



Report of Independent Auditors and
Consolidated Financial Statements with Supplementary Information

Masonic Homes of California and Subsidiaries

October 31, 2023
with summarized comparative information for October 31 2022

Table of Contents

	Page
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities and Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
Supplementary Information	
Consolidating Statements of Financial Position	41
Consolidating Statements of Activities and Changes in Net Assets	42
Consolidating Statements of Cash Flows	43
Consolidating Statements of Cash Flows	44
Supplemental Schedule of Supporting Services Expenses (Unaudited)	45

Report of Independent Auditors

The Audit Committee
Masonic Homes of California and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Masonic Homes of California and Subsidiaries, which comprise the consolidated statement of financial position as of October 31, 2023, 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, 2023, 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 Masonic Homes of California and Subsidiaries 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 Financial Statements

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

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

Auditor's Responsibilities for the Audit of the 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 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial information as of and for the years ended October 31, 2023 and 2022, 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The summarized information for the years ended October 31, 2023 and 2022, included in the accompanying supplemental schedule of supporting services expenses for the years ended October 31, 2023 and 2022, 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.

Report on Summarized Comparative Information

We have previously audited the Masonic Homes of California and Subsidiaries' 2022 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated February 24, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements, from which it has been derived.

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

San Francisco, California
February 23, 2024

Consolidated Financial Statements

Masonic Homes of California and Subsidiaries
Consolidated Statements of Financial Position
October 31, 2023
(With Summarized Comparative Information as of October 31, 2022)
(In Thousands)

	Without Donor Restriction	With Donor Restrictions	October 31, 2023 Total	October 31, 2022 Comparative Totals Only (Summarized)
Assets				
Current assets				
Cash and cash equivalents	\$ 32,014	\$ -	\$ 32,014	\$ 15,017
Funds held for residents	1,201	-	1,201	1,056
Receivables, net	3,341	-	3,341	3,618
Prepaid expenses and other assets	1,808	-	1,808	4,402
Current portion of related party receivable	-	188	188	296
Assets held for sale	2,379	-	2,379	1,214
Total current assets	40,743	188	40,931	25,603
Investments, at fair value	652,727	170,955	823,682	869,760
Related party receivable, net	-	131	131	296
Property and equipment, net	266,347	-	266,347	255,578
Assets held in trusts	-	10,692	10,692	10,765
Funds held for residents	529	-	529	542
Other assets	623	-	623	725
Total assets	\$ 960,969	\$ 181,966	\$ 1,142,935	\$ 1,163,269
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued liabilities	\$ 3,882	\$ -	\$ 3,882	\$ 4,893
Accrued payroll and benefits payable	3,640	-	3,640	3,525
Current portion of long term debt	6,082	-	6,082	5,779
Current portion of liability for funds held for residents	1,201	-	1,201	1,056
Related entities payable	189	-	189	42
Total current liabilities	14,994	-	14,994	15,295
Liability to beneficiaries of split-interest agreements	-	1,791	1,791	1,966
Long term debt, net	116,319	-	116,319	126,073
Liability for funds held for residents, net	529	-	529	542
Refundable advance fees	44,263	-	44,263	40,801
Deferred revenue from assigned assets	21,525	-	21,525	20,675
Total liabilities	197,630	1,791	199,421	205,352
Net assets	763,339	180,175	943,514	957,917
Total liabilities and net assets	\$ 960,969	\$ 181,966	\$ 1,142,935	\$ 1,163,269

See accompanying notes.

Masonic Homes of California and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets
Year Ended October 31, 2023
(With Summarized Comparative Information for the Year Ended October 31, 2022)
(In Thousands)

	Without Donor Restriction	With Donor Restriction	October 31, 2023 Total	October 31, 2022 Comparative Totals Only (Summarized)
Public support and revenue				
Contributions	\$ 55	\$ 495	\$ 550	\$ 614
Bequests and memorials	575	776	1,351	8,627
Amortization of deferred revenue from assigned assets	2,060	-	2,060	2,110
Amount received from pensions assigned by resident	5,590	-	5,590	5,197
Investment income	7,761	230	7,991	8,345
Net realized gain (loss) on investments	627	(192)	435	66,968
Fee for service revenue	9,520	-	9,520	8,912
Health service revenue	8,402	-	8,402	6,950
Other income	4,639	-	4,639	5,704
Net assets released from restriction	2,796	(2,796)	-	-
Total public support and revenue	<u>42,025</u>	<u>(1,487)</u>	<u>40,538</u>	<u>113,427</u>
Expenses				
Program				
Operation of Acacia Creek and Masonic Homes	69,976	-	69,976	61,833
Masonic Outreach Services	4,860	-	4,860	4,535
Masonic Center for Youth and Families	4,294	-	4,294	4,139
Scholarship and other program	151	-	151	128
Total program expenses	<u>79,281</u>	<u>-</u>	<u>79,281</u>	<u>70,635</u>
Supporting services				
Marketing	688	-	688	519
Fundraising	1,009	-	1,009	962
Administration/shared services	8,233	-	8,233	7,704
Total supporting services expenses	<u>9,930</u>	<u>-</u>	<u>9,930</u>	<u>9,185</u>
Total expenses	<u>89,211</u>	<u>-</u>	<u>89,211</u>	<u>79,820</u>
Write-off of unamortized bond issuance costs	(414)	-	(414)	-
Net unrealized gain (loss) on equity investments	33,915	669	34,584	(225,631)
Change in value of split-interest agreements	-	100	100	(2,181)
Deficit of revenues over expenses before other changes in net assets	<u>(13,685)</u>	<u>(718)</u>	<u>(14,403)</u>	<u>(194,205)</u>
Change in net assets	(13,685)	(718)	(14,403)	(194,205)
Net assets at beginning of year	<u>777,024</u>	<u>180,893</u>	<u>957,917</u>	<u>1,152,122</u>
Net assets at end of year	<u>\$ 763,339</u>	<u>\$ 180,175</u>	<u>\$ 943,514</u>	<u>\$ 957,917</u>

See accompanying notes.

Masonic Homes of California and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended October 31, 2023 and 2022
(In Thousands)

	<u>October 31, 2023</u>	<u>October 31, 2022</u>
Cash flows from operating activities		
Contributions and bequests received	\$ 1,479	\$ 3,960
Net proceeds from assigned assets	4,816	4,305
Amounts received from assigned assets	5,590	5,197
Net loss from sale of resident assets	(1,072)	(863)
Investment income received	7,991	8,344
Fee for service revenue	9,520	8,912
Health service revenue	8,604	7,031
Other income	2,130	4,061
Cash paid for expenses	(76,348)	(69,150)
Net (loss) proceeds from split-interest agreements	(3)	333
Net cash used in operating activities	<u>(37,293)</u>	<u>(27,870)</u>
Cash flows from investing activities		
Net proceeds from sales of investments	149,804	145,575
Purchase of investments	(68,707)	(80,165)
Purchase of property and equipment	(21,568)	(37,845)
Net cash provided by investing activities	<u>59,529</u>	<u>27,565</u>
Cash flows from financing activities		
Cash received from residents subject to refund	8,816	6,570
Deposits refunded to residents	(4,473)	(3,297)
Contributions restricted for long term investments	421	5,280
Funds held for residents	(13)	3
Bond issuance cost payment	(240)	-
Proceeds from the issuance of long term debt	80,708	-
Payments on long term debt	(90,326)	(5,617)
Net cash (used in) provided by financing activities	<u>(5,107)</u>	<u>2,939</u>
Net change in cash	17,129	2,634
Cash, cash equivalents, and resident restricted cash beginning of year	<u>16,615</u>	<u>13,981</u>
Cash, cash equivalents, and resident restricted cash end of year	<u>\$ 33,744</u>	<u>\$ 16,615</u>
Supplemental cash flow information		
Interest paid	<u>\$ 4,263</u>	<u>\$ 2,254</u>

See accompanying notes.

Masonic Homes of California and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Years Ended October 31, 2023 and 2022
(In Thousands)

	October 31, 2023	October 31, 2022
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ (14,403)	\$ (194,205)
Adjustment to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	10,832	10,310
Amortization of deferred revenue	(2,060)	(2,110)
Amortization due to death and withdrawal	(2,787)	(1,671)
Write-off of unamortized bond issuance cost	414	-
Realized and unrealized (gain) loss on investments	(35,019)	158,663
Contributions restricted for long term investments	(421)	(5,280)
Changes in assets and liabilities		
Receivables, net	277	27
Prepaid expenses and other assets	2,656	(300)
Related entities receivable and payable	420	427
Assets held for sale	(1,165)	(852)
Assets held in trust	73	3,071
Funds held for residents	145	(11)
Accounts payable and accrued liabilities	(896)	308
Liability to beneficiaries of split interest agreements	(175)	(553)
Deferred revenue from assigned assets, net	4,816	4,306
Net cash used in operating activities	\$ (37,293)	\$ (27,870)

See accompanying notes.

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, 2023, 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, 2022, from which the summarized information was derived.

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

Without donor restriction – without donor restriction net assets represent resources that are not subject to donor-imposed restrictions and are available to support Masonic Homes' activities. The board of trustees has designated certain net assets without donor restrictions as operating reserves, capital reserves, uninsured risk reserves, strategic initiative reserves, advance care reserves, and endowment funds.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

As of October 31, 2023 and 2022, board-designated reserve funds consisted of the following:

	2023	2022
	(In Thousands)	(In Thousands)
Operating reserve fund	\$ 6,323	\$ 6,966
Capital reserve fund	7,266	7,232
Uninsured risk fund	11,509	11,076
Strategic reserve fund	1,077	1,366
Advanced care reserve fund	2,044	3,946
Endowment funds	247,037	245,473
Total board-designated net assets	\$ 275,256	\$ 276,059

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.

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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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:

	<u>2023</u>	<u>2022</u>
	(In Thousands)	(In Thousands)
Cash and cash equivalents - operating cash	\$ 4,386	\$ 4,054
Cash and cash equivalents - money market	27,628	10,963
Funds held for residents - restricted cash	<u>1,730</u>	<u>1,598</u>
Total cash, cash equivalents, and resident restricted cash	<u>\$ 33,744</u>	<u>\$ 16,615</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 credit losses, based on a history of past write-offs and collections, current conditions and future expectations. Past-due status is based upon the date of services provided. Uncollectible receivables are charged off when deemed uncollectible. Recoveries from previously charged-off accounts are recorded when received.

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

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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 \$319,000 and \$592,000 as of October 31, 2023 and 2022, 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 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, 2023 and 2022.

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 2.85% and 3.955% as of October 31, 2023 and 2022, respectively. Deferred revenue from the Pooled Income Fund included in liability to beneficiaries of split-interest agreements in the consolidated statements of financial position was \$109,000 and \$145,000 as of October 31, 2023 and 2022, respectively.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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 0.4% to 6.0% and 0.4% to 5.80% as of October 31, 2023 and 2022, respectively. Liabilities to beneficiaries of charitable remainder trusts included in liabilities to beneficiaries in the consolidated statements of financial position were \$1,257,000 and \$1,346,000 as of October 31, 2023 and 2022, respectively.

Other liabilities to beneficiaries of split-interest arrangements – Other liabilities to beneficiaries of split-interest agreements include charitable remainder trusts and other gift annuities for which the Organization is obligated. These arrangements included in liabilities to beneficiaries in the consolidated statements of financial position were \$425,000 and \$475,000 as of October 31, 2023 and 2022, 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. Management has determined that no such accrual is required in the accompanying consolidated financial statements.

Revenue recognition

Masonic Homes

Residency fees – The Organization has elected the practical expedient allowed under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-32-18 and does not adjust the promised amount of consideration from residents and third party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a resident and the time that the resident or a third party payor pays for that service will be one year or less. However, the Organization does, in certain instances, enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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, 2023 and 2022, deferred revenues from assigned assets subject to refund, were \$72,603 and \$1,391,163, respectively. The life-care agreement creates a performance obligation to be satisfied over the remaining life of the resident at Masonic Homes.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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, 2023 and 2022, Masonic Homes had \$17,118,000 and \$16,288,000, 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, 2023 and 2022. 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 \$8,402,000 and \$6,950,000, for the years ended October 31, 2023 and 2022, respectively and is presented net of third-party rate adjustments. Other revenue is recognized as the related services are provided and includes guest services income, catering income, and other miscellaneous income.

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

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

- Medicare: Inpatient nonacute care services 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 of California and Subsidiaries

Notes to Consolidated Financial Statements

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 2023 or 2022.

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, 2023 and 2022, was not significant.

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

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

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Acacia Creek – UC

Entrance fees – Acacia Creek – UC – The adult residents who enter and sign a Residence and Care Agreement are allowed a 90-day trial period during which the resident may leave the community at their discretion and receive, upon written notice, a refund of all fees less a reasonable processing fee and fees for the value of services rendered during occupancy. The majority of the adult resident entrance fees are refundable ranging from 50% to 100% upon the resident’s death or termination of the agreement. Acacia Creek – UC is required to refund the entrance fees when the unit is re-sold. As of October 31, 2023 and 2022, entrance fees subject to refund were \$44,263,000 and \$40,801,000, 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.

The following table provides information about the Organization’s receivables and deferred revenues pursuant to FASB ASC 606-10-50-11, as of October 31:

	2023	2022	2021
	(In Thousands)	(In Thousands)	(In Thousands)
Receivables, net	\$ 3,341	\$ 3,618	\$ 3,646
Deferred revenue from assigned assets	\$ 21,525	\$ 20,675	\$ 18,949

Contributions – The Organization records contributions and unconditional promises to give in the period they are received in accordance with 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.

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, 2023 and 2022, 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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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.

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 – In February 2016, the FASB issued Accounting Standards Update (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. During 2023, the Organization adopted ASU No. 2016-02. The adoption did not have a material impact on the Organization’s consolidated financial statements.

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. During 2023, the Organization adopted ASU No. 2016-13. 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

Note 2 – Funds Held for Residents and Prospective Residents

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

	2023	2022
	(In Thousands)	(In Thousands)
Acacia Creek - UC	\$ 529	\$ 542
Masonic Homes Union City	82	93
Masonic Homes Covina	1,119	963
Total funds held for residents	\$ 1,730	\$ 1,598

Note 3 – Investments

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

Investments consisted of the following as of October 31:

	2023	2022
	(In Thousands)	(In Thousands)
Corporate stocks	\$ 151,058	\$ 166,271
Equity mutual funds	329,808	319,448
Alternative investments	97,921	109,540
Fixed income mutual funds	143,875	187,016
Private markets	101,020	87,485
Total investments	\$ 823,682	\$ 869,760

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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Fixed income mutual funds – These funds seek long-term real returns. The funds are invested in actively managed mutual funds, including developed and emerging bonds and stocks, real estate, commodities, and absolute-return oriented strategies.

Private markets – The investments represent a diversified range of strategies focused on numerous geographies and sectors.

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

Alternative investment strategy	Number of funds	2023		2022	
		(In Thousands)		(In Thousands)	
Real estate investment trust	1	\$	10,581	1	\$ 13,473
Global Macro	1		26,078	1	24,262
Credit Long/Short	1		736	1	26,542
Opportunistic	1		1,984	1	3,046
EM Macro	1		20,624	1	17,542
Structured Credit	1		22,361	1	24,675
Special Opportunities	1		15,557	0	-
Total alternative investments	7	\$	<u>97,921</u>	6	<u>\$ 109,540</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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

	2023			
	(In Thousands)			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Corporate stocks				
Domestic stocks	\$ 111,832	\$ 111,832	\$ -	\$ -
Equity mutual funds				
Domestic equity	15,682	15,682	-	-
Foreign equity	156,209	156,209	-	-
Fixed income mutual funds	11,305	11,305	-	-
Total investments	<u>295,028</u>	<u>295,028</u>	<u>-</u>	<u>-</u>
Assets held in trust				
Corporate stocks				
Domestic stocks	300	-	-	300
Equity mutual funds				
Domestic stocks	3,736	2,324	-	1,412
Foreign stocks	1,539	1,135	-	404
Alternative investments	60	-	-	60
Fixed income mutual funds	4,723	3,743	-	980
Money market accounts	334	283	-	51
Total assets held in trusts	<u>10,692</u>	<u>7,485</u>	<u>-</u>	<u>3,207</u>
Total	<u>\$ 305,720</u>	<u>\$ 302,513</u>	<u>\$ -</u>	<u>\$ 3,207</u>

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

	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	151,003	151,003	-	-
Fixed income mutual funds	60,641	60,641	-	-
Total investments	346,567	346,567	-	-
Assets held in trust				
Corporate stocks				
Domestic stocks	303	-	-	303
Equity mutual funds				
Domestic stocks	3,801	2,431	-	1,370
Foreign stocks	1,643	1,110	-	533
Alternative investments	64	-	-	64
Fixed income mutual funds	4,619	3,757	-	862
Money market accounts	335	248	-	87
Total assets held in trusts	10,765	7,546	-	3,219
Total	\$ 357,332	\$ 354,113	\$ -	\$ 3,219

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

	2023	2022
	(In Thousands)	(In Thousands)
Investments measured at NAV		
Corporate stocks		
Foreign stocks	\$ 39,226	\$ 47,323
Equity mutual funds		
Domestic equity	76,144	66,161
Foreign equity	81,773	86,309
Alternative investments	97,921	109,540
Fixed income mutual funds	132,570	126,375
Private markets	101,020	87,485
Total	\$ 528,654	\$ 523,193

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

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

	Asset Held in Trust
Balance, October 31, 2021	\$ 4,113
Total realized and unrealized gain and loss included in changes in net assets with donor restrictions	(894)
Balance, October 31, 2022	3,219
Total realized and unrealized gain and loss included in changes in net assets with donor restrictions	(12)
Balance, October 31, 2023	\$ 3,207

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

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

Fund Type	Fair Value (in thousands) October 31, 2023	Fair Value (in thousands) October 31, 2022	Unfunded Commitments (in thousands) October 31, 2023	Unfunded Commitments (in thousands) October 31, 2022	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Redemption Restriction
Corporate stocks							
Foreign stocks	\$ 39,226	\$ 47,323	-	-	Monthly	30 days	None
Equity mutual funds							
Domestic equity	76,144	66,161	-	-	Daily	1 - 5 days	None
Foreign equity	81,773	86,309	-	-	Daily, Monthly	0 days	None or minimum of \$250
Alternative investments							
Global Macro	26,078	24,262	-	-	Quarterly	Quarterly	45 days, lock-up 1st year
Credit Long/Short	736	26,542	-	-	Quarterly	Quarterly	45 days
Opportunistic	1,984	3,046	-	-	n/a	n/a	n/a
EM Macro	20,624	17,542	-	-	Quarterly	90 days	90 days
Structured Credit	22,361	24,675	-	-	Quarterly	60 days	60 days
Real estate investment trust	10,581	13,473	-	-	Quarterly	60 days	60 days
Special Opportunities	15,557	-	-	-	Monthly	30 days	30 days
Fixed income mutual funds	132,570	126,375	-	-	Daily	0-3 days	None
Private markets	101,020	87,485	53,223	65,736	n/a	n/a	n/a
	\$ 528,654	\$ 523,193	\$ 53,223	\$ 65,736			

Foreign stocks – These are funds invested primarily in common stocks of international issuers. This includes both large and small-cap issuers as well as opportunistic exposure to issuers in the emerging markets.

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 fund. The objectives are to invest primarily in long-only portfolio of global equities and 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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Alternative investments

Global Macro – 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.

Credit Long/Short – 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.

Opportunistic – 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.

EM Macro – 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.

Structured Credit – 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.

Real Estate – 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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Special Opportunities – This is an investment in a multi-strategy event driven hedge fund. The Fund invests opportunistically throughout capital structures and targets catalysts in a variety of event equity and event credit strategies. The Fund will invest across a number of sectors but has historically held a bias and preference towards companies in the gaming, lodging, leisure and real estate sectors. Underlying strategies include distressed debt, relative value, event driven equity, value equity and leveraged loans. Investments are predominantly made with small and mid-cap US based companies, and historically the Fund’s exposure has been 85-90% US-based. Structured credit, municipal debt, and sovereign debt are generally avoided.

Fixed income mutual funds – 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 2018-2023 commitments of \$302 million, to private markets (private equity/debt and private real estate/real assets), were approved by the Investment Committee. The Organization allocated portion of these investments at October 31, 2023 and 2022, were \$101 million and \$87 million, respectively. Unfunded commitments allocated to the organization at October 31, 2023 and 2022, were \$53 million and \$66 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:

	2023	2022
	(In Thousands)	(In Thousands)
Land and improvements	\$ 46,455	\$ 46,393
Buildings and improvements	375,376	293,004
Furniture and equipment	33,790	32,263
Construction in progress	8,611	71,004
Leasehold improvement	245	245
Total property and equipment	464,477	442,909
Less: accumulated depreciation	(198,130)	(187,331)
Property and equipment, net	\$ 266,347	\$ 255,578

Depreciation and amortization expense for the years ended October 31, 2023 and 2022, totaled \$10,799,000 and \$10,273,000, 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 IRS 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, 2023 and 2022, Masonic Homes of California expended \$10,494,000 and \$16,319,000, respectively, in construction costs in connection with this project. As of October 31, 2023, these costs have totaled \$61,352,000.

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, 2023 and 2022, Masonic Homes of California expended \$6,726,000 and \$16,400,000, respectively, in construction costs in connection with this project. As of October 31, 2023, these costs have totaled \$95,092,000.

Note 6 – Assets Held in Trusts

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

	<u>2023</u>	<u>2022</u>
	(In Thousands)	(In Thousands)
Contributions receivable from split-interest agreements	\$ 270	\$ 283
Assets of pooled income fund	411	425
Assets of split-interest agreements	6,419	6,455
Assets of charitable gift annuities	655	667
Beneficial interest in perpetual trusts	<u>3,207</u>	<u>3,218</u>
Total assets held in trusts	<u>\$ 10,692</u>	<u>\$ 10,765</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, 2023 and 2022, the rate was estimated to be 2.85% and 3.955%, respectively.

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 6.0%. 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, 2023 and 2022, was (\$43,000) and (\$174,000), 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>2023</u>	<u>2022</u>
	(In Thousands)	(In Thousands)
Balance, beginning of year	\$ 20,675	\$ 18,949
Received from new residents	5,258	5,210
Other payments/settlements	(442)	(731)
Reclassification/other adjustments	-	(174)
Amortizable portion of entrance fee	881	1,202
Amortized		
Due to deaths and withdrawals	(2,787)	(1,671)
Based on actuarial calculation	(2,060)	(2,110)
Balance, end of year	<u>\$ 21,525</u>	<u>\$ 20,675</u>

Note 8 – Refundable Advance Fees

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

	<u>2023</u>	<u>2022</u>
	(In Thousands)	(In Thousands)
Balance, beginning of year	\$ 40,801	\$ 38,730
Received from new residents	8,816	6,570
Deposits refunded to residents	(4,473)	(3,297)
Amortizable portion of entrance fee	(881)	(1,202)
Balance, end of year	<u>\$ 44,263</u>	<u>\$ 40,801</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:

	2023		2022	
	(In Thousands)		(In Thousands)	
	Purpose Restricted	Endowment	Purpose Restricted	Endowment
Available for use in awarding scholarships or other programs related to children	\$ 6,605	\$ 1,595	\$ 6,345	\$ 1,595
Available for use in the activities of the homes in Union City and Covina upon lapse of time restrictions	11,082	159,418	12,896	158,997
Available for use in providing critical relief to Masons and their families	1,475	-	1,060	-
	<u>\$ 19,162</u>	<u>\$ 161,013</u>	<u>\$ 20,301</u>	<u>\$ 160,592</u>

Net assets were released from donor restrictions as shown in the following table for the years ended October 31, 2023 and 2022. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2023	2022
	(In Thousands)	(In Thousands)
Use to fund Covina SNF and Pavillion Capital Projects	\$ 2,099	\$ -
Use in the activities of the home for adults in Union City, California	388	415
Use in the activities of the home for adults/children in Covina, California	95	485
Use in Masonic Outreach Services	128	434
Use in providing critical relief to Masons and their families	70	65
Use in awarding scholarships and other community sponsorship	16	64
Total net assets released from restrictions	<u>\$ 2,796</u>	<u>\$ 1,463</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 \$1,762,000 and \$1,661,000 for the years ended October 31, 2023 and 2022, 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 \$9,243,000 and \$8,666,000 for the years ended October 31, 2023 and 2022, 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 Organization 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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Note 13 – Long-Term Debt

Long-term debt at October 31, 2023 and 2022, consisted of the following:

	2023 (In Thousands)	2022 (In Thousands)
California Statewide Communities Development Authority Revenue Refunding Bonds, Series 2023 A, annual fixed interest rate of 3.80%, annual payments beginning November 1, 2023, continuing to July 1, 2038	\$ 73,301	\$ -
Bank of America term loan, annual fixed interest rate of 2.2%, monthly payments beginning September 15, 2021, amortized over 20 years with a balloon payment due on August 14, 2026	45,769	47,836
Bank of America, N.A., annual fixed interest rate of 4.68% in 2023, annual payments beginning November 1, 2023, continuing to May 1, 2028	3,568	-
Association of Bay Area Government Bonds, Series 2013A, variable rate equal to 80% of one month LIBOR plus 47 basis points (2.972% in 2022), annual payments beginning November 1, 2016, continuing to July 1, 2038	-	80,503
Bank of America Public Capital Corporation loan, variable rate equal to one month LIBOR plus 60 basis points (3.7280% in 2022), annual payments beginning November 1, 2016, continuing to November 1, 2038	-	3,917
	122,638	132,256
Less: current portion	6,082	5,779
	116,556	126,477
Less: net unamortized cost of issuance	237	404
	\$ 116,319	\$ 126,073

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.

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

On May 1, 2023, Acacia Creek issued \$76,962,000 Revenue Refunding Bonds, Series 2023A. The bonds were privately placed with Bank of America, N.A. The Masonic Homes is the guarantor of all obligations of Acacia Creek under the agreement. The proceeds of the bonds were used to retire the Acacia Creek Variable Rate Revenue Bonds, Series 2013A issued on October 29, 2013. Masonic Homes guarantees the performance of Acacia Creek's repayment obligations. The bonds carry a fixed interest rate of 3.8%.

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.

On May 1, 2023, Acacia Creek entered into a 5-year Taxable Fixed Rate Loan through Bank of America, N.A. in the amount of \$3,746,000. The maturity date of the loan is May 1, 2028. The loan is secured/guaranteed by the Masonic Homes. The proceeds of the loan were used to retire the Taxable Variable Rate loan issued on October 29, 2013. Under the terms of the loan, the loan is secured by the Masonic Homes.

Term loan – 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.

The loans contain various covenants with which Masonic Homes and Acacia Creek must comply.

Future minimum payment schedule – Total annual maturities of long-term debt as of October 31, 2023, are as follows (in thousands):

2024	\$	6,082
2025		6,268
2026		6,455
2027		6,655
2028		9,438
Thereafter		87,503
	\$	122,401

Interest paid for the years ended October 31, 2023 and 2022, on long-term debt was \$4,263,000 and \$2,254,000, 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 2023/2022, 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, 2023 (In Thousands)		
	Without Donor Restriction	Purpose Restricted	Endowment
Donor-restricted endowment funds	\$ -	\$ 19,162	\$ 161,013
Board-designated endowment funds	247,037	-	-
Total endowment funds	\$ 247,037	\$ 19,162	\$ 161,013
	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	\$ 245,473	\$ 20,301	\$ 160,592

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
Endowment net assets,				
October 31, 2022	\$ 245,473	\$ 20,301	\$ 160,592	\$ 426,366
Investment return:				
Realized gains (loss)	4,046	(192)	-	3,854
Investment income	5,731	230	-	5,961
Unrealized gains	12,841	770	-	13,611
Total investment return	22,618	808	-	23,426
Contributions	-	849	421	1,270
Release from restrictions	-	(2,796)	-	(2,796)
Release/transfer to general fund and/or operation	(19,048)	-	-	(19,048)
Expenses	(2,006)	-	-	(2,006)
Endowment net assets,				
October 31, 2023	\$ 247,037	\$ 19,162	\$ 161,013	\$ 427,212
	Without Donor Restriction	Purpose Restricted	Endowment	Total
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	\$ 245,473	\$ 20,301	\$ 160,592	\$ 426,366

Nature and types of restrictions:

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

Masonic Homes of California and Subsidiaries

Notes to Consolidated Financial Statements

Aggregate amount of deficiencies for donor-restricted endowments:

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Masonic Homes to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, there was no deficiency of this nature that was reported in net assets without donor restrictions as of October 31, 2023 and 2022, 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 31:

	2023										
	Program Expenses					Supporting Services					
	Acacia Creek Operation	Masonic Homes Operation	Masonic Outreach Services	Masonic Center for Youth and Families	Scholarship and Community Sponsorship	Total Program Expenses	Marketing	Administration/ shared services	Fundraising	Total Supporting Services	Total Consolidated
Salaries and wages	\$ 2,935	\$ 20,805	\$ 1,710	\$ 2,853	\$ -	\$ 28,303	\$ 297	\$ -	\$ -	\$ 297	\$ 28,600
Employee benefits	746	4,590	279	444	-	6,059	51	-	-	51	6,110
Payroll taxes	208	1,410	125	206	-	1,949	23	-	-	23	1,972
Pension plan contributions	184	1,284	106	164	-	1,738	24	-	-	24	1,762
Audit and tax fees	24	123	-	-	-	147	-	-	-	-	147
Legal fees	14	100	-	1	-	115	-	-	-	-	115
Other professional fees	114	659	1	45	-	819	118	-	-	118	937
Operating supplies and services	475	1,414	104	106	-	2,099	63	-	-	63	2,162
Information technology	2	42	-	3	-	47	-	-	-	-	47
Dues, licenses, and permit	40	315	-	5	-	360	-	-	-	-	360
Insurance	622	1,721	-	71	-	2,414	-	-	-	-	2,414
Property taxes	113	349	-	-	-	462	-	-	-	-	462
Utilities, maintenance, and facility expenses	883	3,063	7	315	-	4,268	-	-	-	-	4,268
Travel	8	187	124	25	-	344	-	-	-	-	344
Resident care and services	1,037	11,269	34	15	-	12,355	16	-	-	16	12,371
Nonresident assistance	-	-	2,368	-	-	2,368	-	-	-	-	2,368
Depreciation and amortization	2,710	8,095	-	27	-	10,832	-	-	-	-	10,832
Promotion and advertising	-	-	-	-	-	-	93	-	-	93	93
Scholarship and community sponsorship	-	-	-	-	151	151	-	-	-	-	151
Interest expense	3,217	1,046	-	-	-	4,263	-	-	-	-	4,263
Miscellaneous expenses	20	152	2	14	-	188	3	-	-	3	191
Shared service allocation	-	-	-	-	-	-	-	8,233	1,009	9,242	9,242
Total program expenses	\$ 13,352	\$ 56,624	\$ 4,860	\$ 4,294	\$ 151	\$ 79,281	\$ 688	\$ 8,233	\$ 1,009	\$ 9,930	\$ 89,211

Masonic Homes of California and Subsidiaries Notes to Consolidated Financial Statements

	2022										
	Program Expenses					Supporting Services					
	Acacia Creek Operation	Masonic Homes Operation	Masonic Outreach Services	Masonic Center for Youth and Families	Scholarship and Community Sponsorship	Total Program Expenses	Marketing	Administration/ shared services	Fundraising	Total Supporting Services	Total Consolidated
Salaries and wages	\$ 3,041	\$ 18,368	\$ 1,604	\$ 2,793	\$ -	\$ 25,806	\$ 258	\$ -	\$ -	\$ 258	\$ 26,064
Employee benefits	779	4,253	290	391	-	5,713	50	-	-	50	5,763
Payroll taxes	211	1,237	120	198	-	1,766	19	-	-	19	1,785
Pension plan contributions	192	1,192	103	155	-	1,642	19	-	-	19	1,661
Audit and tax fees	50	104	-	-	-	154	-	-	-	-	154
Legal fees	3	56	-	7	-	66	-	-	-	-	66
Other professional fees	68	329	-	47	-	444	32	-	-	32	476
Operating supplies and services	379	1,122	96	96	-	1,693	57	-	-	57	1,750
Information technology	2	52	-	4	-	58	-	-	-	-	58
Dues, licenses, and permit	40	287	-	5	-	332	-	-	-	-	332
Insurance	556	1,416	-	68	-	2,040	-	-	-	-	2,040
Property taxes	107	329	-	-	-	436	-	-	-	-	436
Utilities, maintenance, and facility expenses	822	2,698	1	310	-	3,831	-	-	-	-	3,831
Travel	9	105	80	14	-	208	-	-	-	-	208
Resident care and services	1,017	10,273	81	13	-	11,384	6	-	-	6	11,390
Nonresident assistance	-	-	2,160	-	-	2,160	-	-	-	-	2,160
Depreciation and amortization	2,686	7,601	-	23	-	10,310	-	-	-	-	10,310
Promotion and advertising	-	-	-	-	-	-	76	-	-	76	76
Scholarship and community sponsorship	-	-	-	-	128	128	-	-	-	-	128
Interest expense	1,163	1,091	-	-	-	2,254	-	-	-	-	2,254
Miscellaneous expenses	19	176	-	15	-	210	2	-	-	2	212
Shared service allocation	-	-	-	-	-	-	-	7,704	962	8,666	8,666
Total program expenses	\$ 11,144	\$ 50,689	\$ 4,535	\$ 4,139	\$ 128	\$ 70,635	\$ 519	\$ 7,704	\$ 962	\$ 9,185	\$ 79,820

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:

	2023 (In Thousands)	2022 (In Thousands)
Financial assets		
Cash and cash equivalents	\$ 32,014	\$ 15,017
Receivables, net	3,341	3,618
Related party receivable	188	296
Assets held for sale	2,379	1,214
Financial assets available to meet cash needs for general expenditure within one year	\$ 37,922	\$ 20,145

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, 2023 and 2022.

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 23, 2024, 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, 2023 (With Summarized Comparative Information as of October 31, 2022)
(In Thousands)

	Without Donor Restriction			Total	With Donor Restriction Masonic Homes	October 31, 2023 Total	October 31, 2022 Comparative Totals Only (Summarized)
	Acacia Creek Union City	Masonic Homes	Elimination/ Reclass				
Assets							
Current assets							
Cash and cash equivalents	\$ 698	\$ 31,316	\$ -	\$ 32,014	\$ -	\$ 32,014	\$ 15,017
Funds held for residents	-	1,201	-	1,201	-	1,201	1,056
Receivables, net	-	3,341	-	3,341	-	3,341	3,618
Notes receivable - related party	-	10,000	(10,000)	-	-	-	-
Prepaid expenses and other assets	549	1,259	-	1,808	-	1,808	4,402
Current portion of related party receivable	-	3,452	(3,452)	-	188	188	296
Assets held for sale	-	2,379	-	2,379	-	2,379	1,214
Total current assets	<u>1,247</u>	<u>52,948</u>	<u>(13,452)</u>	<u>40,743</u>	<u>188</u>	<u>40,931</u>	<u>25,603</u>
Investments, at fair value	18,206	634,521	-	652,727	170,955	823,682	869,760
Related party receivable, net	-	-	-	-	131	131	296
Property and equipment, net	61,535	204,812	-	266,347	-	266,347	255,578
Assets held in trusts	-	-	-	-	10,692	10,692	10,765
Funds held for residents	529	-	-	529	-	529	542
Other assets	-	13,108	(12,485)	623	-	623	725
Total assets	<u>\$ 81,517</u>	<u>\$ 905,389</u>	<u>\$ (25,937)</u>	<u>\$ 960,969</u>	<u>\$ 181,966</u>	<u>\$ 1,142,935</u>	<u>\$ 1,163,269</u>
Liabilities and net assets							
Current liabilities							
Accounts payable and accrued liabilities	\$ 419	\$ 3,463	\$ -	\$ 3,882	\$ -	\$ 3,882	\$ 4,893
Accrued payroll and benefits payable	374	3,266	-	3,640	-	3,640	3,525
Current portion of long term debt	3,968	2,114	-	6,082	-	6,082	5,779
Current portion of liability for funds held for residents	-	1,201	-	1,201	-	1,201	1,056
Intercompany debt	10,000	-	(10,000)	-	-	-	-
Related entities payable	3,458	183	(3,452)	189	-	189	42
Total current liabilities	<u>18,219</u>	<u>10,227</u>	<u>(13,452)</u>	<u>14,994</u>	<u>-</u>	<u>14,994</u>	<u>15,295</u>
Liability to beneficiaries of split-interest agreements	-	-	-	-	1,791	1,791	1,966
Long term debt, net	72,664	43,655	-	116,319	-	116,319	126,073
Liability for funds held for residents, net	529	-	-	529	-	529	542
Refundable advance fees	56,748	-	(12,485)	44,263	-	44,263	40,801
Deferred revenue from assigned assets	4,407	17,118	-	21,525	-	21,525	20,675
Total liabilities	<u>152,567</u>	<u>71,000</u>	<u>(25,937)</u>	<u>197,630</u>	<u>1,791</u>	<u>199,421</u>	<u>205,352</u>
Net (deficit) assets	<u>(71,050)</u>	<u>834,389</u>	<u>-</u>	<u>763,339</u>	<u>180,175</u>	<u>943,514</u>	<u>957,917</u>
Total liabilities and net assets (deficit)	<u>\$ 81,517</u>	<u>\$ 905,389</u>	<u>\$ (25,937)</u>	<u>\$ 960,969</u>	<u>\$ 181,966</u>	<u>\$ 1,142,935</u>	<u>\$ 1,163,269</u>

Masonic Homes of California and Subsidiaries
Consolidating Statements of Activities and Changes in Net Assets
Year Ended October 31, 2023 (With Summarized Comparative Information for the Year Ended October 31, 2022)
(In Thousands)

	Without Donor Restrictions			Total	With Donor Restrictions Masonic Homes	October 31, 2023 Total	October 31, 2022 Comparative Totals Only (Summarized)
	Acacia Creek Union City	Masonic Homes	Elimination/ Reclass				
Public Support and Revenue							
Contributions	\$ -	\$ 55	\$ -	\$ 55	\$ 495	\$ 550	\$ 614
Bequests and memorials	-	575	-	575	776	1,351	8,627
Amortization of deferred revenue from assigned assets	469	1,591	-	2,060	-	2,060	2,110
Amount received from pensions assigned by resident	-	5,590	-	5,590	-	5,590	5,197
Investment income	135	7,626	-	7,761	230	7,991	8,345
Net realized gain (loss) on investments	150	477	-	627	(192)	435	66,968
Fee for service revenue	6,490	3,030	-	9,520	-	9,520	8,912
Health service revenue	-	8,604	(202)	8,402	-	8,402	6,950
Other income	676	3,963	-	4,639	-	4,639	5,704
Net assets released from restriction	-	2,796	-	2,796	(2,796)	-	-
Total public support and revenue	7,920	34,307	(202)	42,025	(1,487)	40,538	113,427
Expenses							
Program							
Operation of Acacia Creek and Masonic Homes	13,352	56,624	-	69,976	-	69,976	61,833
Masonic Outreach Services	-	4,860	-	4,860	-	4,860	4,535
Masonic Center for Youth and Families	-	4,294	-	4,294	-	4,294	4,139
Scholarship and other program	-	151	-	151	-	151	128
Total program expenses	13,352	65,929	-	79,281	-	79,281	70,635
Supporting services							
Marketing	890	-	(202)	688	-	688	519
Fundraising	-	1,009	-	1,009	-	1,009	962
Administration/shared services	1,172	7,061	-	8,233	-	8,233	7,704
Total supporting services expenses	2,062	8,070	(202)	9,930	-	9,930	9,185
Total expenses	15,414	73,999	(202)	89,211	-	89,211	79,820
Write-off of unamortized bond issuance costs	(414)	-	-	(414)	-	(414)	-
Net unrealized gain (loss) on investments	213	33,702	-	33,915	669	34,584	(225,631)
Change in value of split-interest agreements	-	-	-	-	100	100	(2,181)
Deficit of revenues over expenses before other changes in net assets	(7,695)	(5,990)	-	(13,685)	(718)	(14,403)	(194,205)
Equity transfer	3,840	(3,840)	-	-	-	-	-
Change in net assets	(3,855)	(9,830)	-	(13,685)	(718)	(14,403)	(194,205)
Net (deficit) assets at beginning of year	(67,195)	844,219	-	777,024	180,893	957,917	1,152,122
Net (deficit) assets at end of year	<u>\$ (71,050)</u>	<u>\$ 834,389</u>	<u>\$ -</u>	<u>\$ 763,339</u>	<u>\$ 180,175</u>	<u>\$ 943,514</u>	<u>\$ 957,917</u>

Masonic Homes of California and Subsidiaries
Consolidating Statements of Cash Flows
Year Ended October 31, 2023
(With Summarized Comparative Information for the Year Ended October 31, 2022)
(In Thousands)

	October 31, 2023				October 31, 2022
	Acacia Creek – Union City	Masonic Homes	Elimination	Total	Comparative Totals Only (Summarized)
Cash flows from operating activities					
Contributions and bequests received	\$ -	\$ 1,479	\$ -	\$ 1,479	\$ 3,960
Net proceeds from assigned assets	-	4,816	-	4,816	4,305
Amounts received from pension assigned assets	-	5,590	-	5,590	5,197
Net loss from sale of resident assets	-	(1,072)	-	(1,072)	(863)
Investment income received	135	7,856	-	7,991	8,344
Fee for service revenue	6,490	3,030	-	9,520	8,912
Health service revenue	-	8,604	-	8,604	7,031
Other income	350	1,780	-	2,130	4,061
Cash paid for expenses	(7,523)	(68,825)	-	(76,348)	(69,150)
Net (loss) proceeds from split-interest agreements	-	(3)	-	(3)	333
Net cash used in operating activities	<u>(548)</u>	<u>(36,745)</u>	<u>-</u>	<u>(37,293)</u>	<u>(27,870)</u>
Cash flows from investing activities					
Net proceeds from sales of investments	8,000	141,804	-	149,804	145,575
Purchase of investments	(15,468)	(53,239)	-	(68,707)	(80,165)
Purchase of property and equipment	(540)	(21,028)	-	(21,568)	(37,845)
Net cash (used in) provided by investing activities	<u>(8,008)</u>	<u>67,537</u>	<u>-</u>	<u>59,529</u>	<u>27,565</u>
Cash flows from financing activities					
Cash received from residents subject to refund	16,414	-	(7,598)	8,816	6,570
Deposits refunded to residents	(4,473)	-	-	(4,473)	(3,297)
Entrance fee deposited to Acacia Creek	-	(7,598)	7,598	-	-
Contributions restricted for long term investments	-	421	-	421	5,280
Funds held for residents	(13)	-	-	(13)	3
Bond issuance cost payment	(240)	-	-	(240)	-
Equity transfer	3,840	(3,840)	-	-	-
Proceeds from the issuance of long term debt	80,708	-	-	80,708	-
Payments on long term debt	(88,259)	(2,067)	-	(90,326)	(5,617)
Net cash provided by (used in) financing activities	<u>7,977</u>	<u>(13,084)</u>	<u>-</u>	<u>(5,107)</u>	<u>2,939</u>
Net change in cash	(579)	17,708	-	17,129	2,634
Cash, cash equivalents, and resident restricted cash beginning of year	<u>1,806</u>	<u>14,809</u>	<u>-</u>	<u>16,615</u>	<u>13,981</u>
Cash, cash equivalents, and resident restricted cash end of year	<u>\$ 1,227</u>	<u>\$ 32,517</u>	<u>\$ -</u>	<u>\$ 33,744</u>	<u>\$ 16,615</u>
Supplemental cash flow information					
Interest paid	<u>\$ 3,217</u>	<u>\$ 1,046</u>	<u>\$ -</u>	<u>\$ 4,263</u>	<u>\$ 2,254</u>

Masonic Homes of California and Subsidiaries
Consolidating Statements of Cash Flows
Year Ended October 31, 2023
(With Summarized Comparative Information for the Year Ended October 31, 2022)
(In Thousands)

	October 31, 2023				October 31, 2022
	Acacia Creek – Union City	Masonic Homes	Elimination	Total	Comparative Total Only (Summarized)
Reconciliation of change in net assets to net cash used in operating activities					
Change in net assets	\$ (3,855)	\$ (10,548)	\$ -	\$ (14,403)	\$ (194,205)
Adjustment to reconcile change in net assets to net cash used in operating activities					
Depreciation and amortization	2,710	8,122	-	10,832	10,310
Amortization of deferred revenue	(469)	(1,591)	-	(2,060)	(2,110)
Amortization due to death and withdrawal	(392)	(2,395)	-	(2,787)	(1,671)
Equity transfer	(3,840)	3,840	-	-	-
Write-off of unamortized bond issuance cost	414	-	-	414	-
Realized and unrealized (gain) loss on investments	(363)	(34,656)	-	(35,019)	158,663
Contributions restricted for long term investments	-	(421)	-	(421)	(5,280)
Changes in assets and liabilities					
Receivables, net	65	212	-	277	27
Prepaid expenses and other assets	3,404	(748)	-	2,656	(300)
Related entities receivable and payable	1,859	(1,439)	-	420	427
Assets held for sale	-	(1,165)	-	(1,165)	(852)
Assets held in trust	-	73	-	73	3,071
Funds held for residents	-	145	-	145	(11)
Accounts payable and accrued liabilities	(81)	(815)	-	(896)	308
Liability to beneficiaries of split interest agreements	-	(175)	-	(175)	(553)
Deferred revenue from assigned assets, net	-	4,816	-	4,816	4,306
Net cash used in operating activities	<u>\$ (548)</u>	<u>\$ (36,745)</u>	<u>\$ -</u>	<u>\$ (37,293)</u>	<u>\$ (27,870)</u>

Masonic Homes of California and Subsidiaries
Supplemental Schedule of Supporting Services Expenses (Unaudited)
Years Ended October 31, 2023 and 2022
(In Thousands)

	2023	2022
	(In Thousands)	(In Thousands)
General and admin - shared service allocation	\$ 7,061	\$ 6,577
Fund raising and development - shared service allocation	1,009	962
Masonic Homes general and administrative expenses	8,070	7,539
Acacia Creek general and admin shared service allocation	1,172	1,127
Total allocation of general and administrative support to Masonic Homes and Acacia Creek	9,242	8,666
Acacia Creek marketing expenses, net of elimination	688	519
Total general, administrative, and marketing expenses	\$ 9,930	\$ 9,185

