228,006
Assets held in trusts	-	10,765	10,765	13,834
Funds held for residents	542	-	542	539
Other assets	725	-	725	663
Total assets	<u>\$ 980,410</u>	<u>\$ 182,859</u>	<u>\$ 1,163,269</u>	<u>\$ 1,359,889</u>
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued liabilities	\$ 4,893	\$ -	\$ 4,893	\$ 4,816
Accrued payroll and benefits payable	3,525	-	3,525	3,280
Current portion of long term debt	5,779	-	5,779	5,615
Current portion of liability for funds held for residents	1,056	-	1,056	1,077
Related entities payable	42	-	42	401
Total current liabilities	<u>15,295</u>	<u>-</u>	<u>15,295</u>	<u>15,189</u>
Liability to beneficiaries of split-interest agreements	-	1,966	1,966	2,521
Long term debt, net	126,073	-	126,073	131,839
Liability for funds held for residents, net	542	-	542	539
Refundable advance fees	40,801	-	40,801	38,730
Deferred revenue from assigned assets	20,675	-	20,675	18,949
Total liabilities	<u>203,386</u>	<u>1,966</u>	<u>205,352</u>	<u>207,767</u>
Net assets				
Total liabilities and net assets	<u>\$ 777,024</u>	<u>\$ 180,893</u>	<u>\$ 957,917</u>	<u>\$ 1,152,122</u>
Total liabilities and net assets	<u>\$ 980,410</u>	<u>\$ 182,859</u>	<u>\$ 1,163,269</u>	<u>\$ 1,359,889</u>

Masonic Homes of California and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
Year Ended October 31, 2022
(With Summarized Comparative Information for the Year Ended October 31, 2021)
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	October 31, 2022 Total	October 31, 2021 Total Comparative Totals Only
Public support and revenue				
Contributions	\$ 98	\$ 516	\$ 614	\$ 1,383
Bequests and memorials	440	8,187	8,627	3,295
Amortization of deferred revenue from assigned assets	2,110	-	2,110	2,103
Amount received from pensions assigned by resident	5,197	-	5,197	5,341
Investment income	8,172	173	8,345	11,936
Net realized gain on investments	66,229	739	66,968	64,804
Fee for service revenue	8,912	-	8,912	9,140
Health service revenue	6,950	-	6,950	6,711
Other income	5,704	-	5,704	4,748
Net assets released from restriction	1,463	(1,463)	-	-
Total public support and revenue	<u>105,275</u>	<u>8,152</u>	<u>113,427</u>	<u>109,461</u>
Expenses				
Program				
Operation of Acacia Creek and Masonic Homes	61,833	-	61,833	58,421
Masonic Outreach Services	4,535	-	4,535	5,500
Masonic Center for Youth and Families	4,139	-	4,139	3,982
Scholarship	128	-	128	207
Total program expenses	<u>70,635</u>	<u>-</u>	<u>70,635</u>	<u>68,110</u>
Supporting services				
Marketing	519	-	519	404
Fundraising	962	-	962	989
Administration/shared services	7,704	-	7,704	7,372
Total supporting services expenses	<u>9,185</u>	<u>-</u>	<u>9,185</u>	<u>8,765</u>
Total expenses	<u>79,820</u>	<u>-</u>	<u>79,820</u>	<u>76,875</u>
Net unrealized (loss) gain on equity investments	(222,807)	(2,824)	(225,631)	176,548
Change in value of split-interest agreements	-	(2,181)	(2,181)	2,416
(Deficit) excess of revenues over expenses before other changes in net assets	<u>(197,352)</u>	<u>3,147</u>	<u>(194,205)</u>	<u>211,550</u>
Change in net assets	(197,352)	3,147	(194,205)	211,550
Net assets at beginning of year	<u>974,376</u>	<u>177,746</u>	<u>1,152,122</u>	<u>940,572</u>
Net assets at end of year	<u>\$ 777,024</u>	<u>\$ 180,893</u>	<u>\$ 957,917</u>	<u>\$ 1,152,122</u>

See accompanying notes.

Masonic Homes of California and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended October 31, 2022 and 2021
(In Thousands)

	Year Ended October 31, 2022	Year Ended October 31, 2021
Cash flows from operating activities		
Contributions and bequests received	\$ 3,960	\$ 4,378
Net proceeds from assigned assets	4,305	1,739
Amounts received from assigned assets	5,197	5,341
Net loss from sale of resident assets	(863)	(70)
Investment income received	8,344	11,937
Fee for service revenue	8,912	9,140
Health service revenue	7,031	6,810
Other income	4,061	3,055
Cash paid for expenses	(69,150)	(69,150)
Net proceeds from split-interest agreements	333	756
Net cash used in operating activities	<u>(27,870)</u>	<u>(26,064)</u>
Cash flows from investing activities		
Net proceeds from sales of investments	145,575	102,480
Purchase of investments	(80,165)	(36,418)
Purchase of property and equipment	(37,845)	(35,168)
Net cash provided by investing activities	<u>27,565</u>	<u>30,894</u>
Cash flows from financing activities		
Cash received from residents subject to refund	6,570	2,458
Deposits refunded to residents	(3,297)	(1,688)
Contributions restricted for long term investments	5,280	300
Funds held for residents	3	(28)
Changes in other assets	-	(12)
Long-term debt proceeds	-	50,193
Long-term debt principal installment payment	(5,617)	(55,697)
Net cash provided by (used in) financing activities	<u>2,939</u>	<u>(4,474)</u>
Net change in cash	2,634	356
Cash, cash equivalents, and resident restricted cash beginning of year	<u>13,981</u>	<u>13,625</u>
Cash, cash equivalents, and resident restricted cash end of year	<u>\$ 16,615</u>	<u>\$ 13,981</u>
Supplemental cash flow information		
Interest paid	<u>\$ 2,254</u>	<u>\$ 1,431</u>

Masonic Homes of California and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended October 31, 2022 and 2021
(In Thousands)

	<u>Year Ended</u> <u>October 31, 2022</u>	<u>Year Ended</u> <u>October 31, 2021</u>
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ (194,205)	\$ 211,550
Adjustment to reconcile change in net assets to net cash used in operating activities		
Depreciation	10,310	8,156
Amortization of deferred revenue	(2,110)	(2,103)
Amortization due to death and withdrawal	(1,671)	(1,084)
Realized and unrealized loss (gain) on investments	158,663	(241,354)
Contributions restricted for long term investments	(5,280)	(300)
Changes in assets and liabilities		
Receivables, net	27	(775)
Prepaid expenses and other assets	(300)	205
Related entities receivable and payable	427	488
Assets held for sale	(852)	(146)
Assets held in trust	3,071	(1,821)
Funds held for residents	(11)	243
Accounts payable and accrued liabilities	308	(1,028)
Liability to beneficiaries of split interest agreements	(553)	165
Deferred revenue from assigned assets, net	4,306	1,740
Net cash used in operating activities	<u>\$ (27,870)</u>	<u>\$ (26,064)</u>

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, 2022, 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, 2021, from which the summarized information was derived.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

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 reserves, uninsured risk reserves, strategic initiative reserves, advance care reserves, and endowment funds. As of October 31, 2022, and 2021, board-designated reserve funds consisted of the following:

	2022	2021
	(In Thousands)	(In Thousands)
Operating reserve fund	\$ 6,966	\$ 6,112
Capital reserve fund	7,232	6,969
Uninsured risk fund	11,076	12,245
Strategic reserve fund	1,366	1,308
Advanced care reserve fund	3,946	3,188
Endowment funds	245,473	335,081
Total board-designated net assets	\$ 276,059	\$ 364,903

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. Net assets with donor restrictions are expected to be released based on the spending guidelines and on an as-needed basis.

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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

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

	2022	2021
	(In Thousands)	(In Thousands)
Cash and cash equivalents - operating cash	\$ 4,054	\$ 1,883
Cash and cash equivalents - money market	10,963	10,482
Funds held for residents - restricted cash	1,598	1,616
Total cash, cash equivalents, and resident restricted cash	<u>\$ 16,615</u>	<u>\$ 13,981</u>

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

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

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 \$592,000 and \$1,381,000 as of October 31, 2022 and 2021, 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.

Investments – Investments in common stocks, fixed income securities, 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, 2022 and 2021.

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).

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Liability to beneficiaries of split-interest agreements

Deferred revenue from pooled income fund – Deferred revenue from pooled income fund represents the discount for future investment earnings on Masonic Homes’ remainder interest in the Masonic Homes Pooled Income Fund (the “Pooled Income Fund”) (Note 6). Masonic Homes has determined the amount deferred using the tax deduction methodology from Internal Revenue Service (“IRS”) Publication 1457 tables, and a discount rate of 3.955% as of October 31, 2022 and 2021. Deferred revenue from the Pooled Income Fund included in liability to beneficiaries of split-interest agreements in the consolidated statements of financial position was \$145,000 and \$183,000 as of October 31, 2022 and 2021, 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 range from of 0.4% to 5.80% and 0.4% to 6.2% as of October 31, 2022 and 2021, respectively. Liabilities to beneficiaries of charitable remainder trusts included in liabilities to beneficiaries in the consolidated statements of financial position were \$1,346,000 and \$1,782,000 as of October 31, 2022 and 2021, respectively.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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 \$475,000 and \$556,000 as of October 31, 2022 and 2021, 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 4% and 3% as of October 31, 2022 and 2021, respectively. Management has determined that no such accrual is required in the accompanying consolidated financial statements.

Revenue recognition

Masonic Homes

Residency fees – The adult residents who enter Masonic Homes are required by a life-care agreement to assign 75% of their assets to Masonic Homes in exchange for continuing care for the remainder of their lives. In the event that a continuing care contract is canceled by the resident through withdrawal within the first 90 days of residency, the resident is entitled to a pro-rata refund of all his or her assigned assets. As of October 31, 2022, and 2021, deferred revenues from assigned assets subject to refund, were \$1,391,163 and \$167,540, respectively. The life-care agreement creates a performance obligation to be satisfied over the remaining life of the resident at Masonic Homes.

Masonic Homes recognizes the revenue associated with the residency fee using a straight-line method over the actuarially determined estimated life of each resident. Resident life expectancies are reevaluated regularly and any changes in the revenue as a result of that reevaluation will be recognized in the period noted. As of October 31, 2022 and 2021, Masonic Homes had \$16,288,000 and \$14,691,000, respectively, in deferred revenue from residency fees to be recognized as the performance obligations are satisfied. See Note 7 for changes in the unearned residency fee revenue for the years ended October 31, 2022 and 2021. Any unamortized balance upon death of the individual resident or last survivor is recognized as income.

Health service revenue – Masonic Homes – Health service revenues are recognized in the month in which services are provided and collectability is reasonably assured. Health service revenue on the consolidated statements of activities and changes in net assets for assisted living and memory care was \$6,950,000 and \$6,711,000, for the years ended October 31, 2022, and 2021, respectively and is presented net of third-party rate adjustments. Other revenue is recognized as the related services are provided and includes guest services income, catering income, and other miscellaneous income.

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

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

- Medicare: Inpatient nonacute care services for Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical/ rehab, diagnostic, and other factors. The SNF is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the SNF and audits thereof by the Medicare administrative contractor.
- Medi-Cal: Beginning July 1, 2013, inpatient non acute care services rendered to Medi-Cal program beneficiaries are reimbursed under a diagnostic related group ("DRG") methodology. Under this methodology, similar to Medicare, services were paid at prospectively determined facility rates less resident share of costs.
- Secondary insurance: The SNF has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the SNF under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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

Settlements with third-party payors for retroactive adjustments due to audits, review, or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Masonic Homes' historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2022 or 2021.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Masonic Homes estimate the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments determined on a resident-by-resident basis. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to nursing center revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended October 31, 2022 and 2021, was not significant.

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

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

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, 2022 and 2021, entrance fees subject to refund were \$45,688,000 and \$44,517,000, 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") 958-606, *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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

In-kind contributions – Contributions of donated assets and services are recorded at fair value at the date they are received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value on the date received. For the years ended October 31, 2022 and 2021, there was no in-kind contributions received by the Organization.

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 before other changes in net assets” in net assets without donor restrictions as reflected in the accompanying consolidated statements of activities and changes in net assets is the performance indicator. Changes in net assets without donor restrictions, which are excluded from (deficit) excess 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.

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 2022, the Organization adopted the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-07, *Not-For-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, which increases the transparency of contributed nonfinancial assets for not-for-profit organizations through enhancements to presentation and disclosure. The update addresses certain stakeholders’ concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit organizations, as well as the amount of those contributions used in a not-for-profit organization’s programs and other activities. This update is effective for fiscal years beginning after June 15, 2021, with early adoption permitted. The adoption did not have a material impact on the Organization’s consolidated financial statements.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

In February, 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, 2021. Management is currently evaluating the impact of adoption on the consolidated financial statements which will be effective for the Organization for fiscal year 2023.

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

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform* (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to provide guidance and ease potential burden in accounting for (or recognizing the effects of) reference rate reform on financial report stemming from the cessation of the London Interbank Offered Rate (“LIBOR”). This update is as of March 12, 2020, through December 31, 2022. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform* (Topic 848): *Deferral of the Sunset Date of Topic 848*, deferring ASU No. 2020-04 through December 2024. Management is currently evaluating the impact of the provisions of the pronouncement on the consolidated financial statements.

NOTE 2 – FUNDS HELD FOR RESIDENTS AND PROSPECTIVE RESIDENTS

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

	2022	2021
	(In Thousands)	(In Thousands)
Acacia Creek - UC	\$ 542	\$ 539
Masonic Homes Union City	93	223
Masonic Homes Covina	963	854
Total funds held for residents	<u>\$ 1,598</u>	<u>\$ 1,616</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:

	2022	2021
	(In Thousands)	(In Thousands)
Corporate stocks	\$ 166,271	\$ 273,201
Equity mutual funds	319,448	390,793
Alternative investments	109,540	137,507
Fixed income mutual funds	187,016	230,329
Private markets	87,485	62,000
Total investments	<u>\$ 869,760</u>	<u>\$ 1,093,830</u>

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

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.

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:

	Number of funds	2022		2021	
			(In Thousands)		(In Thousands)
Alternative investment strategy					
Real estate investment trust	1	\$	13,473	1	\$ 14,734
Global Macro (Caxton)	1		24,262	1	22,184
Credit Long / Short (Caspian)	1		26,542	1	32,605
Opportunistic (Bravo ii)	1		3,046	1	10,331
EM Macro (Broad Reach)	1		17,542	1	26,036
Structured Credit (400 Capital)	1		24,675	1	31,617
Total alternative investments	6	\$	<u>109,540</u>	6	<u>\$ 137,507</u>

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 the Organization's 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:

	2022			
	Fair Value	(In Thousands)		
	Level 1	Level 2	Level 3	
Investments				
Corporate stocks				
Domestic stocks	\$ 118,949	\$ 118,949	\$ -	\$ -
Equity mutual funds				
Domestic equity	15,974	15,974	-	-
Foreign equity	108,812	108,812	-	-
Fixed income mutual funds	60,641	60,641	-	-
Total investments	304,376	304,376	-	-
Assets held in trusts				
Interest in charitable trusts	3,155	-	-	3,155
Equity mutual funds				
Domestic stocks	2,431	2,431	-	-
Foreign stocks	1,110	1,110	-	-
Alternative investments	64	-	-	64
Fixed income mutual funds	3,757	3,757	-	-
Money market accounts	248	248	-	-
Total assets held in trusts	10,765	7,546	-	3,219
Total	\$ 315,141	\$ 311,922	\$ -	\$ 3,219

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

	2021			
	(In Thousands)			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Corporate stocks				
Domestic stocks	\$ 164,508	\$ 164,508	\$ -	\$ -
Foreign stocks	54,139	54,139	-	-
Equity mutual funds				
Domestic equity	18,620	18,620	-	-
Foreign equity	150,601	150,601	-	-
Fixed income mutual funds	76,807	76,807	-	-
Total investments	<u>464,675</u>	<u>464,675</u>	<u>-</u>	<u>-</u>
Assets held in trust				
Interest in charitable trusts	4,040	-	-	4,040
Equity mutual funds				
Domestic stocks	3,166	3,166	-	-
Foreign stocks	1,561	1,561	-	-
Alternative investments	73	-	-	73
Fixed income mutual funds	4,696	4,696	-	-
Money market accounts	298	298	-	-
Total assets held in trusts	<u>13,834</u>	<u>9,721</u>	<u>-</u>	<u>4,113</u>
Total	<u>\$ 478,509</u>	<u>\$ 474,396</u>	<u>\$ -</u>	<u>\$ 4,113</u>

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

	2022	2021
	(In Thousands)	(In Thousands)
Investments measured at NAV		
Corporate stocks		
Foreign stocks	\$ 47,323	\$ 54,553
Equity mutual funds		
Domestic equity	66,161	109,195
Foreign equity	128,500	112,378
Alternative investments	109,540	137,507
Fixed income mutual funds	126,375	153,522
Private markets	87,485	62,000
Total	<u>\$ 565,384</u>	<u>\$ 629,155</u>

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 Trusts
Balance, October 31, 2020	\$ 2,960
Total realized and unrealized gain and loss	
Included in changes in net assets with donor restrictions	<u>1,153</u>
Balance, October 31, 2021	4,113
Total realized and unrealized gain and loss	
Included in changes in net assets with donor restrictions	<u>(894)</u>
Balance, October 31, 2022	<u>\$ 3,219</u>

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

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

The following table provides the fair value and redemption terms and restrictions for investments measured at NAV as of October 31, 2022 and 2021:

Fund Type	Fair Value (in thousands) October 31, 2022	Fair Value (in thousands) October 31, 2021	Unfunded Commitments (in thousands) October 31, 2022	Unfunded Commitments (in thousands) October 31, 2021	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Redemption Restriction
Corporate stocks							
Foreign stocks	\$ 47,323	\$ 54,553	\$ -	\$ -	Monthly	30 days	None
Equity mutual funds							
Domestic equity	66,161	109,195	-	-	Daily	1 - 5 days	None
Foreign equity	128,500	112,378	-	-	Daily, Monthly	0 days	None or minimum of \$250
Alternative investments							
Global Macro (Caxton Global Investment)	24,262	22,184	-	-	Quarterly	Quarterly	45 days, lock-up 1st year
Credit Long/Short (Caspian)	26,542	32,605	-	-	Quarterly	Quarterly	45 days
PIMCO Bravo II	3,046	10,331	-	-	n/a	n/a	n/a
Broad Reach	17,542	26,036	-	-	Quarterly	90 days	90 days
400 Capital	24,675	31,617	-	-	Quarterly	60 days	60 days
Real Estate (UBS TPF)	13,473	14,734	-	-	Quarterly	60 days	60 days
Fixed income mutual funds	126,375	153,522	-	-	Daily	0-3 days	None
Private markets	87,485	62,000	65,736	44,298	n/a	n/a	n/a
	<u>\$ 565,384</u>	<u>\$ 629,155</u>	<u>\$ 65,736</u>	<u>\$ 44,298</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.

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.

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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.

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.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

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 – In 2018-2022 commitments of \$232 million, to private markets (private equity/debt and private real estate/real assets), were approved by the Investment Committee. In 2022, commitments of \$26.5 million in private equity and \$5 million in private real assets were made. The \$26.5 million private equity commitments were made to Thoma Bravo Fund - XV -A, L.P. \$11 million, Spark Capital Growth Fund IV, L.P. \$7 million, Bond Capital Fund III, L.P. \$5 million and Spark Capital VII, L.P. \$3.5 million. In private real assets, commitment of \$5 million was made to IPI Partners III. Additional commitments will be made throughout the coming years to further diversify the portfolio by strategy and vintage year. The organizations allocated portion of these investments at October 31, 2022 and 2021 were \$87 million and \$62 million, respectively. Unfunded commitments allocated to the organization at October 31, 2022 and 2021, were \$66 million and \$44 million, respectively. The investments can only be redeemed upon liquidation of the underlying assets of the funds. These Funds are illiquid; however, a secondary market exists.

NOTE 5 – PROPERTY AND EQUIPMENT

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

	2022	2021
	(In Thousands)	(In Thousands)
Land and improvements	\$ 46,393	\$ 46,227
Buildings and improvements	293,004	247,220
Furniture and equipment	32,263	30,657
Construction in progress	71,004	80,715
Leasehold improvement	245	245
Total property and equipment	442,909	405,064
Less: accumulated depreciation	(187,331)	(177,058)
Property and equipment, net	\$ 255,578	\$ 228,006

Depreciation expense for the years ended October 31, 2022 and 2021, totaled \$10,310,000 and \$8,156,000, respectively.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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 Certificate of Authority ("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, 2022 and 2021, Masonic Homes of California expended \$16,319,000 and \$7,881,000, respectively, in construction costs in connection with this project. As of October 31, 2022, these costs have totaled \$50,858,000. The Masonic Homes has committed \$55 million toward this project.

On April 30, 2021, Masonic Homes of California submitted an abbreviated COA application to DSS in connection with its proposed project to create additional assisted living and memory care capacity at its Union City, California Campus. DSS issued its approval on June 7, 2021. 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, 2022 and 2021, Masonic Homes of California expended \$16,400,000 and \$24,197,000, respectively, in construction costs in connection with this project. As of October 31, 2022, these costs have totaled \$88,365,000. The Masonic Homes has committed \$94 million toward this project.

NOTE 6 – ASSETS HELD IN TRUSTS

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

	2022 (In Thousands)	2021 (In Thousands)
Contributions receivable from split-interest agreements	\$ 283	\$ 358
Assets of pooled income fund	425	524
Assets of split-interest agreements	6,455	7,953
Assets of charitable gift annuities	667	1,248
Beneficial interest in perpetual trusts	2,935	3,751
	<u>\$ 10,765</u>	<u>\$ 13,834</u>
Total assets held in trusts	<u>\$ 10,765</u>	<u>\$ 13,834</u>

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

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, 2022, and 2021, the rate was estimated to be 3.955%.

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 change in present value of the gift annuities for the years ended October 31, 2022 and 2021, was \$(174,000) and 98,000, respectively.

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

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 7 – DEFERRED REVENUE

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

	<u>2022</u>	<u>2021</u>
	(In Thousands)	(In Thousands)
Balance, beginning of year	\$ 18,949	\$ 20,185
Received from new residents	5,210	1,997
Other payments/settlements	(731)	(258)
Reclassification/other adjustments	(174)	-
Amortizable portion of entrance fee	1,202	212
Amortized		
Due to deaths and withdrawals	(1,671)	(1,084)
Based on actuarial calculation	(2,110)	(2,103)
Balance, end of year	<u>\$ 20,675</u>	<u>\$ 18,949</u>

NOTE 8 – REFUNDABLE ADVANCE FEES

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

	<u>2022</u>	<u>2021</u>
	(In Thousands)	(In Thousands)
Balance, beginning of period and year	\$ 38,730	\$ 38,172
Received from new residents	6,570	2,458
Deposits refunded to residents	(3,297)	(1,688)
Amortizable portion of entrance fee	(1,202)	(212)
Balance, end of period and year	<u>\$ 40,801</u>	<u>\$ 38,730</u>

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>		<u>2021</u>	
	(In Thousands)		(In Thousands)	
	<u>Purpose Restricted</u>	<u>Endowment</u>	<u>Purpose Restricted</u>	<u>Endowment</u>
Available for use in awarding scholarships or other programs related to children	\$ 15,226	\$ 1,595	\$ 19,065	\$ 1,595
Available for use in the activities of the homes in Union City and Covina upon lapse of time restrictions	4,015	158,997	2,586	153,717
Available for use in providing critical relief to Masons and their families	1,060	-	785	-
	<u>\$ 20,301</u>	<u>\$ 160,592</u>	<u>\$ 22,436</u>	<u>\$ 155,312</u>

Net assets were released from donor restrictions as shown in the following table for the years ended October 31, 2022 and 2021. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2022</u>	<u>2021</u>
	(In Thousands)	(In Thousands)
Use in the activities of the home for adults in Union City, California	\$ 415	\$ 846
Use in the activities of the home for adults/children in Covina, California	485	3,908
Use in Masonic Outreach Services	434	87
Use in providing critical relief to Masons and their families	65	243
Use in awarding scholarships and other community sponsorship	64	75
	<u>\$ 1,463</u>	<u>\$ 5,159</u>
Total net assets released from restrictions	<u>\$ 1,463</u>	<u>\$ 5,159</u>

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 \$1,661,000 and \$1,793,000 for the years ended October 31, 2022 and 2021, respectively.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 11 – RELATED-PARTY TRANSACTIONS

The Grand Lodge provides general and administrative support to Masonic Homes and Acacia Creek – UC, for which the Grand Lodge is reimbursed without mark-up through an allocation of certain expenses. The allocations to the Masonic Homes and Acacia Creek – UC were \$8,666,000 and \$8,362,000 for the years ended October 31, 2022 and 2021, 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, 2022 and 2021, consisted of the following:

	2022	2021
	(In Thousands)	(In Thousands)
Association of Bay Area Government Bonds, Series 2013A, variable rate equal to 80% of one month LIBOR plus 47 basis points, annual payments beginning November 1, 2016, continuing to July 1, 2038	\$ 80,503	\$ 83,929
Bank of America term loan, fixed rate of 220 basis points, monthly payments beginning September 15, 2021, amortized over 20 years with a balloon payment due on August 14, 2026	47,836	49,858
Bank of America Public Capital Corporation loan, variable rate equal to one month LIBOR plus 60 basis points, annual payments beginning November 1, 2016, continuing to November 1, 2038	3,917	4,085
	132,256	137,872
Less current portion	5,779	5,615
	126,477	132,257
Less net unamortized cost of issuance	404	418
	\$ 126,073	\$ 131,839

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

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

The bonds carry an interest rate equal to 67% of one month LIBOR plus 35 basis points reset on the first business day of every month. The interest formula was effective through July 31, 2021 at which time the interest rate on the bonds would carry a rate equal to 80% of one month LIBOR plus 47 basis points through June 30, 2023, at which time the interest rate will be re-negotiated with Bank of America N.A. or the loan will be retired. The interest rate at October 31, 2022 and 2021, was 2.972% and 0.537%, respectively. The Masonic Homes guarantees the performance of Acacia Creek’s repayment obligations.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

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

The loan carries an interest rate equal to one month LIBOR plus 45 basis points reset on the first business day of every month. The interest formula was effective through July 31, 2021 at which time the interest rate on the loan will be one month LIBOR plus 60 basis points through June 30, 2023, at which time the interest rate will be re-negotiated with Bank of America N.A. or the loan will be retired. The interest rate at October 31, 2022 and 2021, was 3.7280% and 0.6840%, respectively. Under the terms of the loan, it is secured by the Masonic Homes.

Term loan – On August 15, 2016, Masonic Homes entered into an unsecured term loan with a bank in the amount of \$60,000,000 to take advantage of favorable interest rates and to fund a portion of the construction costs of the campus master plan projects for Union City Phase I and Covina Phase II. The loan is amortized over 25 years at a rate of 1.9% with monthly payments of \$252,000 and a balloon payment being due on August 15, 2022.

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

Future minimum payment schedule – Total annual maturities of long-term debt as of October 31, 2022, are as follows (in thousands):

2023	\$	5,779
2024		5,938
2025		6,114
2026		45,591
2027		4,236
Thereafter		64,194
		<u>131,852</u>

Interest paid for the years ended October 31, 2022 and 2021, on long-term debt was \$2,254,000 and \$1,431,000 respectively.

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

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

Board interpretation of law

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

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

Spending policy, investing policy, and strategy

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

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

Spending policy and how the investment objectives relate to spending policy – For 2022/2021, 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, 2022 (In Thousands)		
	Without Donor Restriction	Purpose restricted	Endowment
Donor-restricted endowment funds	\$ -	\$ 20,301	\$ 160,592
Board-designated endowment funds	245,473	-	-
Total endowment funds	<u>\$ 245,473</u>	<u>\$ 20,301</u>	<u>\$ 160,592</u>
	October 31, 2021 (In Thousands)		
	Without Donor Restriction	Purpose restricted	Endowment
Donor-restricted endowment funds	\$ -	\$ 22,436	\$ 155,312
Board-designated endowment funds	335,081	-	-
Total endowment funds	<u>\$ 335,081</u>	<u>\$ 22,436</u>	<u>\$ 155,312</u>

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

Reconcile beginning and ending balance of endowments by net asset class

	Without Donor Restriction	Purpose Restricted	Endowment	Total
	(In Thousands)			
Endowment net assets, October 31, 2021	\$ 335,081	\$ 22,436	\$ 155,312	\$ 512,829
Investment return:				
Realized gains	23,413	739	-	24,152
Investment income	5,942	173	-	6,115
Unrealized losses	(95,451)	(5,005)	-	(100,456)
Total investment return	(66,096)	(4,093)	-	(70,189)
Contributions	-	3,421	5,280	8,701
Release from restrictions	-	(1,463)	-	(1,463)
Release/transfer to general fund and/or operation	(21,093)	-	-	(21,093)
Expenses	(2,419)	-	-	(2,419)
Endowment net assets, October 31, 2022	<u>\$ 245,473</u>	<u>\$ 20,301</u>	<u>\$ 160,592</u>	<u>\$ 426,366</u>
	Without Donor Restriction	Purpose Restricted	Endowment	Total
	(In Thousands)			
Endowment net assets, October 31, 2020	\$ 246,145	\$ 16,292	\$ 155,012	\$ 417,449
Investment return:				
Realized gains (loss)				
Realized gains	14,028	532	-	14,560
Investment income	7,830	168	-	7,998
Unrealized gains (loss)	89,513	4,152	-	93,665
Total investment return	111,371	4,852	-	116,223
Contributions	-	3,670	300	3,970
Release from restrictions	-	(2,378)	-	(2,378)
Release/transfer to general fund and/or operation	(19,656)	-	-	(19,656)
Expenses	(2,779)	-	-	(2,779)
Endowment net assets, October 31, 2021	<u>\$ 335,081</u>	<u>\$ 22,436</u>	<u>\$ 155,312</u>	<u>\$ 512,829</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.

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, 2022 and 2021, respectively.

Masonic Homes of California and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 15 – FUNCTIONAL CLASSIFICATION OF EXPENSES

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

	2022									
	Program Expenses					Supporting Services				
	Acacia Creek Operation	Masonic Homes Operation	Masonic Outreach Services	Masonic Center for Youth and Families	Scholarship and Community Sponsorship	Marketing	Management and General	Fundraising	Total Supporting Services	Total Consolidated
Salaries and wages	3,041	18,369	1,604	2,793	-	258	-	-	258	26,064
Employee benefits	779	4,353	290	391	-	60	-	-	60	5,793
Retirement	211	1,237	120	198	-	19	-	-	19	1,785
Pension plan contributions	182	1,192	103	155	-	19	-	-	19	1,681
Audit and tax fees	50	104	-	-	-	-	-	-	-	154
Legal fees	3	56	-	7	-	-	-	-	-	66
Other professional fees	68	329	-	47	-	32	-	-	32	476
Operating supplies and services	379	1,122	96	96	-	57	-	-	57	1,750
Information technology	2	52	-	4	-	-	-	-	-	58
Dues, licenses, and permit	40	267	-	5	-	-	-	-	-	332
Insurance	556	1,416	-	68	-	-	-	-	-	2,040
Property taxes	107	329	-	-	-	-	-	-	-	436
Utilities, maintenance, and facility expenses	822	2,688	1	310	-	-	-	-	-	3,831
Travel	9	105	80	14	-	-	-	-	-	208
Resident care and services	1,017	10,273	81	13	-	6	-	-	6	11,390
Nonresident assistance	-	-	2,160	-	-	-	-	-	-	2,160
Depreciation	2,686	7,601	-	23	-	-	-	-	-	10,310
Promotion and advertising	-	-	-	-	-	76	-	-	76	76
Scholarship and community sponsorship	-	-	-	-	128	-	-	-	-	128
Interest expense	1,163	1,091	-	-	-	-	-	-	-	2,254
Miscellaneous expenses	19	176	-	15	-	2	-	-	2	212
Shared service allocation	-	-	-	-	-	-	7,704	882	8,666	8,666
Total program expenses	11,144	59,689	4,535	4,138	128	519	7,704	982	9,185	79,820

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

2021

	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	2,807	20,617	1,744	2,704	-	27,932	203	-	-	203	28,175
Employee benefits	184	1,489	42	403	-	2,018	46	-	-	46	2,064
Depreciation	202	1,382	202	192	-	1,774	14	-	-	14	1,788
Pension plan contributions	186	1,327	107	154	-	1,494	19	-	-	19	1,513
Audit and tax fees	52	97	-	-	-	149	-	-	-	-	149
Legal fees	13	100	-	-	-	113	-	-	-	-	113
Other professional fees	59	120	107	47	-	225	9	-	-	9	234
Operating supplies and services	354	977	107	86	-	1,524	60	-	-	60	1,584
Travel	2	49	1	5	-	66	-	-	-	-	66
Dues, licenses, and permit	42	290	-	5	-	337	-	-	-	-	337
Insurance	503	1,215	-	66	-	1,784	-	-	-	-	1,784
Property taxes	107	326	-	-	-	433	-	-	-	-	433
Utilities, maintenance, and facility expenses	750	2,569	-	292	-	3,602	-	-	-	-	3,602
Food and beverage	1,023	47	17	-	-	1,087	-	-	-	-	1,087
Resident care and services	-	7,985	3,075	-	10	9,075	2	-	-	2	9,077
Nonresident assistance	-	-	-	-	-	-	-	-	-	-	-
Depreciation	2,670	5,453	-	33	-	8,156	48	-	-	48	8,156
Promotion and advertising	-	-	-	-	207	207	-	-	-	-	207
Scholarship and community sponsorship	404	1,037	-	-	-	1,441	-	-	-	-	1,441
Travel expenses	16	174	-	21	-	211	3	-	-	3	214
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-
Shared service allocation	-	-	-	-	-	-	-	7,372	889	8,361	8,361
Total program expenses	\$ 10,177	\$ 46,244	\$ 5,500	\$ 3,882	\$ 207	\$ 68,110	\$ 404	\$ 7,372	\$ 989	\$ 8,765	\$ 76,875

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 Consolidated Financial Statements

NOTE 16 – LIQUIDITY AND AVAILABILITY

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

	2022	2021
	(In Thousands)	(In Thousands)
Financial assets		
Cash and cash equivalents	\$ 15,017	\$ 12,365
Receivables, net	3,618	3,646
Related party receivable	296	846
Assets held for sale	1,214	362
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 20,145</u>	<u>\$ 17,219</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, 2022 and 2021.

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, 2023, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Masonic Homes of California and Subsidiaries
Consolidating Statements of Financial Position
October 31, 2022 (With Summarized Comparative Information as of October 31, 2021)
(In Thousands)

	Without Donor Restriction		Total	With Donor Restriction		October 31, 2022 Consolidated	October 31, 2021 Total Comparative Totals Only
	Acacia Creek Union City	Masonic Homes		Elimination/Reclass	Masonic Homes		
Assets							
Current assets							
Cash and cash equivalents	\$ 1,264	\$ 13,753	\$ -	\$ 15,017	\$ -	\$ 15,017	\$ 12,365
Funds held for residents	-	1,056	-	1,056	-	1,056	1,077
Receivables, net	65	3,553	-	3,618	-	3,618	3,646
Notes receivable - related party	-	10,000	(10,000)	-	-	-	-
Prepaid expenses and other assets	3,987	415	-	4,402	-	4,402	4,186
Current portion of related party receivable	-	1,585	(1,585)	-	296	296	846
Assets held for sale	-	1,214	-	1,214	-	1,214	362
Total current assets	5,316	31,576	(11,585)	25,307	296	25,603	22,482
Investments, at fair value	10,375	687,883	-	698,258	171,502	869,760	1,093,830
Related party receivable, net	-	-	-	-	296	296	535
Property and equipment, net	63,677	191,901	-	255,578	-	255,578	228,006
Assets held in trusts	-	-	-	-	10,765	10,765	13,834
Funds held for residents	542	-	-	542	-	542	539
Other assets	-	5,612	(4,887)	725	-	725	663
Total assets	\$ 79,910	\$ 916,972	\$ (16,472)	\$ 980,410	\$ 182,859	\$ 1,163,269	\$ 1,359,869
Liabilities and net assets							
Current liabilities							
Accounts payable and accrued liabilities	\$ 484	\$ 4,409	\$ -	\$ 4,893	\$ -	\$ 4,893	\$ 4,816
Accrued payroll and benefits payable	390	3,135	-	3,525	-	3,525	3,280
Current portion of long term debt	3,712	2,067	-	5,779	-	5,779	5,615
Current portion of liability for funds held for residents	-	1,056	-	1,056	-	1,056	1,077
Intercompany debt	10,000	-	(10,000)	-	-	-	-
Related entities payable	1,598	29	(1,585)	42	-	42	401
Total current liabilities	16,184	10,696	(11,585)	15,295	-	15,295	15,189
Liability to beneficiaries of split-interest agreements	-	-	-	-	1,966	1,966	2,521
Long term debt, net	80,304	45,769	-	126,073	-	126,073	131,839
Liability for funds held for residents, net	542	-	-	542	-	542	539
Refundable advance fees	45,688	-	(4,887)	40,801	-	40,801	38,730
Deferred revenue from assigned assets	4,387	16,288	-	20,675	-	20,675	18,949
Total liabilities	147,105	72,753	(16,472)	203,386	1,966	205,352	207,767
Net (deficit) assets	(67,195)	844,219	-	777,024	180,893	957,917	1,152,122
Total liabilities and net assets	\$ 79,910	\$ 916,972	\$ (16,472)	\$ 980,410	\$ 182,859	\$ 1,163,269	\$ 1,359,869

Masonic Homes of California and Subsidiaries
Consolidating Statements of Activities and Changes in Net Assets
Year Ended October 31, 2022 (With Summarized Comparative Information for the Year Ended October 31, 2021)
(In Thousands)

	Without Donor Restrictions		Elimination/ Reclass	Total	With Donor Restrictions Masonic Homes	October 31, 2022 Consolidated	October 31, 2021 Consolidated Comparative Totals Only
	Acacia Creek Union City	Masonic Homes					
Public Support and Revenue	\$ -	\$ 98	\$ -	\$ 98	\$ 516	\$ 614	\$ 1,383
Contributions	-	440	-	440	8,187	8,627	3,295
Bequests and memorials	-	1,637	-	2,110	-	2,110	2,103
Amortization of deferred revenue from assigned assets	473	5,197	-	5,197	-	5,197	5,941
Amount received from pensions assigned by resident	-	8,035	-	8,172	173	11,936	11,936
Investment income	137	65,105	-	66,229	739	66,968	64,804
Net realized gain on investments	1,124	2,142	-	3,912	-	3,912	9,140
Fee for service revenue	6,770	7,031	(81)	6,950	-	6,950	6,711
Health service revenue	-	4,850	-	5,704	-	5,704	4,748
Other income	854	1,463	-	1,463	(1,463)	-	-
Net assets released from restriction	-	-	-	-	-	-	-
Total public support and revenue	9,358	95,988	(81)	105,275	8,152	113,427	109,461
Expenses							
Program							
Operation of Acacia Creek and Masonic Homes	11,144	50,689	-	61,833	-	61,833	58,421
Masonic Outreach Services	-	4,535	-	4,535	-	4,535	5,500
Masonic Center for Youth and Families	-	4,139	-	4,139	-	4,139	3,982
Scholarship	-	128	-	128	-	128	207
Total program expenses	11,144	59,491	-	70,635	-	70,635	68,110
Supporting services							
Marketing	600	-	(81)	519	-	519	404
Fundraising	-	962	-	962	-	962	989
Administration/shared services	1,127	6,577	-	7,704	-	7,704	7,372
Total supporting services expenses	1,727	7,539	(81)	9,185	-	9,185	8,765
Total expenses	12,871	67,030	(81)	79,820	-	79,820	76,875
Net unrealized (loss) gain on equity investments	(4,049)	(218,758)	-	(222,807)	(2,824)	(225,631)	176,548
Change in value of split-interest agreements	-	-	-	-	(2,181)	(2,181)	2,416
(Deficit) excess of revenues over expenses before other changes in net assets	(7,562)	(189,790)	-	(197,352)	3,147	(194,205)	211,550
Change in net assets	(7,562)	(189,790)	-	(197,352)	3,147	(194,205)	211,550
Net (deficit) assets at beginning of year	(69,633)	1,034,009	-	974,376	177,746	1,152,122	940,572
Net (deficit) assets at end of year	(67,195)	\$ 844,219	\$ -	\$ 777,024	\$ 180,893	\$ 957,917	\$ 1,152,122

Masonic Homes of California and Subsidiaries
Consolidating Statements of Cash Flows
Year Ended October 31, 2022
(With Summarized Comparative Information for the Year Ended October 31, 2021)
(In Thousands)

	October 31, 2022				October 31, 2021
	Acacia Creek – Union City	Masonic Homes	Elimination	Total	Comparative Total Only
Cash flows from operating activities					
Contributions and bequests received	\$ -	\$ 3,960	\$ -	\$ 3,960	\$ 4,378
Net proceeds from assigned assets	-	4,305	-	4,305	1,739
Amounts received from pension assigned assets	-	5,197	-	5,197	5,341
Net proceeds from sale of resident assets	-	(863)	-	(863)	(70)
Investment income received	137	8,207	-	8,344	11,937
Fee for service	6,770	2,142	-	8,912	9,140
Health service revenue	-	7,031	-	7,031	6,810
Other income	225	3,836	-	4,061	3,055
Cash paid for operating expenses	(10,194)	(58,956)	-	(69,150)	(69,150)
Net proceeds from split-interest agreements	-	333	-	333	756
Net cash used in operating activities	(3,062)	(24,808)	-	(27,870)	(26,064)
Cash flows from investing activities					
Net proceeds from sales of investments	9,357	136,218	-	145,575	102,480
Purchase of investments	(3,750)	(76,415)	-	(80,165)	(36,418)
Purchase of property and equipment	(491)	(37,354)	-	(37,845)	(35,168)
Net cash provided by investing activities	5,116	22,449	-	27,565	30,894
Cash flows from financing activities					
Cash received from residents subject to refund	6,570	-	-	6,570	2,458
Deposits refunded to residents	(4,197)	-	900	(3,297)	(1,688)
Entrance fee (deposit to) refunded from Acacia Creek	-	900	(900)	-	-
Contributions restricted for long term investments	-	5,280	-	5,280	300
Funds held for residents	3	-	-	3	(28)
Changes in other assets	-	-	-	-	(12)
Long-term debt proceeds	-	-	-	-	50,193
Long-term debt principal installment payment	(3,595)	(2,022)	-	(5,617)	(55,697)
Net cash (used in) provided by financing activities	(1,219)	4,158	-	2,939	(4,474)
Net change in cash	835	1,799	-	2,634	356
Cash, cash equivalents, and resident restricted cash beginning of year	971	13,010	-	13,981	13,625
Cash, cash equivalents, and resident restricted cash end of year	\$ 1,806	\$ 14,809	\$ -	\$ 16,615	\$ 13,981
Supplemental cash flow information					
Interest paid	\$ 1,163	\$ 1,091	\$ -	\$ 2,254	\$ 1,431

Masonic Homes of California and Subsidiaries
Consolidating Statements of Cash Flows (continued)
Year Ended October 31, 2022
(With Summarized Comparative Information for the Year Ended October 31, 2021)
(In Thousands)

	October 31, 2022				October 31, 2021
	Acacia Creek – Union City	Masonic Homes	Elimination	Total	Comparative Total Only
Reconciliation of change in net assets to net cash used in operating activities					
Change in net assets	\$ (7,562)	\$ (186,643)	-	\$ (194,205)	\$ 211,550
Adjustment to reconcile change in net assets to net cash used in operating activities					
Depreciation and amortization	2,686	7,624	-	10,310	8,156
Amortization of deferred revenue	(473)	(1,637)	-	(2,110)	(2,103)
Amortization due to death and withdrawal	(600)	(1,071)	-	(1,671)	(1,084)
Realized and unrealized loss (gain) on investments	2,925	155,738	-	158,663	(241,354)
Contributions restricted for long term investments	-	(5,280)	-	(5,280)	(300)
Changes in assets and liabilities					
Receivables, net	(30)	57	-	27	(775)
Prepaid expenses and other assets	(194)	(106)	-	(300)	205
Related entities receivable and payable	(56)	483	-	427	488
Assets held for sale	-	(852)	-	(852)	(146)
Assets held in trust	-	3,071	-	3,071	(1,821)
Funds held for residents	-	(11)	-	(11)	243
Accounts payable and accrued liabilities	242	66	-	308	(1,028)
Liability to beneficiaries of split interest agreements	-	(553)	-	(553)	165
Deferred revenue from assigned assets, net	-	4,306	-	4,306	1,740
Net cash used in operating activities	<u>\$ (3,062)</u>	<u>\$ (24,808)</u>	<u>\$ -</u>	<u>\$ (27,870)</u>	<u>\$ (26,064)</u>

Masonic Homes of California and Subsidiaries
Supplemental Schedule of Supporting Services Expenses (Unaudited)
Years Ended October 31, 2022 and 2021
(In Thousands)

	2022	2021
	(In Thousands)	(In Thousands)
General and admin - shared service allocation	\$ 6,577	\$ 6,288
Fund raising and development - shared service allocation	<u>962</u>	<u>989</u>
Masonic Homes general and administrative expenses	7,539	7,277
Acacia Creek general and admin shared service allocation	<u>1,127</u>	<u>1,084</u>
Total allocation of general and administrative support to Masonic Homes and Acacia Creek	8,666	8,361
Acacia Creek marketing expenses, net of elimination	<u>519</u>	<u>404</u>
Total general, administrative and marketing expenses	<u>\$ 9,185</u>	<u>\$ 8,765</u>

