

Audited
Consolidated
Financial
Statements

December 31,
2020

**MASONIC VILLAGES
OF THE GRAND LODGE
OF PENNSYLVANIA**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Masonic Villages of the
Grand Lodge of Pennsylvania
Elizabethtown, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Masonic Villages of the Grand Lodge of Pennsylvania (a not-for-profit organization) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, functional expenses, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Pennsylvania Acacia Insurance Company, Ltd., a wholly-owned subsidiary, which statements reflect total assets of \$ 15,134,311 and \$ 13,615,615 as of December 31, 2020 and 2019, respectively, and total revenues of \$ 1,630,489 and \$ 2,132,609, respectively, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Pennsylvania Acacia Insurance Company, Ltd., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Board of Directors
Masonic Villages of the
Grand Lodge of Pennsylvania

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

Opinion

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries as of December 31, 2020 and 2019, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Masonic Villages of the Grand Lodge of Pennsylvania became the sole member of Pennsylvania Masonic Youth Foundation and The Masonic Library and Museum of Pennsylvania as of January 1, 2020, resulting in these entities being included in Masonic Villages of the Grand Lodge of Pennsylvania's consolidated financial statements as of January 1, 2020. Our opinion is not modified with respect to this matter.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2021, on our consideration of Masonic Villages of the Grand Lodge of Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Masonic Villages of the Grand Lodge of Pennsylvania's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Masonic Villages of the Grand Lodge of Pennsylvania's internal control over financial reporting and compliance.

Smith Elliott Kearn & Company, LLC.

Carlisle, Pennsylvania
April 27, 2021

**MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA**

CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>	LIABILITIES AND NET ASSETS	<u>2020</u>	<u>2019</u>
Current Assets:			Current Liabilities:		
Cash and cash equivalents (Note 4)	\$ 24,411,393	\$ 26,555,620	Current installments of long-term debt (Note 13)	\$ 9,145,000	\$ 8,830,000
Assets whose use is limited and that are required for current liabilities (Note 9)	2,748,382	2,752,206	Accrued expenses	18,103,111	16,043,760
Resident accounts receivable, net of estimated uncollectibles of \$ 1,302,000 in 2020 and \$ 1,177,000 in 2019 (Note 5)	5,440,928	7,095,562	Accounts payable:		
Accounts receivable:			Trade	7,045,999	10,515,976
Pennsylvania Masonic Youth Foundation	-	2,065	Masonic Charities Fund	18,255	9,677
Grand Lodge	72,910	40,041	Deferred revenue from estates and trusts	54,107	42,803
The Masonic Library and Museum of Pennsylvania	-	9,249	Deposits - Residents	1,008,331	852,673
Investment income receivable	1,140,691	1,347,051	Deposits on unoccupied units	1,248,195	3,778,571
Estimated third party settlements receivable (Note 18)	-	1,608,327	Annuities payable	<u>929,847</u>	<u>899,439</u>
Inventory	2,872,368	2,562,995	Total current liabilities	<u>37,552,845</u>	<u>40,972,899</u>
Other current assets	3,739,456	3,064,145			
Notes receivable (Note 7)	963,030	1,120,801	Annuities payable, net of current portion	5,724,393	4,997,211
Contributions receivable (Note 6)	<u>132,904</u>	<u>164,904</u>			
Total current assets	<u>41,522,062</u>	<u>46,322,966</u>	Refundable fees	106,881,509	105,186,116
Contributions receivable, net of current portion (Note 6)	<u>188,994</u>	<u>307,345</u>	Deferred revenue from entrance fees	123,712,556	124,240,604
Minimum liquid reserve requirement (Notes 8, 24)	<u>19,220,087</u>	<u>19,183,284</u>	Interest rate swap agreements (Note 12)	20,442,514	18,018,008
Investments (Note 8)	<u>884,148,444</u>	<u>729,786,173</u>	Long-term debt, net (Note 13)	<u>159,099,246</u>	<u>168,600,453</u>
Note receivable - Grand Lodge (Note 21)	<u>-</u>	<u>542,846</u>	Total liabilities	<u>453,413,063</u>	<u>462,015,291</u>
Property and equipment, net (Note 10)	<u>409,464,149</u>	<u>410,998,690</u>	Net Assets		
Other Assets:			Without donor restrictions	487,843,754	417,057,331
Deferred costs, net (Note 11)	105,600	158,400	With donor restrictions	<u>413,394,842</u>	<u>328,229,405</u>
Other long-term assets	<u>2,323</u>	<u>2,323</u>	Total net assets	<u>901,238,596</u>	<u>745,286,736</u>
Total other assets	<u>107,923</u>	<u>160,723</u>	Total liabilities and net assets	<u>\$ 1,354,651,659</u>	<u>\$ 1,207,302,027</u>
Collections (Note 1)	<u>-</u>	<u>-</u>			
Total assets	<u>\$ 1,354,651,659</u>	<u>\$ 1,207,302,027</u>			

The accompanying notes are an integral part of these consolidated financial statements.

**MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA**

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Resident service revenue (Note 18)	\$ 152,179,370	\$ 154,818,744
Provision for bad debts	<u>(442,302)</u>	<u>(456,524)</u>
Net resident service revenue	151,737,068	154,362,220
Amortization of entrance fees	14,139,684	13,517,287
Other operating revenue	15,084,065	6,861,086
Investment income	<u>11,530,992</u>	<u>14,290,806</u>
Total operating revenues	<u>192,491,809</u>	<u>189,031,399</u>
Operating expenses:		
Wages, salaries, and benefits	122,705,685	114,549,810
Supplies	23,795,188	22,109,623
Purchased services	19,219,054	20,641,251
Energy and utilities	8,268,118	8,135,789
Depreciation and amortization	28,955,029	26,845,259
Interest	6,527,315	6,389,202
Other operating expenses	5,095,805	7,794,274
COVID-19 pandemic expenses	1,972,773	-
Cybersecurity incident remediation costs	-	685,121
Total operating expenses	<u>216,538,967</u>	<u>207,150,329</u>
Loss from operations before change in fair value of derivative financial instruments	<u>(24,047,158)</u>	<u>(18,118,930)</u>
Unrealized depreciation on interest rate swap agreements	<u>(2,424,506)</u>	<u>(2,109,022)</u>
Loss from operations	<u>(26,471,664)</u>	<u>(20,227,952)</u>
Nonoperating gains (losses):		
Contributions, gifts, and bequests	5,199,396	6,596,720
Contributions from Masonic Charities Fund	1,653	4,168
Contributions from Grand Lodge net assets with donor restrictions	41,000	845,037
Income from perpetual trusts held by third parties	1,940,137	2,190,382
Realized gains on sale of investments	14,254,980	16,242,962
Adjustment of actuarial liabilities of split-interest agreements	444,956	(467,359)
Loss on disposal of property and equipment	<u>(45,252)</u>	<u>(121,845)</u>
Total nonoperating gains	<u>21,836,870</u>	<u>25,290,065</u>
(Deficiency) excess of revenues and gains over expenses and losses	<u>(4,634,794)</u>	<u>5,062,113</u>
Net assets released from restrictions:		
Satisfaction of program restrictions - Operations	18,261,593	6,386,637
Satisfaction of program restrictions - Purchase of property and equipment	<u>195,356</u>	<u>292,521</u>
Total net assets released from restrictions	<u>18,456,949</u>	<u>6,679,158</u>
Excess of assets over liabilities of not-for-profit corporations added to financial reporting entity by Masonic Villages assuming sole membership of organizations on January 1:		
Pennsylvania Masonic Youth Foundation	11,253,942	-
The Masonic Library and Museum of Pennsylvania	11,532,129	-
Net unrealized appreciation on investments	<u>34,178,197</u>	<u>44,207,433</u>
Increase in net assets without restrictions	<u>\$ 70,786,423</u>	<u>\$ 55,948,704</u>

The accompanying notes are an integral part of these consolidated financial statements.

**MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2020 and 2019**

	2020			Total Expenses
	Program Services	Management and General	Fundraising	
Wages, salaries, and benefits	\$ 104,206,089	\$ 17,080,608	\$ 1,418,988	\$ 122,705,685
Supplies	23,565,365	222,387	7,436	23,795,188
Purchased services	12,158,526	6,824,028	236,500	19,219,054
Energy and utilities	7,837,575	427,809	2,734	8,268,118
Depreciation and amortization	27,610,069	1,344,312	648	28,955,029
Interest	6,303,052	224,263	-	6,527,315
Other operating expenses	4,550,570	340,980	204,255	5,095,805
COVID-19 pandemic expenses	1,896,148	76,609	16	1,972,773
Total operating expenses	\$ 188,127,394	\$ 26,540,996	\$ 1,870,577	\$ 216,538,967

	2019			Total Expenses
	Program Services	Management and General	Fundraising	
Wages, salaries, and benefits	\$ 97,078,547	\$ 16,121,110	\$ 1,350,153	\$ 114,549,810
Supplies	21,820,747	253,973	34,903	22,109,623
Purchased services	13,495,294	6,921,325	224,632	20,641,251
Energy and utilities	7,772,062	357,639	6,088	8,135,789
Depreciation and amortization	25,459,980	1,384,421	858	26,845,259
Interest	6,161,053	228,149	-	6,389,202
Other operating expenses	7,643,555	4,619	146,100	7,794,274
Cybersecurity incident remediation costs	-	685,121	-	685,121
Total operating expenses	\$ 179,431,238	\$ 25,956,357	\$ 1,762,734	\$ 207,150,329

The accompanying notes are an integral part of these consolidated financial statements.

**MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended December 31, 2020 and 2019

	2020			2019		
	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
Revenues and Gains:						
Total operating revenues	\$ 192,491,809	\$ 192,491,809	\$ -	\$ 189,031,399	\$ 189,031,399	\$ -
Unrealized depreciation on interest rate swap agreements	(2,424,506)	(2,424,506)	-	(2,109,022)	(2,109,022)	-
Nonoperating investment income	638,986	-	638,986	173,215	-	173,215
Realized gains on sale of investments	26,130,450	14,254,980	11,875,470	26,287,888	16,242,962	10,044,926
Contributions, gifts, and bequests	10,533,968	5,199,396	5,334,572	8,813,659	6,596,720	2,216,939
Contribution from Masonic Charities Fund	1,653	1,653	-	4,168	4,168	-
Contributions from Grand Lodge net assets with donor restrictions	41,000	41,000	-	845,037	845,037	-
Income from perpetual trusts held by third parties	2,071,940	1,940,137	131,803	2,212,609	2,190,382	22,227
Total revenues and gains	<u>229,485,300</u>	<u>211,504,469</u>	<u>17,980,831</u>	<u>225,258,953</u>	<u>212,801,646</u>	<u>12,457,307</u>
Expenses and Losses:						
Operating expenses	216,538,967	216,538,967	-	207,150,329	207,150,329	-
Loss on disposal of property and equipment	45,252	45,252	-	121,845	121,845	-
Adjustment of actuarial liabilities of split-interest agreements	(456,006)	(444,956)	(11,050)	454,503	467,359	(12,856)
Total expenses and losses	<u>216,128,213</u>	<u>216,139,263</u>	<u>(11,050)</u>	<u>207,726,677</u>	<u>207,739,533</u>	<u>(12,856)</u>
Excess (deficiency) of revenues and gains over expenses and losses	<u>13,357,087</u>	<u>(4,634,794)</u>	<u>17,991,881</u>	<u>17,532,276</u>	<u>5,062,113</u>	<u>12,470,163</u>
Net assets released from restrictions -						
Satisfaction of program restrictions						
For use in operations	-	18,261,593	(18,261,593)	-	6,386,637	(6,386,637)
For capital purchases	-	195,356	(195,356)	-	292,521	(292,521)
Total net assets released from restrictions	<u>-</u>	<u>18,456,949</u>	<u>(18,456,949)</u>	<u>-</u>	<u>6,679,158</u>	<u>(6,679,158)</u>
Transfer of net assets with donor restrictions from Grand Lodge and Masonic Charities Fund	49,302,526	-	49,302,526	-	-	-
Excess of assets over liabilities of not-for-profit corporations added to financial reporting entity by Masonic Villages assuming sole membership of organizations on January 1:						
Pennsylvania Masonic Youth Foundation	14,818,925	11,253,942	3,564,983	-	-	-
The Masonic Library and Museum of Pennsylvania	20,507,215	11,532,129	8,975,086	-	-	-
Net unrealized appreciation on investments	<u>57,966,107</u>	<u>34,178,197</u>	<u>23,787,910</u>	<u>78,134,764</u>	<u>44,207,433</u>	<u>33,927,331</u>
Increase in net assets	155,951,860	70,786,423	85,165,437	95,667,040	55,948,704	39,718,336
Net assets at January 1	<u>745,286,736</u>	<u>417,057,331</u>	<u>328,229,405</u>	<u>649,619,696</u>	<u>361,108,627</u>	<u>288,511,069</u>
Net assets at December 31	<u>\$ 901,238,596</u>	<u>\$ 487,843,754</u>	<u>\$ 413,394,842</u>	<u>\$ 745,286,736</u>	<u>\$ 417,057,331</u>	<u>\$ 328,229,405</u>

The accompanying notes are an integral part of these consolidated financial statements.

**MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA**
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities and Nonoperating Gains:		
Increase in net assets	\$ 155,951,860	\$ 95,667,040
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	28,955,029	26,845,259
Amortization of deferred financing costs	121,593	129,415
Bad debts	442,302	456,524
Bond premium amortization	(477,800)	(525,407)
Loss on disposal of property and equipment	45,252	121,845
Amortization of entrance fees	(14,139,684)	(13,517,287)
Initial contributions recognized from split-interest agreements	(1,818,479)	(557,994)
Actuarial adjustment for split-interest agreements	(456,006)	454,503
Contributions restricted for long-term investments	(5,466,375)	(2,239,166)
Net realized and unrealized gains on long-term investments	(84,096,557)	(104,422,652)
Decrease in fair value of interest rate swap agreements	2,424,506	2,109,022
Transfer of net assets with donor restrictions		
from Grand Lodge and Masonic Charities Fund	(49,302,526)	-
Excess of assets over liabilities of Pennsylvania Masonic Youth Foundation and The Masonic Library and Museum of Pennsylvania added to financial reporting entity on January 1	(35,326,140)	-
Decrease (increase) in receivables	2,984,377	(602,888)
Increase in other current assets and inventory	(864,367)	(588,171)
(Decrease) increase in accounts payable and accrued expenses	(1,934,317)	2,687,462
(Decrease) increase in other current and noncurrent liabilities	(2,363,414)	1,065,343
Proceeds from entrance fees and deposits	<u>25,248,350</u>	<u>37,100,506</u>
Net cash provided by operating activities and nonoperating gains	<u>19,927,604</u>	<u>44,183,354</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(16,368,030)	(48,322,625)
Decrease (increase) in assets whose use is limited	3,824	(80,689)
Decrease in notes receivable	157,771	971,894
Decrease in note receivable from Grand Lodge	542,846	-
Proceeds from the sale of investments	37,687,204	35,021,337
Purchases of investments	(34,838,126)	(10,694,213)
Proceeds from acquiring control of other entities	<u>865,199</u>	<u>-</u>
Net cash used in investing activities	<u>(11,949,312)</u>	<u>(23,104,296)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA**

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Financing Activities:		
Refunds of entrance fees and deposits	\$ (9,941,321)	\$ (10,741,934)
Proceeds from contributions restricted for long-term investments	5,466,375	2,239,166
Proceeds from contributions under split-interest agreements	4,013,089	1,046,037
Net payments made on split-interest agreements	(830,662)	(806,677)
Decrease in deferred revenue from landfill settlement	-	(7,500)
Principal payment on long-term debt	<u>(8,830,000)</u>	<u>(10,575,000)</u>
Net cash used in financing activities	<u>(10,122,519)</u>	<u>(18,845,908)</u>
Net (decrease) increase in cash and cash equivalents	(2,144,227)	2,233,150
Cash and cash equivalents - Beginning of year	<u>26,555,620</u>	<u>24,322,470</u>
Cash and cash equivalents - End of year	<u>\$ 24,411,393</u>	<u>\$ 26,555,620</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 6,998,807</u>	<u>\$ 7,441,892</u>
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

**MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 1: Summary of Significant Accounting Policies

Organization

Masonic Villages of the Grand Lodge of Pennsylvania (Masonic Villages) is a not-for-profit corporation. The Grand Lodge of Free and Accepted Masons of Pennsylvania (Grand Lodge) is the sole member of this not-for-profit corporation. Prior to January 1, 2013, Masonic Villages operated as an unincorporated unit of Grand Lodge known as Masonic Homes of the Grand Lodge of Free and Accepted Masons of Pennsylvania (Masonic Homes). Masonic Villages is considered the successor organization to Masonic Homes and has continued to operate Masonic Homes' services under the not-for-profit corporation since January 1, 2013. Masonic Villages provides various services in Pennsylvania at its campuses located in Elizabethtown, Warminster, Sewickley, Lafayette Hill, and Dallas. These campuses are referred to, collectively and individually, as "Masonic Villages" for marketing and business purposes.

Services provided at the Elizabethtown campus as of December 31, 2020 include a 453 bed nursing facility providing nursing care (Nursing Home), 1,110 units of Retirement Living consisting of apartments and cottages, a 135 bed personal care facility (Personal Care), a 40 bed home for disadvantaged children (Children's Home), and an 8 bed Residential care program (Residential Care) for developmentally disabled individuals. In addition to these residential services, the Elizabethtown location also offers an Outreach program, and hospice, home health care and home care services. The Elizabethtown location also includes meeting and conference facilities and a farm.

As of December 31, 2020, services provided at the Warminster campus include a 43 bed nursing facility and 19 beds of personal care.

Services provided at the Sewickley campus include a 128 bed nursing facility, 64 beds of personal care, and 282 units of Retirement Living Apartments and Villas as of December 31, 2020. In addition to these residential services, the Sewickley location also offers home care services.

As of December 31, 2020, services provided at the Lafayette Hill campus include a 60 bed nursing facility, 39 beds of personal care, and 158 units of Retirement Living Apartments.

Services provided at the Dallas campus include 83 units of Retirement Living Apartments and Cottages as of December 31, 2020.

Pennsylvania Masonic Youth Foundation (Foundation) and The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) are both not-for-profit corporations whose sole member was Grand Lodge prior to January 1, 2020. Masonic Villages has always had an economic interest in the Foundation and the Masonic Library and Museum through the significant annual financial support provided by Masonic Villages to both not-for-profit corporations. On December 27, 2019, the Foundation's Board of Directors approved new by-laws that made Masonic Villages the sole member of the Foundation, with an effective date of January 1, 2020. On December 27, 2019, the Masonic Library and Museum's Board of Directors approved new by-laws that made Masonic Villages the sole member of the Masonic Library and Museum, with an effective date of January 1, 2020. As the sole member of the Foundation and the Masonic Library and Museum, Masonic Villages will have the ability to determine the direction of

NOTE 1: Summary of Significant Accounting Policies – Continued

Organization – Continued

management and policies for both organizations. Generally accepted accounting principles require an organization that has both control of and an economic interest in another entity to include the assets, liabilities, revenues and expenses of that entity in its consolidated financial statements. Accordingly, the Foundation and the Masonic Library and Museum became part of the aggregate Masonic Villages entity as of January 1, 2020 for financial reporting purposes. This transaction was accounted for as an acquisition. The financial impact of the consolidation of the Foundation and the Masonic Library and Museum into Masonic Villages as of January 1, 2020 is as follows:

	<u>Pennsylvania Masonic Youth Foundation</u>	<u>The Masonic Library and Museum of Pennsylvania</u>	<u>Total</u>
Total assets	<u>\$ 14,875,451</u>	<u>\$ 21,129,055</u>	<u>\$ 36,004,506</u>
Total liabilities	\$ 56,526	\$ 621,840	\$ 678,366
Net assets without restrictions	11,253,942	11,532,129	22,786,071
Net assets with restrictions	<u>3,564,983</u>	<u>8,975,086</u>	<u>12,540,069</u>
	<u>\$ 14,875,451</u>	<u>\$ 21,129,055</u>	<u>\$ 36,004,506</u>

Principles of Consolidation

The consolidated financial statements include the financial statements of Masonic Villages and its wholly-owned subsidiaries, Pennsylvania Acacia Insurance Company, Ltd., Acacia Services, LLC, Ashlar Creative Solutions, LLC, Ashlar Home Health and Hospice Services, LLC, The Masonic Library and Museum of Pennsylvania, and Pennsylvania Masonic Youth Foundation after elimination of all significant interrelated balances and transactions.

Assets Whose Use is Limited

Assets whose use is limited include assets held by trustees under an indenture agreement.

Resident Accounts Receivable

Accounts receivable for services provided to residents consists of amounts owed directly from residents on a private pay basis and amounts owed from third-party payors on behalf of residents. Receivables from third-party payors are recorded at established rates, net of contractual adjustments specific to each payor. Receivables from private pay residents are recorded at established rates. Receivables are considered to be past due when payments have not been received by Masonic Villages within 90 days of their contractually stated due date. The provision for uncollectible private pay resident accounts receivable is based on management's assessment of the collectability of individual receivables and the aggregate aging of all of the private pay resident accounts receivable. Losses are charged against the allowance for uncollectible private pay resident accounts receivable when management believes the un-collectability of a receivable is confirmed.

NOTE 1: Summary of Significant Accounting Policies – Continued

Inventory

Inventory consists of medical supplies and pharmaceutical products, livestock, and maintenance supplies and is valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out basis.

Notes Receivable and Allowance for Uncollectible Notes Receivable

Masonic Villages has provided short-term loans to residents entering its Retirement Living facilities. These loans are evidenced by a note which authorizes a judgment against the resident's property to effect loan satisfaction, and are recorded at the gross amount of the loan proceeds, reduced by an allowance for uncollectible notes receivable. Interest income from notes receivable is accrued on the straight-line method. Notes are considered to be due one year from the date of the note.

Nonaccrual notes receivable are those on which accrual of interest has ceased and where all previously accrued but not collected interest is reversed. Notes are placed on nonaccrual status when, in the opinion of management, full collection is doubtful. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income. While a note receivable is on nonaccrual status, subsequent cash payments received are either applied to outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collection of principal and interest.

The allowance for uncollectible notes receivable is evaluated on a regular basis by management and is based on historical experience, the nature and volume of the notes receivable portfolio, adverse conditions that may affect the borrower's ability to repay, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Notes are considered to be past due when principal and interest payments have not been received by Masonic Villages within 90 days of their contractually stated due date. Losses are charged against the allowance for uncollectible notes receivable when management believes the uncollectability of a note is confirmed.

Contributions Receivable

Contributions receivable recorded by Masonic Villages consist of charitable lead trusts and promises to give.

Masonic Villages will be the recipient of specified funds over the terms of several charitable lead trusts upon the death of the beneficiaries. Contributions receivable are recorded at the net present value of the expected trust assets to be received based on the fair value of the trust assets, the contractual or risk-free rate of return (which ranges from 1.92% to 4.25%), and the life expectancy of the current beneficiary or term of the trust.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

NOTE 1: Summary of Significant Accounting Policies – Continued

Investments and Investment Income

Masonic Villages carries investments at fair value. When available, fair value of the investments is determined using quoted market prices of a national securities exchange. In other instances, fair value is determined using other observable market data or Masonic Villages' own assumptions. Contributed investments are initially valued at the quoted fair value on the date received, which is then treated as cost.

Investment income on borrowed funds held by a trustee and investment income from all other investments without donor restrictions are reported as operating revenues. Investment income and gains (losses) on investments with donor restrictions are added to (deducted from) the appropriate net assets with donor restrictions.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value at the date of receipt. Masonic Villages reviews all disbursements greater than \$ 1,000 for capitalization as property and equipment. Expenditures for repairs which extend the useful life of the assets are capitalized and routine maintenance and repair costs are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Estimated useful lives are: land improvements - 10 to 20 years, buildings and improvements - 20 to 40 years, and equipment - 3 to 20 years.

Deferred Financing Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method.

Collections

Masonic Villages owns collections of Masonic memorabilia, paintings, antique furniture, farm equipment, and other artifacts related to the history of Masonic Villages and Freemasonry. These collections are located at the Elizabethtown, Pennsylvania campus and at the Masonic Temple in Philadelphia, Pennsylvania. The collections, which were primarily acquired through contributions since Masonic Villages' inception, are not recognized as assets in the consolidated balance sheets. Contributed collection items are not recognized as revenue in the consolidated statements of changes in net assets.

Retirement Living - Entrance Fee Units

Entrance Fees - Fees paid by a resident upon entering into a resident agreement for Retirement Living, net of the portion thereof that is expected to be refundable to the resident based on refundable contract choice (refundable fees), are recorded as deferred revenue and are amortized to revenue using the straight-line method over the estimated remaining life expectancy of the resident. Contingent contracts are those that provide a minimum refund percentage greater than zero and state that re-occupancy is required prior to the payment of a refund. The refundable portion of a contingent contract is not amortized to revenue but remains as a liability until withdrawal. Some of Masonic Villages' Retirement Living resident agreements are contingent contracts because they include certain minimum guaranteed refund amounts to the residents.

NOTE 1: Summary of Significant Accounting Policies – Continued

Retirement Living - Entrance Fee Units – Continued

Contractually Refundable Fees - Masonic Villages offers two types of contracts at its Elizabethtown, Dallas, Sewickley, and Lafayette Hill campuses. Under the terms of the first contract type, amounts refundable equal the contract amount less 5.00% for the first month of occupancy and 1.00% for each month of occupancy thereafter. As of January 1, 2014, new contracts for the Sewickley campus define amounts refundable as the contract amount less 6% for the first month of occupancy and 2% for each month of occupancy thereafter. Under the terms of the second contract type, amounts refundable equal 90% of the original contract amount whenever the resident chooses to permanently leave retirement living or the facility. In addition, a variation of the refundable contract type is available at the Dallas campus providing an annual 1% increase in the refundable percentage. At December 31, 2020 and 2019, entrance fees of approximately \$ 106,882,000 and \$ 105,186,000, respectively, were refundable to residents (excluding deposits on unoccupied units) under the terms of the refundable contracts.

Obligation to Provide Future Services - Masonic Villages annually calculates the present value of the net cost of future services to be provided to Retirement Living residents. Costs of future services for Retirement Living residents at the Elizabethtown and Lafayette Hill campuses include the meals, housekeeping, maintenance, and facility costs that are provided under the terms of the Elizabethtown and Lafayette Hill contracts. Costs of future services for Retirement Living residents at the Sewickley campus who qualify for life care include the health care services, meals, housekeeping, maintenance, and facility costs that are provided under the terms of the Sewickley contract. Costs of future services for Retirement Living residents at the Dallas campus include the housekeeping, maintenance, and facility costs that are provided under the terms of the Dallas contract. The aggregate cost of future services is compared with the balance of deferred revenue from entrance fees. If the present value of the net cost for future services and use of facilities exceeds the deferred revenue from entrance fees, a liability will be recorded with a corresponding charge to expenses. Management's calculation resulted in an estimate of no liability for future services to be provided as of either December 31, 2020 or 2019, using a discount rate of 5.00% for 2020 and 2019.

These agreements are regulated by the Commonwealth of Pennsylvania Department of Insurance. Masonic Villages is required to maintain liquid reserves to cover the future costs associated with these agreements.

Resident Personal Funds

Masonic Villages receives and holds personal funds of certain residents as an agent of those residents. Cash and cash equivalents include resident personal funds totaling \$ 1,008,331 and \$ 852,673 as of December 31, 2020 and 2019, respectively.

Worker's Compensation Claims

For the year ended December 31, 2020, Masonic Villages was insured for workers compensation claims in a large risk-large deductible program with a \$ 500,000 deductible for each injury/disease and a \$ 1,900,000 aggregate for each injury/disease. For the year ended December 31, 2019, Masonic Villages was insured for workers compensation claims in a large risk-large deductible program with a \$ 500,000 deductible for each injury/disease and a \$ 1,650,000 aggregate for each injury/disease. Premiums paid, net of any performance-based refunds, are recorded in wages, salaries, and benefits in the consolidated statements of operations.

NOTE 1: Summary of Significant Accounting Policies – Continued

Annuities Payable

Masonic Villages has several charitable gift annuity and charitable remainder unitrust arrangements with donors. Annuities payable are recorded at the net present value of the expected annuity payments based upon the amount of the contribution, the contractual rate of return (which ranges from 3.00% to 11.70%), and the life expectancy of the beneficiary of the annuity.

Bond Premium

Bond premium is amortized over the period the related long-term debt obligation is outstanding using the effective interest method.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are those available for use in general operations and may be used at the discretion of management and the Board of Directors. The Board of Directors may designate net assets to fulfill certain purposes and remove designations from net assets at their discretion.

Net assets with donor restrictions include donor restrictions that may be temporary or where the donor has specified that resources be maintained in perpetuity. Net assets with temporary donor restrictions may be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the stipulated purpose for which the resource has been restricted has been fulfilled, when a stipulated time has elapsed, or both.

Support

Contributions received are measured at their fair values and are reported as an increase in net assets. Masonic Villages reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions.

Gifts of goods and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Masonic Villages reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Masonic Villages is the beneficiary under various wills and trust agreements. Amounts received from such sources are recorded when clear title is established, and the proceeds are measurable.

Donated Services

A significant number of volunteers annually donate their services to Masonic Villages. Because the services provided do not require specialized skills, the value of these donated services is not reflected in the consolidated financial statements.

NOTE 1: Summary of Significant Accounting Policies – Continued

Resident Service Revenue

Resident service revenue is reported at the amount that reflects the consideration Masonic Villages expect to receive in exchange for the services provided. These amounts are due from residents or third-party payors, including health insurers and government programs, and may include variable consideration for retroactive revenue adjustments under reimbursement programs. This consideration is recorded initially at Masonic Villages' established rates for the services, reduced when appropriate by contractual adjustments and charity allowances, to arrive at resident service revenue reported in the consolidated statements of operations.

Performance obligations are determined based on the nature of the services provided. Resident service fee revenue is recognized as performance obligations are satisfied. The performance obligations inherent within the services Masonic Villages provides are typically satisfied within specific measurable time periods or through the delivery of a service that is immediately consumed by a customer.

Nursing care, personal care, retirement living, and the residential care program for developmentally disabled individuals are considered to be senior living residency services. Under the senior living residency agreements, services are provided to residents for a stated daily or monthly fee. Masonic Villages has determined that the senior living services included under the daily or monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time.

In addition to senior living residency services, Masonic Villages also offers several ancillary service programs which include adult day care, child day care, home care, home health care and hospice services. Masonic Villages enters into contracts to provide these ancillary services. Each service provided under these contracts is capable of being distinct. Accordingly, these services are considered individual and separate performance obligations which are satisfied as services are provided and revenue is recognized as services are provided.

Masonic Villages also provides goods and services to residents and non-residents that do not require specific contracts. This includes certain medical ancillary services, pharmacy, wellness center, beauty and barber services, meals, laundry, transportation, parking, and communications services. These goods and services are typically provided in a retail setting, where the performance obligations are satisfied, and the revenue recognized once the goods and services have been delivered to or consumed by the customer.

Masonic Villages' admissions process for senior living residency services includes a credit assessment of the prospective resident and obtaining an understanding of available third-party reimbursement from health insurers and government programs for the prospective resident. These evaluations typically occur prior to the provision of services. Acceptance of the prospective resident's credit status and applicable coverage from third party payors may require Masonic Villages to accept discounts from established billing rates. These discounts for senior living residency services represent explicit price concessions to the transaction price and are recorded as a reduction from resident service revenue.

Masonic Villages receives a significant portion of its revenue from Medicare, Medicaid and other third-party payors that receive discounts from established billing rates. Settlements with third party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing services. Masonic Villages estimates the transaction price based on terms of the contract with the payor, correspondence with the payor, and historical payment trends. Retroactive adjustments are recognized in future periods as final settlements are determined. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2020 and 2019. Laws and regulations governing Medicare, Medicaid, and

NOTE 1: Summary of Significant Accounting Policies – Continued

Resident Service Revenue - Continued

other third-party programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Financing Component

Masonic Villages has elected the practical expedient allowed under generally accepted accounting principles for revenue recognition and does not adjust the promised amount of consideration from residents or third-party payors for the effects of a significant financing component due to Masonic Villages' expectation that the period between the time the service is provided to a resident and the time the resident or third-party payor pays for the service will be one year or less. Masonic Villages also enters into Retirement Living contracts which provide for payments at the time of inception and are amortized to revenue using the straight-line method over the estimated remaining life expectancy of the individual contract holders. In these instances, the financing component is not deemed to be significant to the contract.

Contract Costs

Masonic Villages has applied the practical expedient allowed under generally accepted accounting principles for contracts with customers. As a result, all incremental contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that Masonic Villages would have recognized is one year or less.

Charity Care

Charity care is provided to residents who have demonstrated the inability to pay and who are not eligible for third party reimbursement. Residents who meet Masonic Villages' criteria for charity care are provided services without charge or at amounts less than established rates. Certain residents qualify for charity care upon admission or when their financial resources are depleted. Therefore, Masonic Villages has determined it has provided implicit price concessions to these residents. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to residents and the amounts Masonic Villages expects to collect based on its collection history with those residents. These implicit price concessions are recorded as charity care allowances. Because Masonic Villages provides charity care to residents who are unable to pay for these services, it is not reported as resident service revenue.

Consolidated Statements of Operations Earnings Measurements

Masonic Villages' consolidated statements of operations includes two performance indicators to measure operating earnings. The loss from operations before change in fair value of derivative financial instruments serves as an intermediate performance indicator. The loss from operations before change in fair value of derivative financial instruments includes all revenue without donor restrictions from the provision of health care and residential services, operating revenue from incidental activities such as the farm, investment income, and expenses incurred in the performance of these activities. Unrealized appreciation on interest rate swap agreements and non-operating gains and losses are excluded from this intermediate performance indicator.

The final performance indicator is the loss from operations. The loss from operations includes all revenue without donor restrictions from the provision of health care and residential services, operating revenue from incidental activities such as the farm, investment income, expenses incurred in the performance of these activities, and changes in the fair value of derivative financial instruments. Non-operating gains and losses are excluded from the loss from operations.

NOTE 1: Summary of Significant Accounting Policies – Continued

Consolidated Statements of Changes in Net Assets Earnings Measurement

Masonic Villages utilizes the excess (deficiency) of revenues and gains over expenses and losses to measure its annual earnings. The excess (deficiency) of revenues and gains over expenses and losses includes revenues and expenses from program activities, contributions, investment income, realized gains (losses) from the sale of investments, and changes in the fair value of derivative instruments. The net unrealized appreciation (depreciation) on investments is excluded from the excess (deficiency) of revenues and gains over expenses and losses.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments (i.e. money market funds) with original maturities of three months or less, excluding amounts classified as assets whose use is limited.

Leases

Masonic Villages has entered into leasing arrangements for a parcel of land at the Dallas campus and the use of equipment at several locations. Masonic Villages made payments totaling \$ 448,827 and \$ 260,670 under leasing arrangements for the years ended December 31, 2020 and 2019, respectively. These payments are reported in purchased services expense in the consolidated statements of operations.

Income Taxes

Masonic Villages is a not-for-profit entity as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 509(a) of the Code and files a Form 990, "Return of Organization Exempt from Income Tax". Pennsylvania Masonic Youth Foundation, The Masonic Library and Museum of Pennsylvania, Pennsylvania Acacia Insurance Company, Ltd. and Ashlar Home Health and Hospice Services, LLC are all single member, tax-exempt corporations. Acacia Services, LLC and Ashlar Creative Solutions, LLC are both single member, for-profit limited liability organizations and are considered disregarded entities for income tax purposes.

Generally accepted accounting principles require organizations to disclose significant tax positions that are subject to uncertainty about the merits of the position taken or the amount of the position that may ultimately be sustained upon examination by the taxing authorities. The effects of tax positions are recognized in financial statements if, in the opinion of management, the tax position would more likely than not be sustained upon an examination by the taxing authorities, including the resolution of any applicable appeals or litigation. Masonic Villages' most significant tax position is that it is exempt from payment of federal and state income taxes. Accordingly, Masonic Villages has not reported any income tax expense in the consolidated statements of operations and the consolidated statements of changes in net assets for the years ended December 31, 2020 and 2019. Masonic Villages has not recorded liabilities for income taxes or unrecognized income tax benefits in the consolidated balance sheets as of December 31, 2020 and 2019. Masonic Villages' Form 990 is generally subject to examination for a period of three years after the returns are filed.

NOTE 1: Summary of Significant Accounting Policies – ContinuedUse of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Financial Instruments

Derivative financial instruments used by Masonic Villages consist of pay-fixed, receive variable interest rate swap agreements. The purpose of these interest rate swap agreements is to limit Masonic Villages' exposure to interest rate changes on its variable-rate debt.

Disclosure about Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, short-term investments, investment securities, resident accounts receivable, notes receivable, deposits, long-term debt, and interest rate swaps.

The fair value of cash and cash equivalents are deemed to be the same as their carrying value. The fair value of resident accounts receivable equals their carrying value, since they are stated net of estimated uncollectible amounts. The fair value of the long-term debt is determined based on the quoted market price of the long-term debt at the consolidated balance sheet date. The fair values of interest rate swap agreements are based on quoted market prices if available or valuation techniques which consider the present value of estimated expected future cash flows. Disclosure of additional fair values is contained in the following notes.

NOTE 2: Reassignment of Donor Restricted Assets

On December 3, 2019, the Grand Lodge Committee on Finance approved a resolution to make the operations of Grand Lodge and its charitable affiliates and subsidiaries more efficient and effective. One of the elements of this effort was a review of the donor restricted funds and perpetual trusts held by third parties reported as assets of Grand Lodge and Masonic Charities Fund as of December 31, 2019. Some of these donor restricted funds and perpetual trusts held by third parties had been established for the primary benefit of another charity, including Masonic Villages. Although Grand Lodge and the Masonic Charities Fund had been appropriately distributing income generated by these assets each year to the charity named as the primary beneficiary, the funds and trusts were not reported as assets of those beneficiary charitable entities. As a result of this review, these donor restricted funds and trusts were reassigned in 2020 to achieve a better alignment of the assets with the charitable entity that is the beneficiary of the related income. On January 1, 2020, Grand Lodge and the Masonic Charities Fund transferred donor restricted funds and perpetual trusts held by third parties with fair values totaling \$ 49,302,526 to Masonic Villages as follows:

	Grand Lodge	Masonic Charities Fund	Total
Donor restricted funds	\$ 46,258,264	\$ 482,318	\$ 46,740,582
Perpetual trusts held by third parties	2,561,944	-	2,561,944
	<u>\$ 48,820,208</u>	<u>\$ 482,318</u>	<u>\$ 49,302,526</u>

NOTE 3: Liquidity and Availability

Financial assets available for general expenditure without donor or other restrictions limiting their use within one year consist of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents available for operations	\$ 21,069,876	\$ 19,577,160
Investment income receivable		
without donor restrictions	75,905	353,385
Resident accounts receivable	5,440,928	7,095,562
Accounts receivable - Grand Lodge	72,910	40,041
Accounts receivable - Pennsylvania		
Masonic Youth Foundation	-	2,065
Accounts receivable - The Masonic Library and Museum of Pennsylvania	-	9,249
Estimated third party settlements receivable	-	1,608,327
Notes receivable	963,030	1,120,801
Investment without donor restrictions	<u>487,566,476</u>	<u>422,077,248</u>
	<u>\$ 515,189,125</u>	<u>\$ 451,883,838</u>

Under Masonic Villages' liquidity management strategy, financial assets are structured to be available as expenditures, liabilities and other obligations become due. Masonic Villages also invests cash in excess of daily requirements in short-term investments. Investments without donor restrictions are subject to an annual spending policy that is described in Note 8. Although Masonic Villages does not intend to spend from its investments without donor restrictions in excess of the maximum spending policy limit, amounts from these investments could be made available, if necessary.

NOTE 4: Cash and Cash Equivalents

Masonic Villages holds cash and cash equivalents that have been restricted by donors for certain purposes. Masonic Villages is not permitted to use restricted cash and cash equivalents for general operations. The components of Masonic Villages' cash and cash equivalents as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Available for operations	\$ 21,069,876	\$ 19,577,160
Retirement Living escrow deposits	-	4,189,200
Held for residents deposits	<u>1,008,331</u>	<u>852,673</u>
Total without donor restrictions	22,078,207	24,619,033
With donor restrictions	<u>2,333,186</u>	<u>1,936,587</u>
	<u>\$ 24,411,393</u>	<u>\$ 26,555,620</u>

NOTE 5: Resident Accounts Receivable

Masonic Villages' resident accounts receivable consists of amounts owed from individuals, insurance companies, and government agencies. As of December 31, 2020 and 2019, Masonic Villages' aggregate resident accounts receivable over 90 days past due totaled \$ 2,636,747 and \$ 1,946,780, respectively.

Masonic Villages' resident accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of resident accounts receivable, Masonic Villages evaluates its past history and identifies trends for each of its major sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with private pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), Masonic Villages records a provision for bad debts in the period of service on the basis of past experience, which indicates that many private pay residents are unable or unwilling to pay the portion of the bill for which they are financially responsible.

The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The changes in the allowance for uncollectible accounts receivable for the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Allowance at January 1	\$ 1,177,000	\$ 1,144,000
Provision for bad debts	442,302	456,524
Accounts receivable written off, net of recoveries	<u>(317,302)</u>	<u>(423,524)</u>
Allowance at December 31	<u>\$ 1,302,000</u>	<u>\$ 1,177,000</u>

NOTE 6: Contributions Receivable

Contributions receivable consisted of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Charitable lead annuity trusts	\$ 253,217	\$ 305,070
Promises to give	<u>68,681</u>	<u>167,179</u>
Total contributions receivable	<u>321,898</u>	<u>472,249</u>
Less:		
Current portion of charitable lead annuity trusts	62,904	62,904
Current portion of promises to give	<u>70,000</u>	<u>102,000</u>
Noncurrent portion	<u>\$ 188,994</u>	<u>\$ 307,345</u>

NOTE 6: Contributions Receivable – Continued

Promises to give consist of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Promises to give before unamortized discount and allowance for uncollectibles	\$ 70,000	\$ 172,000
Unamortized discount	<u>(1,319)</u>	<u>(4,821)</u>
Net promises to give	<u>\$ 68,681</u>	<u>\$ 167,179</u>

The schedule of payments to be received from promises to give as of December 31, 2020 is as follows:

2021	<u>\$ 70,000</u>
	<u>\$ 70,000</u>

The discount rates used for promises to give received during the years ended December 31, 2020 and 2019 were .92% and 1.92%, respectively.

NOTE 7: Notes Receivable

Notes receivable with Masonic Villages' Retirement Living residents totaled \$ 963,030 and \$ 1,120,801 as of December 31, 2020 and 2019, respectively. Interest was charged at rates ranging from 0% to 5% per annum. Notes receivable outstanding beyond their due date, included in the aforementioned totals, were \$ 0 and \$ 324,191 as of December 31, 2020 and 2019, respectively. There were no notes receivable on nonaccrual status as of December 31, 2020 and 2019. Based on management's evaluation of the notes receivable portfolio, no provision for uncollectible notes receivable is required.

NOTE 8: Investments

Certain investments are pooled with related organizations and are referred to as "Consolidated Fund" investments. Consolidated Fund investments and certain short-term investments are administered by twenty different investment management firms and held in safekeeping by JPMorgan Chase Bank, N. A. Approximately 98% of the pooled investments are attributable to the Masonic Villages.

NOTE 8: Investments – Continued

The following table summarizes total Consolidated Fund investments held in safekeeping at JPMorgan Chase Bank, N. A.:

<u>At December 31, 2020</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Domestic stocks	\$ 199,220,528	\$ 107,883,352	\$ 1,618,714	\$ 305,485,166
International stocks	41,656,038	6,772,706	1,826,631	46,602,113
U.S. Government and Agency bonds	25,013,017	129,294	110,925	25,031,386
Domestic corporate bonds	86,731,252	4,563,235	136,123	91,158,364
Municipal bonds	7,838,810	487,108	50,783	8,275,135
Mutual funds - Equity securities	50,543,380	8,958,893	-	59,502,273
Exchange traded funds	96,474,522	9,031,070	1,629,024	103,876,568
Mortgage backed securities	24,345,470	857,438	44,505	25,158,403
Asset backed securities	32,315,563	383,788	181,069	32,518,282
Real estate investment trusts	864,855	204,035	30,482	1,038,408
Private equity investments	11,702,144	2,372,808	-	14,074,952
Royalty trusts	1,592,895	323,477	-	1,916,372
Limited partnerships	75,418,033	11,671,459	-	87,089,492
Money market funds	61,688,220	-	-	61,688,220
Total Consolidated Fund	<u>\$ 715,404,727</u>	<u>\$ 153,638,663</u>	<u>\$ 5,628,256</u>	<u>\$ 863,415,134</u>

<u>At December 31, 2019</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Domestic stocks	\$ 166,939,724	\$ 60,967,291	\$ 4,091,826	\$ 223,815,189
International stocks	44,996,414	5,831,097	2,772,831	48,054,680
U.S. Government and Agency bonds	20,131,791	248,466	72,901	20,307,356
Domestic corporate bonds	111,035,734	3,899,355	374,493	114,560,596
Municipal bonds	8,707,133	521,863	84,350	9,144,646
Mutual funds - Equity securities	62,680,116	9,802,217	11,734	72,470,599
Exchange traded funds	176,308,999	15,060,635	84,534	191,285,100
Mortgage backed securities	28,199,401	463,115	110,530	28,551,986
Asset backed securities	29,840,949	244,800	178,644	29,907,105
Real estate investment trusts	342,089	-	29,556	312,533
Private equity investments	8,888,366	1,386,558	-	10,274,924
Demand notes	400,772	1,195	-	401,967
Money market funds	40,073,961	-	-	40,073,961
Total Consolidated Fund	<u>\$ 698,545,449</u>	<u>\$ 98,426,592</u>	<u>\$ 7,811,399</u>	<u>\$ 789,160,642</u>

NOTE 8: Investments – Continued

At December 31, 2020 and 2019, Masonic Villages' investments consisted of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Money Market Funds	\$ 6,240,706	\$ 6,240,706	\$ 6,599,435	\$ 6,599,435
Consolidated Fund	418,443,543	481,325,770	387,000,557	415,477,813
Lincoln Financial Group	1,061,959	1,061,959	969,669	969,669
Mill Creek Capital Advisors, LLC	4,157,060	5,041,444	978,237	1,052,834
Total Without Donor Restrictions	429,903,268	493,669,879	395,547,898	424,099,751
Money Market Funds	3,445,097	3,445,097	418,174	418,174
Consolidated Fund	293,108,513	356,776,799	248,630,032	279,992,125
Real estate	391,007	391,007	391,007	391,007
Perpetual Trusts Held by Third Parties	26,474,948	49,085,749	24,756,274	44,068,400
Total With Donor Restrictions	323,419,565	409,698,652	274,195,487	324,869,706
	<u>\$ 753,322,833</u>	<u>\$ 903,368,531</u>	<u>\$ 669,743,385</u>	<u>\$ 748,969,457</u>

Masonic Villages' investments are presented in the consolidated balance sheets in the following categories as of December 31, 2020 and 2019:

	2020	2019
Minimum liquid reserve requirement	\$ 19,220,087	\$ 19,183,284
Investments at fair value	884,148,444	729,786,173
	<u>\$ 903,368,531</u>	<u>\$ 748,969,457</u>

Masonic Villages has designated portions of its Consolidated Fund investments without donor restrictions to use for specific programs or functions. The composition of Masonic Villages' designated investments as of December 31, 2020 and 2019 is as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Masonic Villages Reserve Fund	\$ 152,903,865	\$ 180,809,802	\$ 143,606,560	\$ 158,792,568
Masonic Temple Preservation Fund	13,177,601	15,234,056	12,957,584	14,017,622
Children's Home Fund	6,137,889	6,903,594	6,281,070	6,598,292
Igen Trust	13,258,257	14,725,200	13,175,483	13,661,489
Charitable Gift Annuity Reserve Funds	8,364,522	9,705,103	7,966,156	8,582,691
Warminster Building and Improvement Fund	2,529,311	2,572,489	2,407,923	2,277,772
Masonic Eastern Star Endowment Fund	1,716,675	1,690,925	1,667,290	1,527,427
Elizabethtown Retirement Living Fund	29,661,895	32,434,603	28,003,021	28,564,540
Dallas Retirement Living Fund	2,700,161	3,026,230	2,568,897	2,688,960
Sewickley Retirement Living Fund	140,360,085	159,104,517	133,458,851	141,372,554
Lafayette Hill Funds	30,572,124	34,255,702	29,043,895	30,409,427
Pennsylvania Masonic Youth Foundation	9,830,941	11,443,767	-	-
The Masonic Library and Museum of Pennsylvania	524,422	601,824	-	-
Pennsylvania Acacia Insurance Company	12,930,334	15,042,496	12,410,902	13,530,499
	<u>\$ 424,668,082</u>	<u>\$ 487,550,308</u>	<u>\$ 393,547,632</u>	<u>\$ 422,023,841</u>

NOTE 8: Investments – Continued

The Consolidated Fund investment policy includes specific guidance on the maximum amount that each organization participating in the Consolidated Fund may withdraw from its Consolidated Fund investments each year. The maximum amount that may be withdrawn and spent is equal to a percentage of the three-year average fair value of a participating organization's Consolidated Fund investments. The investment policy permits withdrawals from investments without donor restrictions in excess of the spending policy maximum. For the years ended December 31, 2020 and 2019, the spending policy percentage recommended by the Grand Lodge Committee on Finance and elected by the Trustees of the Consolidated Fund was 5.00%. On September 25, 2020, the spending policy percentage for the year ended December 31, 2020 was increased to 10.00% by the Trustees of the Consolidated Fund. This change was prompted by a new Pennsylvania law increasing the upper percentage for spending policies of not-for-profit corporations from 7% to 10% for the years 2020, 2021, and 2022. The Pennsylvania legislature enacted this temporary increase to spending limits to provide flexibility to not-for-profit corporations related to the fiscal impact of the COVID-19 pandemic. Masonic Villages reports the cumulative excess of the restricted spending maximum over amounts withdrawn from Consolidated Fund investments with donor restrictions as net assets with donor restrictions available to be appropriated for expenditure.

Masonic Villages' performance in comparison with the spending maximum amounts is summarized in the following table:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Masonic Villages' Consolidated Fund spending maximum amount for 2020	\$ 40,036,336	\$ 26,056,630	\$ 66,092,966
Amounts withdrawn from Consolidated Fund	<u>12,211,078</u>	<u>25,476,126</u>	<u>37,687,204</u>
Excess of spending maximum amount over amounts withdrawn	<u>\$ 27,825,258</u>	<u>\$ 580,504</u>	<u>\$ 28,405,762</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Masonic Villages' Consolidated Fund spending maximum amount for 2019	\$ 19,249,061	\$ 12,357,452	\$ 31,606,513
Amounts withdrawn from Consolidated Fund	<u>30,608,446</u>	<u>11,923,747</u>	<u>42,532,193</u>
Excess (deficiency) of spending maximum amount over amounts withdrawn	<u>\$ (11,359,385)</u>	<u>\$ 433,705</u>	<u>\$ (10,925,680)</u>

NOTE 9: Assets Whose Use is Limited

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31, 2020 and 2019, is set forth below.

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Under indenture agreement held by trustee - Cash and short-term investments	\$2,748,382	\$2,748,382	\$2,752,206	\$2,752,206
Less current portion	<u>2,748,382</u>	<u>2,748,382</u>	<u>2,752,206</u>	<u>2,752,206</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 10: Property and Equipment

A summary of property and equipment at December 31, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 5,878,666	\$ 5,833,167
Land improvements	28,976,795	27,468,518
Buildings and improvements	483,892,413	463,065,252
Equipment	<u>314,171,365</u>	<u>300,082,545</u>
	832,919,239	796,449,482
Less accumulated depreciation	<u>425,275,217</u>	<u>391,461,187</u>
	407,644,022	404,988,295
Construction in progress	<u>1,820,127</u>	<u>6,010,395</u>
Property and equipment, net	<u>\$ 409,464,149</u>	<u>\$ 410,998,690</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$ 28,902,229 and \$ 26,792,459, respectively.

NOTE 11: Deferred Costs

A summary of deferred costs at December 31, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Costs to upgrade Elizabethtown Borough wastewater treatment plant	\$ 1,056,000	\$ 1,056,000
Less accumulated amortization	<u>(950,400)</u>	<u>(897,600)</u>
	<u>\$ 105,600</u>	<u>\$ 158,400</u>

Amortization expense related to deferred costs totaled \$ 52,800 for each of the years ended December 31, 2020 and 2019.

NOTE 12: Interest Rate Swap Agreements

On July 1, 1999, Masonic Villages entered into an interest rate swap agreement on the 1999 Bonds with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA). This agreement expires on July 1, 2034. Wells Fargo Bank, NA exchanged a fixed rate of 4.5925% on the outstanding principal of the 1999 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 1999 Bonds.

On September 7, 2001, Masonic Villages entered into an interest rate swap agreement on the 2001 Bonds with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA). This agreement expires September 7, 2031. Wells Fargo Bank, NA exchanged a fixed rate of 4.085% on the outstanding principal of the 2001 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 2001 Bonds.

NOTE 12: Interest Rate Swap Agreements – Continued

On September 7, 2001, Masonic Villages entered into a forward interest rate swap agreement with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA) on variable rate bonds that were issued during 2002 (2002 Bonds). This agreement expires May 1, 2032. Wells Fargo Bank, NA exchanged a fixed rate of 4.190% on the outstanding principal of the 2002 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 2002 Bonds.

On May 22, 2003, Masonic Villages entered into an interest rate swap agreement on the 2004 Bonds with Wells Fargo Bank, NA (formerly known as Wachovia Bank NA). This agreement expired on November 19, 2019. Wells Fargo Bank, NA exchanged a fixed rate of 3.75% on the outstanding principal of the 2004 Bonds for the variable interest rate Masonic Villages would have paid. Masonic Villages entered into this agreement to limit the exposure to interest rate changes on the 2004 Bonds.

The variable interest rates on all four of Masonic Villages' interest rate swap agreements are determined using 67% of the London Interbank Offered Rate (LIBOR). The variable interest rates on the 1999 Bonds, the 2001 Bonds, the 2002 Bonds, and the 2004 Bonds are determined by the remarketing agent based on the Securities Industry and Financial Markets Association (SIFMA) index, adjusted for market demand.

On April 1, 2008, the Lancaster County Hospital Authority issued Variable Rate Demand/Fixed Rate Health Center Revenue bonds (Masonic Homes Project), Series 2008 (2008 Bonds) for \$ 144,950,000. The proceeds of the 2008 Bonds were used to completely refund the outstanding principal of the 1999 Bonds, the 2001 Bonds, the 2002 Bonds, and the 2004 Bonds. Masonic Villages received the proceeds of the 2008 Bonds in four separate series that corresponded to the outstanding principal amount and repayment schedules of each of the refunded bond series. Series A of the 2008 Bonds (\$ 37,420,000) replaced the 2001 Bonds. Series B of the 2008 Bonds (\$ 34,725,000) replaced the 2002 Bonds. Series C of the 2008 Bonds (\$ 29,550,000) replaced the 2004 Bonds. Series D of the 2008 Bonds (\$ 43,255,000) replaced the 1999 Bonds. The new bonds were structured in four separate series to correspond to outstanding principal amounts and repayment schedules of the four refunded bond issues. This approach enabled the interest rate swap agreements to continue to be used with the new variable rate demand bonds.

In January 2015, the interest rate swap agreement for the 2004 Bonds / 2008 Bonds (Series C) was terminated in connection with the refunding of the 2008 Bonds (Series C) in February 2015.

On May 31, 2018, Masonic Villages and Wells Fargo Bank, NA amended the interest rate agreements for the 2008 Bonds (Series A and B). These amendments were done in connection with renegotiation of the direct purchase agreements with Wells Fargo Bank, NA for the 2008 Bonds (Series A and B). Under the amendments, the variable interest rates on Masonic Villages' interest rate swap agreements are now determined using 80% of the LIBOR. The original fixed interest rates in the interest rate swap agreements were increased to synchronize with the revised direct purchase agreements. The fixed interest rate in the swap agreement for 2008 Bonds (Series A) increased from 4.085% to 4.470%. The interest rate for the swap agreement for the 2008 Bonds (Series B) increased from 4.190% to 4.571%.

The interest rate swaps are recognized as an asset or liability in the consolidated balance sheets at their fair value. Changes in fair value are recorded as a change in unrealized appreciation or depreciation in the consolidated statements of operations and the consolidated statements of changes in net assets.

NOTE 12: Interest Rate Swap Agreements – Continued

As of December 31, 2020, and 2019, the fair values of Masonic Villages' interest rate swap agreements were as follows:

	<u>2020</u>	<u>2019</u>
Liabilities:		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	\$ (9,702,620)	\$ (8,708,414)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(5,312,661)	(4,604,627)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>(5,427,233)</u>	<u>(4,704,967)</u>
	<u>\$ (20,442,514)</u>	<u>\$ (18,018,008)</u>

At both December 31, 2020 and 2019, the accumulated derivative loss which had been reported outside of the performance indicator was:

	<u>2020</u>	<u>2019</u>
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	\$ (7,215,803)	\$ (7,215,803)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(3,359,207)	(3,359,207)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>(3,510,225)</u>	<u>(3,510,225)</u>
	<u>\$ (14,085,235)</u>	<u>\$ (14,085,235)</u>

By using derivative instruments, Masonic Villages is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes Masonic Villages and, therefore, creates a repayment risk for Masonic Villages. When the fair value of a derivative contract is negative, Masonic Villages owes the counterparty and, therefore, it has no repayment risk. Masonic Villages minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high quality counterparties that are reviewed periodically by Masonic Villages' management.

At December 31, 2020 and 2019, the net payments associated with the terms of the swap agreements totaled:

	<u>2020</u>	<u>2019</u>
Fixed rate payments		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	\$ 1,373,043	\$ 1,436,993
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	1,022,811	1,089,041
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>987,412</u>	<u>1,047,140</u>
Total fixed rate payments	<u>3,383,266</u>	<u>3,573,174</u>
Variable rate payments		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	(109,589)	(469,215)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(100,969)	(437,080)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	<u>(96,445)</u>	<u>(410,413)</u>
Total variable rate payments	<u>(307,003)</u>	<u>(1,316,708)</u>
Net payments to interest rate swap provider	<u>\$ 3,076,263</u>	<u>\$ 2,256,466</u>

NOTE 13: Long-Term Debt

All of Masonic Villages' outstanding bonds are secured by a pledge of Masonic Villages' gross revenues. A summary of long-term debt at December 31, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Lancaster County Hospital Authority (Series of 1996) - variable rate demand/fixed rate bonds, maturing through 2027	\$ 7,975,000	\$ 8,955,000
Lancaster County Hospital Authority (Series of 2008) - variable rate demand bonds, maturing through 2034	72,210,000	76,485,000
Lancaster County Hospital Authority (Series of 2013) - variable rate demand bonds, maturing through 2038	30,345,000	31,660,000
Lancaster County Hospital Authority (Series of 2015) - 2.15% to 5.00% bonds, maturing through 2035	26,620,000	27,890,000
Lancaster County Hospital Authority (Series of 2017) - 2.625% to 5.00% bonds, maturing through 2038	<u>27,660,000</u>	<u>28,650,000</u>
Total long-term debt	<u>164,810,000</u>	<u>173,640,000</u>
Add premium on bonds payable	4,504,759	4,982,559
Less deferred financing costs	(1,070,513)	(1,192,106)
Less current installments of long-term debt	<u>(9,145,000)</u>	<u>(8,830,000)</u>
	<u>\$ 159,099,246</u>	<u>\$ 168,600,453</u>

Under the terms of the bond purchase agreements with the Lancaster County Hospital Authority, Masonic Villages is required to maintain certain deposits with the Trustee. Such deposits are included with assets whose use is limited in the consolidated financial statements. The loan agreements place limits on the incurrence of additional borrowing and require that Masonic Villages satisfy certain measures of financial performance as long as the debt is outstanding. For the years ended December 31, 2020 and 2019, Masonic Villages met the minimum debt service coverage ratio contained in the loan agreements.

A schedule of principal repayments on long-term debt for the next five years and thereafter follows:

<u>Bond Series</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
1996	\$ 1,015,000	\$ 1,055,000	\$ 1,095,000	\$ 1,135,000	\$ 1,180,000	\$ 2,495,000	\$ 7,975,000
2008 (A)	1,590,000	1,660,000	1,735,000	1,810,000	1,890,000	13,180,000	21,865,000
2008 (B)	1,385,000	1,445,000	1,505,000	1,570,000	1,635,000	13,620,000	21,160,000
2008 (D)	1,495,000	1,565,000	1,650,000	1,725,000	1,815,000	20,935,000	29,185,000
2013	1,350,000	1,385,000	1,420,000	1,455,000	1,490,000	23,245,000	30,345,000
2015	1,300,000	1,340,000	1,390,000	1,450,000	1,515,000	19,625,000	26,620,000
2017	<u>1,010,000</u>	<u>1,045,000</u>	<u>1,050,000</u>	<u>1,100,000</u>	<u>1,135,000</u>	<u>22,320,000</u>	<u>27,660,000</u>
	<u>\$ 9,145,000</u>	<u>\$ 9,495,000</u>	<u>\$ 9,845,000</u>	<u>\$ 10,245,000</u>	<u>\$ 10,660,000</u>	<u>\$ 115,420,000</u>	<u>\$ 164,810,000</u>

The fair value of Masonic Villages' total outstanding bonds, based on quoted market prices, at December 31, 2020 and 2019 was approximately \$ 172,016,000 and \$ 180,789,000, respectively.

NOTE 13: Long-Term Debt – Continued

A summary of interest costs on borrowed funds and investment income on funds held by the Trustee under the bond purchase agreement during the years ended December 31, 2020 and 2019 follows:

<u>2020</u>	<u>Capitalized</u>	<u>Interest Expense</u>	<u>Investment Income</u>	<u>Total</u>
Bond premium amortization	\$ -	\$ (477,800)	\$ -	(477,800)
Interest cost	-	3,807,259	-	3,807,259
Net payments to interest rate swap provider	-	3,076,263	-	3,076,263
Internal cost of borrowed funds capitalized for assets constructed with internal funds	-	-	-	-
Amortization of deferred financing costs	-	121,593	-	121,593
Investment income - Funds held by Trustee	-	-	(14,056)	(14,056)
	<u>\$ -</u>	<u>\$ 6,527,315</u>	<u>\$ (14,056)</u>	<u>\$ 6,513,259</u>
<u>2019</u>				
Bond premium amortization	\$ -	\$ (525,407)	\$ -	(525,407)
Interest cost	-	5,107,446	-	5,107,446
Net payments to interest rate swap provider	-	2,256,466	-	2,256,466
Internal cost of borrowed funds capitalized for assets constructed with internal funds	578,718	(578,718)	-	-
Amortization of deferred financing costs	-	129,415	-	129,415
Investment income - Funds held by Trustee	-	-	(52,385)	(52,385)
	<u>\$ 578,718</u>	<u>\$ 6,389,202</u>	<u>\$ (52,385)</u>	<u>\$ 6,915,535</u>

Masonic Villages and PNC Bank, NA (PNC) entered a Continuing Covenants Agreement on December 19, 2013 for PNC to directly purchase all outstanding principal of the 2013 Bonds. Under the terms of this agreement, PNC will hold the outstanding principal of the 2013 Bonds as an investment asset for a minimum of ten years. On May 31, 2018, Masonic Villages amended Continuing Covenants Agreements with Wells Fargo Bank, NA (Wells Fargo) for Wells Fargo to directly purchase all outstanding principal of the 1996 Bonds and 2008 Bonds, Series A, B, and C. Under the terms of these amended agreements, Wells Fargo will hold the outstanding principal of the 1996 Bonds and the 2008 Bonds, Series A, B, and C as an investment asset for a minimum of five years. On November 1, 2019, J.P. Morgan Chase Bank, NA., agreed to extend a letter of credit to support the 2008 Bonds, Series D issued through the Lancaster County Hospital Authority. This letter of credit has a five-year term expiring on October 3, 2024.

NOTE 14: Endowments

Masonic Villages' endowment consists of several individual funds established for a variety of purposes. Masonic Villages' endowment includes both donor-restricted endowment funds and funds designated by Masonic Villages' Board of Directors to function as an endowment. Net assets associated with endowment funds, including funds designated by Masonic Villages' Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 14: Endowments – Continued

The Commonwealth of Pennsylvania has not adopted the Uniform Prudent Management of Institutional Funds Act of 2006. Guidance for the administration of endowment funds in Pennsylvania is provided in Act 141, which was passed by the Pennsylvania legislature in 1998. Under Act 141, Pennsylvania not-for-profit organizations are permitted to elect an annual amount that may be used from their endowment funds based on an annual spending rate between 2% and 7%. Act 141 permits the spending of accumulated principal and income from an endowment fund if the amount withdrawn is less than or equal to the annually elected percentage. Masonic Villages' interpretation of Act 141 classifies interest income, dividends, and capital appreciation earned by donor-restricted endowment fund investments as donor restricted activity. All interest income, dividends, and capital appreciation in excess of the annual spending amount are reported as net assets with donor restrictions available to be appropriated for expenditure in future years. Masonic Villages intends to preserve 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, Masonic Villages classifies as net assets required to be maintained in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the 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 is classified as net assets with donor restrictions available to be appropriated for expenditure by Masonic Villages in a manner consistent with the standard of prudence described by Act 141.

Masonic Villages considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Masonic Villages, the purpose of the donor-restricted endowment fund, satisfaction of specific donor instructions, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of Masonic Villages, and the investment policy of the Consolidated Fund.

Masonic Villages has invested substantially all of its endowment assets in the Consolidated Fund. The Trustees of the Consolidated Fund have adopted an investment policy and strategies to achieve the greatest return possible for the amount of risk assumed by the Consolidated Fund. Under this policy, assets are invested in a manner intended to produce results that exceed the Consumer Price Index by 4.0% for the entire Consolidated Fund. There are also goals established for categories of fixed income and equity investments within the Consolidated Fund to meet or exceed the performance of appropriate generally recognized financial indices. Actual returns in any year may vary from these goals.

To satisfy the long-term rate-of-return objectives of the organizations participating in the Consolidated Fund, the Trustees of the Consolidated Fund rely 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 Consolidated Fund 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.

The Consolidated Fund investment policy includes specific guidance on the maximum amounts that each participating organization may withdraw from its Consolidated Fund investments each year. The maximum amount that may be withdrawn and spent is equal to a percentage of the three-year average fair value of a participating organization's Consolidated Fund investments. This approach is consistent with the provisions of Act 141. For the years ended December 31, 2020 and 2019, the spending percentage elected by the Trustees of the Consolidated Fund was 5.00%. In establishing this policy, the Trustees of the Consolidated Fund considered the long-term expected return on the endowment funds of the organizations participating in the Consolidated Fund.

NOTE 14: Endowments – Continued

In July 2020, the Pennsylvania legislature passed Act 71 of 2020. Act 71 amends Act 141 by increasing the upper percentage for spending policies of not-for-profit corporations from 7% to 10% for the years 2020, 2021, and 2022. The Pennsylvania legislature enacted this temporary increase to spending limits to provide flexibility to not-for-profit corporations related to the fiscal impact of the COVID-19 pandemic. Prior to the adoption of Act 71, the Trustees of the Consolidated Fund had elected a spending percentage of 5% for the year ended December 31, 2020. On September 25, 2020, the Trustees of the Consolidated Fund approved an amendment to the Consolidated Fund investment policy. The new amendment permits organizations invested in the Consolidated Fund to increase their withdrawals from the Consolidated Fund to achieve their cash management objectives up to the 10% allowed by Act 71 for the years 2020, 2021, and 2022. This amendment had the effect of increasing the spending policy maximum percentage from 5% to 10% for the year ended December 31, 2020.

An underwater endowment fund is defined as a donor-restricted endowment fund for which the fair value is less than either the original gift amount or the amount required to be maintained by the donors or by law that extends donor restrictions. Masonic Villages has interpreted Act 141 to permit spending from underwater endowments to the extent the donor-restricted endowment has net assets with donor restrictions available to be appropriated for expenditure. Masonic Villages did not have any underwater endowments as of December 31, 2020 and 2019.

Endowment net assets consisted of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Without donor restrictions	13,152,240	1,530,309
With donor restrictions	<u>356,115,824</u>	<u>277,659,182</u>
	<u>\$ 369,268,064</u>	<u>\$ 279,189,491</u>

NOTE 14: Endowments – Continued

The changes in endowment net assets for the years ended December 31, 2020 and 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at January 1, 2019	\$ 1,315,416	\$ 242,620,539	\$ 243,935,955
Investment return, net	244,606	44,757,863	45,002,469
Contributions and bequests	-	1,279,710	1,279,710
Income from perpetual trust held by third party	-	18,225	18,225
Transfers from funds without donor restrictions	-	160,000	160,000
Appropriation of endowment assets for expenditure	<u>(29,713)</u>	<u>(11,177,155)</u>	<u>(11,206,868)</u>
Endowment net assets at December 31, 2019	<u>1,530,309</u>	<u>277,659,182</u>	<u>279,189,491</u>
Investment return, net	1,449,354	38,723,845	40,173,199
Addition of Pennsylvania Masonic Youth Foundation and The Masonic Library and Museum of Pennsylvania to the Masonic Villages financial reporting entity	10,358,588	11,394,799	21,753,387
Transfers of donor restricted endowments from affiliates	-	46,442,066	46,442,066
Contributions and bequests	-	4,327,277	4,327,277
Income from perpetual trusts held by third parties	5,675	122,596	128,271
Transfers from funds without donor restrictions	-	127,224	127,224
Appropriation of endowment assets for expenditure	<u>(191,686)</u>	<u>(22,681,165)</u>	<u>(22,872,851)</u>
Endowment net assets at December 31, 2020	<u>\$ 13,152,240</u>	<u>\$ 356,115,824</u>	<u>\$ 369,268,064</u>

The amounts reported as appropriation of endowment assets with donor restrictions for expenditure consist of two components. Income from donor restricted endowments recognized as investment income without donor restrictions in the consolidated statements of operations totaled \$ 4,499,313 and \$ 5,344,617, respectively, for the years ended December 31, 2020 and 2019. Amounts withdrawn from the endowments and reported as satisfaction of program restrictions in the consolidated statements of operations and changes in net assets for the years ended December 31, 2020 and 2019 totaled \$ 18,181,852 and \$ 5,832,538, respectively.

NOTE 15: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Endowment net assets available to be appropriated for expenditure:		
Support of Masonic Villages and its activities	\$ 3,217,638	\$ 3,027,947
Support of Children's Home and its activities	11,845,227	7,974,115
Support of Residential program for developmentally disabled individuals	678,012	426,192
Building renovations and construction projects	53,274	-
Scholarship awards	4,992,027	3,117,785
Care and support of eligible Masons and their families	2,545,299	-
General operations of the organization	<u>99,609,033</u>	<u>89,195,417</u>
	<u>122,940,510</u>	<u>103,741,456</u>
Endowment nets assets to be maintained in perpetuity:		
Support of Masonic Villages and its activities	3,957,403	3,227,130
Support of Children's Home and its activities	28,721,907	11,811,584
Support of Residential program for developmentally disabled individuals	1,996,697	1,918,906
Building renovations and construction projects	150,000	-
Scholarship awards	7,232,481	1,473,875
Care and support of eligible Masons and their families	28,473,942	-
General operations of the organization	<u>162,642,884</u>	<u>155,486,231</u>
	<u>233,175,314</u>	<u>173,917,726</u>
Total endowment net assets	<u>356,115,824</u>	<u>277,659,182</u>
Not subject to spending policy or appropriation:		
Perpetual trusts held by third parties	<u>49,085,749</u>	<u>44,068,400</u>
Subject to expenditure for specified purpose:		
Support of Masonic Villages and its activities	1,597,992	1,443,478
Support of Children's Home and its activities	214,518	91,361
Building renovations and construction projects	159,169	92,411
Care and support of eligible Retirement Living residents	1,940,445	2,025,152
Scholarship awards	102,381	117,306
Care and support of eligible Masons and their families	804,485	-
Employee assistance	394,519	262,885
General operations of the organization	<u>2,979,760</u>	<u>2,469,230</u>
Total subject to expenditure for specified purposes	<u>8,193,269</u>	<u>6,501,823</u>
	<u>\$ 413,394,842</u>	<u>\$ 328,229,405</u>

Masonic Villages did not receive any donor restricted contributions that were subject to the passage of time during the years ended December 31, 2020 and 2019.

NOTE 16: Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors. The amounts released during the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished:		
Support of Masonic Villages and its activities	\$ 4,554	\$ 6,978
Support of Children's Home and its activities	44,948	18,766
Support of Residential Care and its activities	44	4,931
General operations of the organization	17,149,111	6,088,005
Care and support of eligible Retirement Living residents	423,860	382,836
Care and support of eligible Masons and their families	560,500	-
Employee assistance	20,368	2,400
Scholarship awards	<u>205,432</u>	<u>62,720</u>
Satisfaction of restrictions - Operations	<u>18,408,817</u>	<u>6,566,636</u>
 Satisfaction of restrictions - Purchase of property and equipment	 <u>195,356</u>	 <u>292,521</u>
	<u>\$ 18,604,173</u>	<u>\$ 6,859,157</u>

During the years ended December 31, 2020 and 2019, assets totaling \$ 147,224 and \$ 160,529, respectively, were transferred from the designated Charitable Gift Annuity Reserve (a fund without donor restrictions) into a restricted endowment fund in accordance with donor restrictions. These assets were transferred upon the deaths of the donors and the corresponding termination of charitable gift annuity arrangements.

Masonic Villages received a liquidating distribution of a trust previously recorded as a perpetual trust held by a third party during 2019. This distribution, totaling \$ 19,470, was recorded as a satisfaction of the donor's restriction and transferred from net assets with donor restrictions to net assets without donor restrictions for the year ended December 31, 2019.

NOTE 17: Retirement Plans

Masonic Villages sponsors a retirement plan established under Section 403 (b) of the Internal Revenue Code. This retirement plan is available to substantially all Masonic Villages' employees and is funded by contributions made by employees and Masonic Villages to a third-party administrator. Annual contributions by the employees are subject to maximum limits established by federal legislation. Masonic Villages made contributions to the defined contribution retirement plan totaling \$ 3,651,630 and \$ 3,417,636 during the years ended December 31, 2020 and 2019, respectively. Masonic Villages also incurred administrative costs related to the defined contribution retirement plan totaling \$ 59,874 and \$ 58,982 during the years ended December 31, 2020 and 2019, respectively.

In April 2012, Masonic Villages established a noncontributory retirement plan under Section 457 (b) of the Internal Revenue Code. This retirement plan is available to certain senior management employees of Masonic Villages and is funded solely by contributions made by employees to a third-party administrator. Annual contributions by the employees are subject to maximum limits established by federal legislation. Accumulated assets of this noncontributory retirement plan are included in Masonic Villages' investments with a corresponding liability reported in accrued expenses in the consolidated balance sheets. The accumulated assets and the corresponding liability totaled \$ 1,061,959 and \$ 969,669 as of December 31, 2020 and 2019, respectively.

NOTE 17: Retirement Plans – Continued

Masonic Villages incurred administrative costs related to this noncontributory retirement plan totaling \$ 2,094 and \$ 1,256 during the years ended December 31, 2020 and 2019, respectively.

NOTE 18: Resident Service Revenue

Masonic Villages has agreements with third-party payors that provide for reimbursement to Masonic Villages at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the billings at established rates for services and amounts reimbursed by third-party payors. Masonic Villages' major third-party payors are Medicare and Medicaid.

For the years ended December 31, 2020 and 2019, services rendered to Medicare program beneficiaries were reimbursed on a prospective payment system or fee schedule, depending on the medical services provided. Under the prospective payment system, Masonic Villages is reimbursed according to the beneficiaries' acuity level and services provided. Under the fee schedule, Masonic Villages is reimbursed the lesser of its charge or the allowable amount per the fee schedule.

Services rendered to Medicaid program beneficiaries are reimbursed based on a prospective case-mix payment system. Under this system, nursing facilities are categorized into peer groups based on geographic location and number of certified beds. The Commonwealth of Pennsylvania's Department of Human Services (Department) establishes per diem rates to reimburse nursing facilities using peer group data adjusted for each individual facility's resident acuity.

In January 2005, the Department implemented a nursing facility assessment program for nursing facilities operating in Pennsylvania. Under this program, the Department collects an assessment from nursing facilities operating in Pennsylvania based on each facility's assessment days. The payments received by the Department from this quarterly assessment are used to obtain federal matching funds to maintain reimbursement for those nursing facilities participating in the Medicaid program. Masonic Villages recognized nursing assessment costs of \$ 1,619,071 and \$ 1,630,713 for the years ended December 31, 2020 and 2019, respectively. Nursing assessment costs are reported as a component of other operating expenses by Masonic Villages in the consolidated statements of operations. Masonic Villages recognized increased Medicaid reimbursement of \$ 2,204,909 and \$ 2,829,212 from the nursing assessment program for the years ended December 31, 2020 and 2019, respectively. Increased Medicaid reimbursement from the nursing assessment program is reported as a component of contractual adjustments under third party programs. The amount of additional reimbursement recognized as an estimated third-party settlement receivable at December 31, 2020 and 2019 was \$ 0 and \$ 1,608,327, respectively.

Masonic Villages recognizes resident service revenue associated with services provided to residents who have third party coverage on the basis of contractual rates for the services rendered. For uninsured private pay residents that qualify for charity care, Masonic Villages recognizes revenue on the basis of its standard rates for services provided, reduced by the estimated portion of the standard rate the resident is unable to pay. The estimated portion of the standard rate the resident is unable to pay is recognized as a charity care allowance. For uninsured private pay residents that do not qualify for charity care, Masonic Villages recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a portion of Masonic Villages' uninsured private pay residents that do not qualify for charity care will be unable or unwilling to pay for the services provided. Masonic Villages records a provision for bad debts related to these uninsured private pay residents in the period the services are provided.

Generally accepted accounting principles require organizations to disaggregate revenue from contracts with customers to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Masonic Villages disaggregates its resident service revenue from contracts with customers by payor source and by service type.

NOTE 18: Resident Service Revenue – Continued

Masonic Villages’ major payor sources consist of the Medicaid and Medicare programs, other third-party payors (primarily commercial insurance and managed care organizations), and private pay individuals. Resident service revenue, net of contractual and charity care allowances provided (but before the provision for bad debts), recognized in the consolidated statements of operations for the years ended December 31, 2020 and 2019 from these major payor sources is as follows:

	2020			
	<u>Medicare and Medicaid</u>	<u>Other Third Party Payors</u>	<u>Private Pay</u>	<u>Total</u>
Gross resident service revenue	\$ 69,228,371	\$ 22,242,408	\$ 106,679,223	\$ 198,150,002
Less provisions for:				
Contractual adjustments under third party reimbursement programs	27,545,102	7,296,901	-	34,842,003
Charity care allowances	<u>-</u>	<u>-</u>	<u>11,128,629</u>	<u>11,128,629</u>
Net resident service revenue, before provision for bad debts	<u>\$ 41,683,269</u>	<u>\$ 14,945,507</u>	<u>\$ 95,550,594</u>	<u>\$ 152,179,370</u>
	2019			
	<u>Medicare and Medicaid</u>	<u>Other Third Party Payors</u>	<u>Private Pay</u>	<u>Total</u>
Gross resident service revenue	\$ 75,763,455	\$ 24,421,880	\$ 105,673,847	\$ 205,859,182
Less provisions for:				
Contractual adjustments under third party reimbursement programs	30,338,303	9,332,640	-	39,670,943
Charity care allowances	<u>-</u>	<u>-</u>	<u>11,369,495</u>	<u>11,369,495</u>
Net resident service revenue, before provision for bad debts	<u>\$ 45,425,152</u>	<u>\$ 15,089,240</u>	<u>\$ 94,304,352</u>	<u>\$ 154,818,744</u>

NOTE 18: Resident Service Revenue – Continued

Resident service revenue by service type for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Nursing Care	\$ 66,843,507	\$ 70,950,344
Medical Ancillary Clinics	3,849,260	5,212,012
Pharmacy	10,034,326	6,760,917
Personal Care	10,519,239	11,072,767
Retirement Living	49,382,348	47,975,023
Child Day Center	562,407	1,144,426
Adult Daily Living Center	57,026	370,304
Residential Care Program	405,785	389,065
Hospice	4,309,206	4,444,136
Wellness Center	156,467	412,333
Home Health Care Services	2,062,104	1,597,055
Home Care Services	1,402,950	1,115,860
Other services, including meals, communications, laundry, parking, and gift and beauty shops	<u>2,594,745</u>	<u>3,374,502</u>
Net resident service revenue, before provision for bad debts	<u>\$ 152,179,370</u>	<u>\$ 154,818,744</u>

NOTE 19: Charity Care and Community Service

Masonic Villages' mission has been to provide services to residents, regardless of their ability to pay, who have medical, social, or financial need.

Masonic Villages provides services to adult individuals who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Criteria considered in Masonic Villages' charity care policy include the income and net worth of the adult individuals applying for charity care. Adult individuals applying for charity care must also be determined to be ineligible for reimbursement from applicable government programs for the services to be provided. Charity care may be provided to qualifying adult individuals for Personal Care, Retirement Living, Residential Care, and certain medical and nonmedical ancillary services. All services provided in the Children's Home are provided as charity care.

Masonic Villages maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges forgone based on established rates for the services and supplies furnished under its charity care policy. Charges forgone for charity care are excluded from net resident service revenue recorded by Masonic Villages. The cost to provide charity care is estimated on an annual basis for each service area providing charity care. Estimated charity care costs for an individual service area are determined by multiplying the individual service area's forgone charges by the ratio of the individual service area's direct and allocated indirect expenses to its gross charges. Masonic Villages' aggregate estimated cost of providing charity care is the sum of the charity care costs calculated for the individual service areas.

NOTE 19: Charity Care and Community Service – Continued

Charges forgone for charity care and the estimated costs of providing charity care for the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Charges forgone	<u>\$ 11,128,629</u>	<u>\$ 11,369,495</u>
Estimated cost to provide charity care	<u>\$ 9,513,287</u>	<u>\$ 9,995,711</u>

Masonic Villages has received contributions restricted for the care and support of Retirement Living residents eligible for charity care. These contributions are recorded as net assets with donor restrictions and periodically released from restriction to subsidize charges forgone to provide charity care to Retirement Living residents. Net assets released from donor restriction to subsidize charity care provided to Retirement Living residents totaled \$ 403,860 and \$ 359,586 for the years ended December 31, 2020 and 2019, respectively.

Masonic Villages also participates in the Medicare and Medical Assistance programs which make payment for services provided to financially eligible residents at rates which are less than the cost of such services. Management estimates the unpaid costs of these programs are approximately \$ 24,756,000 and \$ 22,954,000 in 2020 and 2019, respectively.

Masonic Villages conducts two programs that benefit people not residing at one of the five locations. The Home Assistance program (Home Assistance) provides financial resources and other services to Pennsylvania Masons and their families in need. Home Assistance is provided in two forms: charity care and temporary assistance. The cost of providing Home Assistance totaled \$ 152,940 and \$ 87,425 for the years ended December 31, 2020 and 2019, respectively. Masonic Villages has also established an Outreach program (Outreach) to assist individuals in their communities. People contacting Outreach receive information about various aspects of long-term care, including government programs available, selecting a long-term care facility, insurance, transportation, and counseling. The cost of Outreach totaled \$ 0 and \$ 358 for the years ended December 31, 2020 and 2019, respectively.

During 2020 and 2019, Masonic Villages permitted its meeting and conference facilities to be used by several not-for-profit organizations, including the Elizabethtown Area School District. Masonic Villages received no rental fees for the use of the meeting and conference facilities. The cost of providing this service to these organizations totaled approximately \$ 20,000 and \$ 177,000 for the years ended December 31, 2020 and 2019, respectively.

Masonic Villages made contributions of cash and in-kind services to not-for-profit organizations in the communities it serves. For the years ended December 31, 2020 and 2019, these contributions totaled \$ 254,863 and \$ 149,331, respectively. Masonic Villages also awarded scholarships to several individuals. Individuals receiving scholarships included graduating high school students based on academic achievement, financial need, and community service. Scholarships for child day care services were awarded for pre-school age children whose families met certain financial need criteria as specified in the Pennsylvania Educational Improvement Tax Credit program. Scholarship payments totaled \$ 193,736 and \$ 70,546 for the years ended December 31, 2020 and 2019, respectively.

NOTE 20: Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a natural basis in the consolidated statements of operations. Functional expenses reported in the consolidated financial statements represent combinations of specific cost centers within the Masonic Villages' accounting structure. Cost centers are used to focus on specific operational activities, such as an individual program or administrative service. Use of the cost centers enable individual expenses to be assigned directly to the appropriate activity as incurred throughout the year. Certain expenses that are incurred at an entity level are not assigned to an individual cost center and must be allocated among the programs and supporting services benefited using a reasonable basis that is consistently applied. Expenses that require allocation include employee healthcare costs and net periodic pension expense.

The following table summarizes operating expenses on a functional basis for the year ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Program Services:		
Nursing Care	\$ 65,987,186	\$ 65,132,471
Medical Ancillary Clinics	6,138,973	6,511,100
Pharmacy	9,794,149	6,639,692
Personal Care	11,230,929	10,811,748
Retirement Living	50,983,755	47,329,655
Children's Home	2,183,196	2,288,789
Adult Daily Living Center	248,015	329,835
Residential Care Program	322,765	294,038
Hospice	4,001,402	4,198,052
Wellness Center	1,142,856	1,118,407
Home Health Care Services	1,974,515	1,712,034
Home Care Services	1,123,943	999,358
Community Services	278,633	206,828
Child Day Care Center	850,024	1,339,601
Conference Facilities	2,951,357	2,604,911
Contributions to Affiliates	675	2,357,201
Youth programs	417,958	-
Library and museum activities	857,716	-
Employee Housing and Rental Property	1,285,773	1,485,861
Member Services	-	122,348
Farm	1,831,922	1,959,780
Communications Services	1,488,400	1,233,821
Admissions and Resident Services	2,155,673	2,250,937
Support Services	4,845,410	4,258,473
Maintenance	10,677,195	8,680,689
Food Services	5,354,974	5,565,609
Total program services expense	<u>188,127,394</u>	<u>179,431,238</u>
Management and general - Administration	26,540,996	25,956,357
Fundraising - Gift Planning	<u>1,870,577</u>	<u>1,762,734</u>
	<u>\$ 216,538,967</u>	<u>\$ 207,150,329</u>

NOTE 21: Transactions with Affiliated Organizations

As described in Notes 1 and 2, on January 1, 2020, Masonic Villages became the sole member of the Foundation and Masonic Library and Museum and also received donor restricted funds reassigned from Grand Lodge and the Masonic Charities Fund. These significant additions to Masonic Villages' consolidated financial reporting entity also changed the nature of continuing transactions with these entities and funds. Prior to January 1, 2020, transactions conducted by Masonic Villages with the Foundation and Masonic Library and Museum were disclosed in Masonic Villages' consolidated financial statements since the Foundation and Masonic Library and Museum were affiliates of Masonic Villages. Subsequent to December 31, 2019, transactions conducted by Masonic Villages with the Foundation and Masonic Library and Museum are not disclosed in Masonic Villages' consolidated financial statements since the Foundation and Masonic Library and Museum are subsidiaries of Masonic Villages. Prior to January 1, 2020, income from the transferred donor restricted funds was recognized as contribution revenue from Grand Lodge and Masonic Charities Fund. Subsequent to December 31, 2019, income from the transferred donor restricted funds and used for qualifying expenses is recorded as a satisfaction of program restrictions.

Contributions from Affiliated Organizations

Masonic Villages receives contributions from certain Grand Lodge permanently restricted net assets. The contributions are made from trusts established by donors to benefit needy Masons, widows, and children. Contributions were received by Masonic Villages from the following trusts for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Thomas Ranken Patton Contingency Fund	\$ -	\$ 217,311
Thomas Ranken Patton Masonic Institution for Boys	-	106,258
Thomas Ranken Patton Memorial Charity Fund	-	438,000
Sommerville Art Fund	41,000	-
Henry C. and Anna C. Ellis Trust	-	54,245
Joseph W. Murray Memorial Fund	-	23,027
Charles W. Jackson McClary Memorial Fund #1	-	6,196
	<u>\$ 41,000</u>	<u>\$ 845,037</u>

During the year ended December 31, 2018, the Masonic Charities Fund received a bequest to establish a permanent endowment fund. The donor specified that income generated by the permanent endowment be used for the repair, improvement and maintenance of Masonic Villages' outdoor swimming pool and conference facilities. Investment income earned by this endowment and contributed by the Masonic Charities Fund to Masonic Villages totaled \$ 1,653 and \$ 4,168 for the years ended December 31, 2020 and 2019, respectively. These contributions from Masonic Charities Fund are included in non-operating gains in the consolidated statement of operations for the years ended December 31, 2020 and 2019.

NOTE 21: Transactions with Affiliated Organizations – Continued

Contributions to Affiliated Organizations

Masonic Villages made contributions to the following related 501(c)(3) charitable organizations:

	<u>2019</u>
Pennsylvania Masonic Youth Foundation	\$ 179,808
The Masonic Library and Museum of Pennsylvania	<u>2,176,781</u>
	<u>\$ 2,356,589</u>

These contributions consisted of cash, the use of Masonic Villages' facilities, and donated services provided by Masonic Villages' employees. These annual contributions to the Pennsylvania Masonic Youth Foundation and the operation of the Children's Home support Masonic Villages' mission to improve the welfare of children.

Masonic Villages made contributions totaling \$ 2,176,781 to The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) for the year ended December 31, 2019. These contributions consisted of cash payments of \$ 2,133,823 and donated services provided by Masonic Villages' employees with a cost of \$ 42,958.

Contributions from Masonic Villages' net assets with donor restrictions are made to the Masonic Charities Fund. These contributions are reported as satisfaction of donor restrictions in the consolidated statements of changes in net assets. The contributions are made from the Reidler Helping Hand Fund, which was established to benefit Masonic Villages and the Masonic Charities Fund. Contributions from this trust to the Masonic Charities Fund totaled \$ 675 and \$ 612 for the years ended December 31, 2020 and 2019, respectively.

Administrative and Program Service Expenses

For the years ended December 31, 2020 and 2019, Masonic Villages' employees provided human resources, accounting, and information technology services to Grand Lodge under an expense reimbursement arrangement with Masonic Villages. Masonic Villages' costs for these services allocated to Grand Lodge for the years ended December 31, 2020 and 2019 were \$ 92,408 and \$ 64,434, respectively. Reimbursement received for these costs is included in other operating revenue in the consolidated statements of operations.

During the year ended December 31, 2019, Masonic Villages' employees provided human resources, accounting, fundraising, and information technology services to the Masonic Library and Museum under a contribution arrangement with Masonic Villages. Masonic Villages' costs for these services contributed to the Masonic Library and Museum totaled \$ 42,958 for 2019, and are included in operating expenses in the consolidated statements of operations.

Masonic Villages' employees also provided accounting, fundraising, and information technology services to the Pennsylvania Masonic Youth Foundation under a contribution arrangement with Masonic Villages. Masonic Villages' costs for these services contributed to the Pennsylvania Masonic Youth Foundation for the year ended December 31, 2019 were \$ 37,005. These costs are included in operating expenses in the consolidated statements of operations.

NOTE 21: Transactions with Affiliated Organizations – Continued

Administrative and Program Service Expenses - Continued

During 2020 and 2019, Masonic Villages' employees provided fundraising services to the Masonic Charities Fund under an expense reimbursement arrangement with Masonic Villages. Masonic Villages' costs for these services allocated to the Masonic Charities Fund for the years ended December 31, 2020 and 2019 were \$ 6,537 and \$ 16,541, respectively, and are included in other operating revenue in the consolidated statements of operations.

For the year ended December 31, 2019, Masonic Villages' employees provided administrative and program services to the Pennsylvania Masonic Youth Foundation. Masonic Villages' costs for these services contributed to the Pennsylvania Masonic Youth Foundation for the year ended December 31, 2019 were \$ 482,047. Pennsylvania Masonic Youth Foundation made payments of \$ 450,000 to Masonic Villages to reduce the cost of services provided by Masonic Villages' employees for the year ended December 31, 2019. These costs, net of the reimbursement payments, are included in operating expenses in the consolidated statements of operations.

Use of Facilities

The Pennsylvania Masonic Youth Foundation conducts most of its activities at conference facilities owned by Masonic Villages. The use of these conference facilities was provided to the Pennsylvania Masonic Youth Foundation under a contribution arrangement with Masonic Villages. Masonic Villages' costs for the use of the conference facilities contributed to the Pennsylvania Masonic Youth Foundation for the year ended December 31, 2019 were \$ 107,957. These costs are included in operating expenses in the consolidated statements of operations.

Note Receivable – Grand Lodge

In November 2018, Grand Lodge was required to make a cash contribution totaling \$ 542,846 to the defined benefit pension plan in order to complete the final settlement of the pension plan. Masonic Villages made this cash contribution on behalf of Grand Lodge to enable the pension plan settlement transaction to proceed. On December 31, 2018, Grand Lodge entered an unsecured promissory note agreement to repay the \$ 542,846 to Masonic Villages. The promissory note provides for interest at a rate of 3.31%. Grand Lodge was to pay interest to Masonic Villages on a quarterly basis, beginning on March 31, 2020. Grand Lodge repaid the full amount of this note as part of the reassignment of donor restricted net assets that occurred on January 1, 2020.

NOTE 22: Split-Interest Agreements

Masonic Villages has entered into several split-interest agreements with donors. These split-interest agreements include charitable gift annuities, charitable remainder unitrusts, charitable lead trusts, and perpetual trusts held by third parties. Under split-interest agreements, a donor makes an initial gift to a trust or directly to Masonic Villages in which Masonic Villages has a beneficial interest. Donated assets are maintained by a trust or Masonic Villages and distributions are made to a beneficiary or beneficiaries during the term of the agreement.

At the end of the agreement's term, any remaining assets covered by the agreement are distributed to Masonic Villages.

Assets received under split-interest agreements are recorded at the fair value of the assets on the date received. Liabilities to beneficiaries are recorded at the net present value of expected payments based upon the amount of the contribution, any contractual rate of return, and the life expectancy of the beneficiary. Contribution revenue is classified as either without donor restrictions or with donor restrictions based on the existence of any donor-imposed conditions in the split-interest agreement.

NOTE 22: Split-Interest Agreements – Continued

As of December 31, 2020 and 2019, the fair value of assets recognized under split-interest agreements by Masonic Villages, consisting principally of cash and investments, was as follows:

	<u>2020</u>	<u>2019</u>
Perpetual trusts held by third parties	\$ 49,085,749	\$ 44,068,400
Charitable gift annuities	9,705,103	8,582,691
Charitable remainder unitrusts	<u>5,041,444</u>	<u>1,052,834</u>
	<u>\$ 63,832,296</u>	<u>\$ 53,703,925</u>

Contribution revenues recognized by Masonic Villages under split-interest agreements for the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Without donor restrictions -		
Charitable gift annuities	\$ 255,180	\$ 243,564
Charitable remainder unitrusts	1,563,299	144,432
With donor restrictions -		
Promises to give	<u>-</u>	<u>170,000</u>
	<u>\$ 1,818,479</u>	<u>\$ 557,996</u>

Masonic Villages is an income beneficiary of several perpetual trusts held by third parties. Distributions of income are made at the discretion of the trustees. Income distributed to the Masonic Villages by perpetual trusts held by third parties amounted to \$ 2,071,940 and \$ 2,212,609 for the years ended December 31, 2020 and 2019, respectively.

NOTE 23: Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are unobservable inputs for the asset or liability.

NOTE 23: Fair Value Measurements – Continued

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

Domestic and International Common Stock, Mutual Funds – Equity Securities, Exchange Traded Funds, Royalty Trusts and Real Estate Investment Trusts

Valued at end of day quoted prices in active markets for identical assets, if available (Level 1). If the market is not active, they are valued using quoted prices for similar assets in active markets or identical assets in inactive markets (Level 2).

U.S. Government Securities, Domestic Corporate Bonds, Municipal Securities, Mortgage Backed Securities, Assets Backed Securities and Demand Notes

Valued at end of day pricing using quoted prices for similar assets in active markets or identical assets in inactive markets.

Money Market Mutual Funds

These funds are valued at the end of day closing price based on net asset value (NAV). The value is based on quoted prices for similar assets in active markets or identical assets in inactive markets.

Perpetual Trust Held By Third Parties

The value of perpetual trusts is determined based on the end of day value of the underlying investments. The investments are valued using quoted prices in active markets or quoted prices for similar assets in active markets or identical assets in inactive markets.

Private Equity Investments

Valued at the bid price of the investment or if there is no price for the investment in question, the value is the amount which would be paid to a seller for an immediate transfer to another plus any charges for the transfer. The value of an investment which has no price is determined using comparable assets of public markets, private transactions or valuations of comparable companies or assets.

As described in Note 8, Masonic Villages' most significant investment is its share of the Consolidated Fund.

NOTE 23: Fair Value Measurements – Continued

The fair values of the Consolidated Fund’s assets measured on a recurring basis as of December 31, 2020 and 2019 are as follows:

<u>At December 31, 2020</u>	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	\$ 130,206,708	\$ 129,218,135	\$ 988,573	\$ -
Energy	2,426,171	2,426,171	-	-
Financial	50,744,282	50,744,282	-	-
Industrials	117,724,174	116,768,868	955,306	-
Information technology	19,397,993	19,382,109	15,884	-
Materials	5,299,346	5,299,346	-	-
Transportation	1,008,872	1,008,872	-	-
Telecommunications services	25,279,733	25,279,733	-	-
Total domestic and international common stocks	<u>352,087,279</u>	<u>350,127,516</u>	<u>1,959,763</u>	<u>-</u>
U.S. Government securities	25,031,386	-	25,031,386	-
Domestic corporate bonds:				
Aaa credit rating	320,296	-	320,296	-
Aa credit rating	5,009,667	-	5,009,667	-
A credit rating	25,658,786	-	25,658,786	-
Baa credit rating	2,647,736	-	2,647,736	-
B credit rating	2,265,513	-	2,265,513	-
Bb credit rating	13,553,417	-	13,553,417	-
Bbb credit rating	39,681,614	-	39,681,614	-
Unrated	2,021,335	-	2,021,335	-
Total domestic corporate bonds	<u>91,158,364</u>	<u>-</u>	<u>91,158,364</u>	<u>-</u>
Municipal bonds:				
Aaa credit rating	1,584,888	-	1,584,888	-
Aa credit rating	4,909,310	-	4,909,310	-
A credit rating	340,843	-	340,843	-
Unrated	1,440,094	-	1,440,094	-
Total municipal bonds	<u>8,275,135</u>	<u>-</u>	<u>8,275,135</u>	<u>-</u>
Mutual funds - Equity securities	21,372,319	21,145,940	226,379	-
Exchange traded funds	103,876,568	103,876,568	-	-
Mortgage backed securities	25,158,403	-	25,158,403	-
Asset backed securities	32,518,282	-	32,518,282	-
Royalty trusts	1,916,372	1,916,372	-	-
Real estate investment trusts	1,038,408	1,038,408	-	-
Money Market funds	61,688,220	-	61,688,220	-
Private equity investments	14,074,952	-	-	14,074,952
Investments measured at net asset value:				
Limited partnerships	87,089,492	-	-	-
Mutual funds - equity securities	38,129,954	-	-	-
Total investments measured at net asset value	<u>125,219,446</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - All Investment Types	<u>\$ 863,415,134</u>	<u>\$ 478,104,804</u>	<u>\$ 246,015,932</u>	<u>\$ 14,074,952</u>

NOTE 23: Fair Value Measurements – Continued

At December 31, 2019	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic and international common stocks:				
Consumer staples and discretionary	\$ 91,194,368	\$ 90,648,513	\$ 545,855	\$ -
Energy	7,762,931	7,762,931	-	-
Financial	39,410,326	39,410,326	-	-
Industrials	92,826,277	92,726,560	99,717	-
Information technology	6,937,009	6,937,009	-	-
Materials	4,987,861	4,987,861	-	-
Transportation	3,440,585	3,440,585	-	-
Telecommunications services	25,310,512	25,310,512	-	-
Total domestic and international common stocks	<u>271,869,869</u>	<u>271,224,297</u>	<u>645,572</u>	<u>-</u>
U.S. Government securities	<u>20,307,356</u>	<u>-</u>	<u>20,307,356</u>	<u>-</u>
Domestic corporate bonds:				
Aaa credit rating	3,101,109	-	3,101,109	-
Aa credit rating	11,214,639	-	11,214,639	-
A credit rating	42,882,305	1,017,460	41,864,845	-
Baa credit rating	1,558,927	-	1,558,927	-
Bb credit rating	801,496	-	801,496	-
Bbb credit rating	51,659,693	-	51,659,693	-
Unrated	3,342,427	-	3,342,427	-
Total domestic corporate bonds	<u>114,560,596</u>	<u>1,017,460</u>	<u>113,543,136</u>	<u>-</u>
Municipal bonds:				
Aaa credit rating	2,236,848	-	2,236,848	-
Aa credit rating	4,932,462	-	4,932,462	-
A credit rating	566,199	-	566,199	-
Unrated	1,409,137	-	1,409,137	-
Total municipal bonds	<u>9,144,646</u>	<u>-</u>	<u>9,144,646</u>	<u>-</u>
Mutual funds - Equity securities	<u>31,418,689</u>	<u>31,192,412</u>	<u>226,277</u>	<u>-</u>
Exchange traded funds	<u>191,285,100</u>	<u>191,285,100</u>	<u>-</u>	<u>-</u>
Mortgage backed securities	<u>28,551,986</u>	<u>-</u>	<u>28,551,986</u>	<u>-</u>
Asset backed securities	<u>29,907,105</u>	<u>410,430</u>	<u>29,496,675</u>	<u>-</u>
Demand notes	<u>401,967</u>	<u>-</u>	<u>401,967</u>	<u>-</u>
Real estate investment trusts	<u>312,533</u>	<u>312,533</u>	<u>-</u>	<u>-</u>
Money Market funds	<u>40,073,961</u>	<u>-</u>	<u>40,073,961</u>	<u>-</u>
Private equity investments	<u>10,274,924</u>	<u>-</u>	<u>-</u>	<u>10,274,924</u>
Investments measured at net asset value:				
Mutual funds - equity securities	<u>41,051,910</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments measured at net asset value	<u>41,051,910</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - All Investment Types	<u><u>\$ 789,160,642</u></u>	<u><u>\$ 495,442,232</u></u>	<u><u>\$ 242,391,576</u></u>	<u><u>\$ 10,274,924</u></u>

NOTE 23: Fair Value Measurements – Continued

The Consolidated Fund has investments in certain financial instruments whose fair values are measured as a practical expedient by using the net asset value per share of the investment. This feature may limit the ability of the Consolidated Fund to liquidate these financial instruments quickly, if necessary. Financial instruments whose fair values are determined as a practical expedient by using the net asset value per share of the investment and their redemption features are as follows as of December 31, 2020 and 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
At December 31, 2020				
Mutual fund - Equity securities	\$ 28,364,890	\$ -	Quarterly	60 Days
Mutual fund - Equity securities	9,765,064	-	Monthly	5 Days
Limited partnerships	40,833,505	-	Monthly	10 Days
Limited partnerships	46,255,987	-	Weekly	Not Applicable
Private equity investments	14,074,952	-	Illiquid	Not Applicable
	<u>\$ 139,294,398</u>	<u>\$ -</u>		

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
At December 31, 2019				
Mutual fund - Equity securities	\$ 27,313,228	\$ -	Quarterly	60 Days
Mutual fund - Equity securities	3,750,000	-	Quarterly	60 Days
Mutual fund - Equity securities	9,988,682	-	Monthly	5 Days
Private equity investments	10,274,924	-	Illiquid	Not Applicable
	<u>\$ 51,326,834</u>	<u>\$ -</u>		

The redemption restrictions for these financial instruments are included in the contracts with the investment management firms responsible for these investments. The Consolidated Fund started the process of completely redeeming its limited partnership – international funds in early 2009. The liquidations of the special investment funds created from the redemption process were completed during the year ended December 31, 2019.

NOTE 23: Fair Value Measurements – Continued

Changes in the Consolidated Fund’s investments in financial instruments whose fair values are determined using significant unobservable inputs were as follows for the years ended December 31, 2020 and 2019:

	<u>Total</u>	<u>Private Equity Investments</u>
Fair value at January 1, 2019	\$ 7,997,689	\$ 7,997,689
Unrealized gains	834,772	834,772
Purchases	<u>1,442,463</u>	<u>1,442,463</u>
Fair value at December 31, 2019	10,274,924	10,274,924
Unrealized gains	986,249	986,249
Sales	(808,823)	(808,823)
Purchases	<u>3,622,602</u>	<u>3,622,602</u>
Fair value at December 31, 2020	<u>\$ 14,074,952</u>	<u>\$ 14,074,952</u>

The fair values of Masonic Villages’ assets are measured using different techniques. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values of perpetual trusts held by third parties are measured by applying known beneficiary percentages to the fair values of the trust’s assets which consists of a combination of actively traded securities and other securities which are valued using significant other observable inputs. When unable to obtain a fair value for a perpetual trust, the fair value is estimated by calculating the present value of income received from the trust under a reasonable rate of return percentage. Fair value for contributions receivable from beneficial interests in charitable lead annuity trusts is determined by calculating the present value of the annuity using published life expectancy tables and discount rates ranging from 2.17% to 4.25%. Fair values for unconditional promises to give are determined by calculating the present value of the future cash flows expected to be received, using the stated terms of the promises to give and discount rates ranging from 1.92% to 2.45%.

NOTE 23: Fair Value Measurements – Continued

The fair values of assets measured on a recurring basis as of December 31, 2020 and 2019 are as follows:

	Fair Value	Quote Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2020				
Investments (excluding Consolidated Fund):				
Money Market Funds	\$ 9,685,803	\$ 9,685,803	\$ -	\$ -
Equity Funds	6,103,403	6,103,403	-	-
Real estate	391,007	-	391,007	-
Perpetual Trusts Held by Third Parties	49,085,749	-	49,085,749	-
Contributions receivable:				
Charitable lead annuity trusts	253,217	-	253,217	-
Promises to give	68,681	-	-	68,681
	<u>\$ 65,587,860</u>	<u>\$ 15,789,206</u>	<u>\$ 49,729,973</u>	<u>\$ 68,681</u>
At December 31, 2019				
Investments (excluding Consolidated Fund):				
Money Market Funds	\$ 7,017,609	\$ 7,017,609	\$ -	\$ -
Equity Funds	2,022,503	2,022,503	-	-
Common Trust Funds	391,007	-	391,007	-
Perpetual Trusts Held by Third Parties	44,068,400	-	44,068,400	-
Contributions receivable:				
Charitable lead annuity trusts	305,070	-	305,070	-
Promises to give	167,179	-	-	167,179
	<u>\$ 53,971,768</u>	<u>\$ 9,040,112</u>	<u>\$ 44,764,477</u>	<u>\$ 167,179</u>

The changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Fair value as of January 1	\$ 167,179	\$ 45,215
Promises to give received	-	170,000
Contributions receivable assumed January 1, 2020 from the addition of The Masonic Library and Museum of Pennsylvania to the financial reporting entity	36,617	-
Cash payments received	(139,500)	(44,604)
Actuarial adjustment of fair value based on remaining terms of promises to give and risk-free interest rates	4,385	(3,432)
Fair value as of December 31	<u>\$ 68,681</u>	<u>\$ 167,179</u>

NOTE 23: Fair Value Measurements – Continued

The fair values of Masonic Villages' liabilities are measured using different techniques. Fair values for annuities payable resulting from charitable gift annuity agreements and charitable remainder unitrust agreements with donors are determined by calculating the present value of the annuity using published life expectancy tables and the contractual discount rates. Fair values for interest rate swap agreements are determined based on the terms of each agreement and proprietary valuation techniques of Wells Fargo Bank, NA, which consider the present value of estimated expected future cash flows.

The fair values of liabilities measured on a recurring basis as of December 31, 2020 and 2019 are as follows:

	Fair Value	Quote Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2020				
Annuities payable	\$ 6,654,240	\$ -	\$ 6,654,240	\$ -
Interest rate swap agreements	20,442,514	-	20,442,514	-
	<u>\$ 27,096,754</u>	<u>\$ -</u>	<u>\$ 27,096,754</u>	<u>\$ -</u>
At December 31, 2019				
Annuities payable	\$ 5,896,650	\$ -	\$ 5,896,650	\$ -
Interest rate swap agreements	18,018,008	-	18,018,008	-
	<u>\$ 23,914,658</u>	<u>\$ -</u>	<u>\$ 23,914,658</u>	<u>\$ -</u>

Masonic Villages meets the requirements for disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of Masonic Villages.

NOTE 23: Fair Value Measurements – Continued

The carrying amounts and fair values of Masonic Village’s financial instruments are as follows:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
At December 31, 2020					
Financial Assets:					
Cash and cash equivalents	\$ 24,411,393	\$ 24,411,393	\$ 24,411,393	\$ -	\$ -
Assets whose use is limited	2,748,382	2,748,382	2,748,382	-	-
Resident accounts and other receivables	6,976,427	6,976,427	-	-	6,976,427
Notes receivable	963,030	963,030	-	-	963,030
Financial Liabilities:					
Accounts payable and accrued expenses	\$ 25,167,365	\$ 25,167,365	\$ 25,167,365	\$ -	\$ -
Annuities payable	6,654,240	6,654,240	-	-	6,654,240
Interest rate swap agreements	20,442,514	20,442,514	-	20,442,514	-
Long-term debt	168,244,246	172,016,000	-	172,016,000	-
At December 31, 2019					
Financial Assets:					
Cash and cash equivalents	\$ 26,555,620	\$ 26,555,620	\$ 26,555,620	\$ -	\$ -
Assets whose use is limited	2,752,206	2,752,206	2,752,206	-	-
Resident accounts and other receivables	8,966,217	8,966,217	-	-	8,966,217
Estimated third party settlements	1,608,327	1,608,327	-	-	1,608,327
Notes receivable	1,663,647	1,663,647	-	-	1,663,647
Financial Liabilities:					
Accounts payable and accrued expenses	\$ 26,569,413	\$ 26,569,413	\$ 26,569,413	\$ -	\$ -
Annuities payable	5,896,650	5,896,650	-	-	5,896,650
Interest rate swap agreements	18,018,008	18,018,008	-	18,018,008	-
Long-term debt	177,430,453	180,789,000	-	180,789,000	-

NOTE 24: Minimum Liquid Reserve Requirement

Masonic Villages is licensed as a continuing care provider by the Commonwealth of Pennsylvania’s Insurance Department (Insurance Department). In accordance with this licensure, Masonic Villages must establish and maintain certain minimum liquid reserves. Masonic Villages’ minimum liquid reserve amount equals the greater of the next twelve months long-term debt service (Debt Service Method) or 10% of the operating expenses excluding depreciation (Operating Expense Method). Masonic Villages’ governing body, the Board of Directors, has designated a portion of the Masonic Villages Reserve Fund to satisfy this minimum liquid reserve requirement. On October 31, 1996, the Insurance Department approved this approach to comply with the minimum reserve requirement.

NOTE 24: Minimum Liquid Reserve Requirement– Continued

The minimum required reserve amounts for the years ended December 31, 2020 and 2019 were determined using projected expense and principal payment amounts for the years ending December 31, 2021 and 2020, respectively. The minimum required reserve amounts calculated under the two methods were as follows:

	<u>2020</u>	<u>2019</u>
<u>Operating Expense Method</u>		
Operating expenses	\$ 222,018,266	\$ 219,735,620
Less: Depreciation expense	29,817,394	27,902,780
Cash expenses for minimum liquid reserve	192,200,872	191,832,840
Percentage of cash expenses to be held in reserve	10%	10%
Minimum liquid reserve requirement under Operating Expense Method	<u>\$ 19,220,087</u>	<u>\$ 19,183,284</u>
<u>Debt Service Method</u>		
Interest expense	\$ 6,286,218	\$ 6,640,865
Principal payments	9,145,000	8,830,000
Minimum liquid reserve requirement under Debt Service Method	<u>\$ 15,431,218</u>	<u>\$ 15,470,865</u>

The fair value of the Masonic Villages Reserve Fund at December 31, 2020 and 2019 totaled \$ 180,809,802 and \$ 158,792,568, respectively. Masonic Villages met the minimum liquid reserve required by the Insurance Department for the years ended December 31, 2020 and 2019.

NOTE 25: Subsequent Events

Masonic Villages has evaluated events and transactions subsequent to December 31, 2020 through April 27, 2021, the date these consolidated financial statements were issued. Based on the definitions and requirements of generally accepted accounting principles, Masonic Villages has identified the following event that requires recognition or disclosure in the consolidated financial statements:

On January 1, 2021, the Masonic Charities Fund transferred net assets totaling \$ 91,504 to Masonic Villages. This transfer represented investment assets and the net present value of expected annuity payments related to charitable gift annuity arrangements that had been entered with donors by the Masonic Charities Fund through December 31, 2020. The purpose of this transfer is to consolidate all charitable gift annuity activities with Masonic Villages, which will improve operational efficiency and reduce the amount of regulatory reporting.

NOTE 26: Commitments and Contingencies

Masonic Villages has signed contracts for various construction projects approximating \$ 3,489,000. Approximately \$ 2,687,000 has been paid or accrued on these contracts as of December 31, 2020.

Masonic Villages is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Masonic Villages' financial position.

NOTE 26: Commitments and Contingencies - Continued

During the year ended December 31, 2008, Masonic Villages negotiated an agreement with the Elizabethtown Area School District (School District), Elizabethtown Borough (Borough), West Donegal Township (Township), and Lancaster County (County) for annual payments in lieu of taxes for all properties located at the Elizabethtown campus. This agreement became effective in 2008 and will expire on June 30, 2029. The agreement includes a specific annual payment schedule for lieu of tax payments to the School District, the Borough, the Township, and the County for the 20-year term of the agreement. The agreement also contains provisions for an annual contribution of \$ 15,000 from Masonic Villages to the School District's Education Foundation. Masonic Villages will also annually fund up to six \$ 2,500 college scholarships for qualified students from the School District. Masonic Villages paid \$ 1,312,880 and \$ 1,310,055 in lieu of tax payments under this agreement for the years ended December 31, 2020 and 2019, respectively. For the year ending December 31, 2021, Masonic Villages' commitment under the agreement is approximately \$ 1,336,000.

During the year ended December 31, 2004, Masonic Villages negotiated an agreement with Aleppo Township (Aleppo), the Quaker Valley School District (Quaker Valley), and the County of Allegheny (Allegheny) for annual payments in lieu of taxes for certain tax-exempt properties at the Sewickley campus. This agreement became effective in 2004 and will expire December 31, 2024. The agreement includes a specific annual payment schedule for lieu of tax payments to Aleppo, Quaker Valley, and Allegheny for the 21-year term of the agreement. The agreement also includes provisions for an annual contribution from Masonic Villages to the Sewickley Public Library. Masonic Villages is also required to fund annually a minimum amount for college scholarships for Quaker Valley students. Masonic Villages paid \$ 867,872 and \$ 853,145 under this agreement for the years ended December 31, 2020 and 2019, respectively. For the year ending December 31, 2021 Masonic Villages' commitment under the agreement is approximately \$ 877,000.

Masonic Villages' Lafayette Hill campus has two agreements with Whitemarsh Township (Whitemarsh) for annual payments in lieu of taxes for the tax-exempt Masonic Villages property. The first agreement, for gross receipts tax, requires a minimum annual payment to Whitemarsh of \$ 10,000, adjusted for an inflation factor based on the Consumer Price Index for the Philadelphia region. The second agreement, for real estate taxes, requires an annual payment to Whitemarsh based on the assessed value of the Lafayette Hill campus and Whitemarsh's current millage rate. Masonic Villages paid Whitemarsh \$ 51,869 and \$ 46,312 under these two agreements for the years ended December 31, 2020 and 2019, respectively.

During the year ended December 31, 2012, Masonic Villages negotiated an agreement with Dallas Township, Dallas Area School District, and Luzerne County for annual payments in lieu of taxes for certain tax-exempt properties at the Dallas campus. This agreement became effective retroactive to 2011 and will expire December 31, 2030. The agreement includes a specific payment schedule for lieu of tax payments to Dallas Township, Dallas Area School District, and Luzerne County for the 20-year term of the agreement. The agreement also includes provisions for an annual contribution from Masonic Villages to Dallas Township to support the local fire and ambulance organizations. Masonic Villages paid \$ 36,275 and \$ 35,930 under this agreement for the years ended December 31, 2020 and 2019, respectively. For the year ending December 31, 2021, Masonic Villages' commitment under the agreement is approximately \$ 37,000.

NOTE 26: Commitments and Contingencies - Continued

On February 28, 1997, Masonic Villages entered an Agreement of Remediation (Agreement) with Waste Management Disposal Services of Pennsylvania, Inc. (Waste Management). The Agreement concerns remediation of an inactive landfill site adjacent to the Elizabethtown campus. A secondary well was contaminated with manganese believed to have been caused by the inactive landfill site. Under the Agreement, Waste Management will pay Masonic Villages a total of \$ 300,000 for costs to be incurred by Masonic Villages during the remediation process. It is anticipated the remediation process may require thirty years to complete. In April 1997, Masonic Villages received a payment totaling \$ 150,000 to be used for costs incurred during the first fifteen years of the remediation process. This payment has been recorded as deferred revenue and is amortized, using the straight-line method, as a reduction of the related operating expenses incurred by Masonic Villages. An additional payment of \$ 75,000 was received by Masonic Villages in 1998, to be used for costs incurred during the second fifteen years of the remediation process. Waste Management also agreed to reimburse Masonic Villages for the cost of drilling a new well. Two new wells were installed in 2000 to replace the existing water supply and the costs associated with installation were reimbursed by Waste Management.

NOTE 27: Risk

Financial instruments which subject Masonic Villages to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments (i.e. certificates of deposit), fixed income securities, common stocks, and resident accounts receivable.

Masonic Villages typically maintains cash and cash equivalents which, at times, exceed \$ 250,000, in banks. Cash and cash equivalents and certain short-term investments are insured by the Federal Deposit Insurance Corporation up to a limit of \$ 250,000 per bank. Fixed income securities and common stocks are uninsured.

Masonic Villages grants credit to its residents and other third-party payors, primarily Medicare, Medical Assistance, and various commercial insurance companies. Masonic Villages maintains reserves for potential credit losses and such losses have historically been within management's expectations.

Masonic Villages' investments are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could be material.

Recent economic and government reactions to the COVID-19 pandemic have resulted in temporary reductions or shut down of operations for some businesses and created many economic uncertainties. These events could impact the financial condition and operating results of Masonic Villages. However, the financial impact and duration cannot be reasonably estimated at this time.

NOTE 28: Cybersecurity Incident

Masonic Villages identified certain system functionality and access issues with its computer network on or about June 27, 2019. Following notification to its cyber liability insurance carrier, Masonic Villages engaged special cyber liability legal counsel and a third party data security consulting firm to conduct a root cause forensic investigation. The forensic investigation concluded that malware containing a crypto mining bot infiltrated Masonic Villages systems on or around June 7, 2019. The malware spread across Masonic Villages systems, affecting functionality and access. Although the malware established persistence in Masonic Villages systems, the malware was not known to have exfiltration or data targeting capabilities. There was no evidence of a targeted attack, data staging, data exfiltration or data access. There was no evidence of the compromise of any personally identifiable information or protected health information in Masonic Villages' environment. Based on the results of the investigation, special

NOTE 28: Cybersecurity Incident - Continued

legal counsel concluded that the malware incident did not rise to the level of a reportable event under applicable state and federal laws, rules and regulations. Accordingly, Masonic Villages was not required to disclose the malware incident to any regulators or individuals pursuant to these laws, rules and regulations. Masonic Villages is not aware that the malware incident affected any requirements or obligations under its contractual arrangements with third parties, including notification and privacy provisions in its business associate agreements and financial covenants in loan agreements.

Masonic Villages incurred direct expenditures totaling \$ 1,269,411 for the year ended December 31, 2019 in connection with the investigation of this cybersecurity incident and the subsequent remediation and recovery effort to restore functionality and access to its systems. These expenditures include fees paid to special cyber security legal counsel, the third party data security consulting firm principally responsible for the forensic investigation of Masonic Villages' systems, and other third party consultants engaged to assist Masonic Villages with its remediation and recovery effort. These expenditures also include the purchase of new replacement equipment and the restoration of equipment exposed to the infected systems. Cybersecurity incident remediation costs have been reported in Masonic Villages' consolidated financial statements for the year ended December 31, 2019 as follows:

Purchases of equipment capitalized as depreciable assets	\$ 584,290
Payments for specialized services and other incidental items recognized as expense	<u>685,121</u>
	<u>\$ 1,269,411</u>

Some of these costs may eventually be reimbursed through Masonic Villages' business interruption insurance. Under the terms of Masonic Villages' business interruption insurance policy, claims for reimbursement of costs related to this cybersecurity incident must be submitted to the insurer by December 2020. Masonic Villages submitted a claim to the insurer on May 19, 2020. The insurer's review of the claim and determination of the amount to be reimbursed is expected to occur during the first quarter of 2021. Masonic Villages has accrued insurance reimbursement receivable related to this claim totaling \$ 290,322 as of December 31, 2020.

NOTE 29: COVID-10 Pandemic Financial Activities

In March 2020, the COVID-19 pandemic began in the United States. The federal, state and local governments took a variety of measures to respond to this public health threat, including placing restrictions on certain business activities to prevent spread of the COVID-19 virus, producing and distributing mass quantities of necessary medical supplies, and providing financial assistance to healthcare providers. The financial assistance primarily was in the form of federal and state grants that were sent to healthcare providers unsolicited.

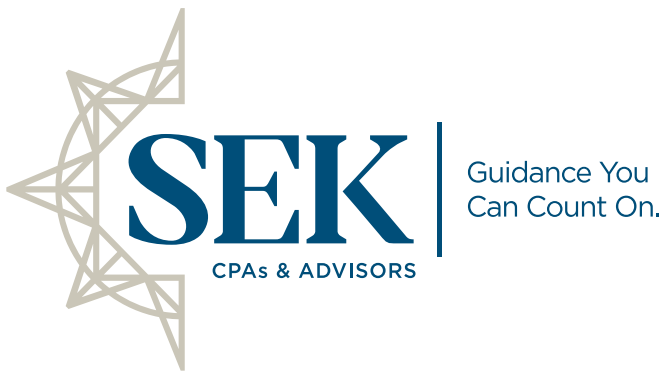
In response to the COVID-19 pandemic Masonic Villages implemented temporary moratoriums on new admissions to its different senior living service areas at various times throughout 2020, which resulted in resident occupancy declining below normal levels. Certain ancillary activities, including therapy clinics and child day care, experienced declines in the volume of services provided. Resident dining areas were closed for most of 2020 to prevent spread of the COVID-19 virus. The aggregate impact of these circumstances was a decline in Masonic Villages' operating revenues for the year ended December 31, 2020. Despite reduced revenue, Masonic Villages was able to fund its operations, meet its debt service obligations, and maintain adequate liquidity due to income generated by its unrestricted investments and financial assistance from federal government programs created to support healthcare providers during the COVID-19 pandemic. The presence of significant earning assets should enable Masonic

NOTE 29: COVID-10 Pandemic Financial Activities - Continued

Villages to conduct normal operations and maintain adequate liquidity for the duration of the COVID-19 pandemic.

Masonic Villages received federal assistance for the COVID-19 pandemic totaling \$ 9,818,537 for the year ended December 31, 2020. The assistance was presumed to reimburse the costs associated with the COVID-19 pandemic and lost revenue from the decline in resident occupancy and ancillary activities. This amount has been recognized as other operating revenue in the consolidated statement of operations. COVID-19 pandemic costs have been reported in Masonic Villages' consolidated financial statements for the year ended December 31, 2020 as follows:

Labor incurred by Masonic Villages' employees and recognized as wages	
salaries and benefits in the consolidated statements of operations	\$ 3,222,169
Payments for specialized services and other incidental items recognized	
as COVID-19 costs in the consolidated statements of operations	<u>1,972,773</u>
	<u>\$ 5,194,942</u>



***INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

Board of Directors
Masonic Villages of the
Grand Lodge of Pennsylvania
Elizabethtown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Masonic Villages of the Grand Lodge of Pennsylvania (a non-for-profit organization) and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a material weakness.

Board of Directors
Masonic Villages of the
Grand Lodge of Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Masonic Villages of the Grand Lodge of Pennsylvania's Response to Findings

Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Hearn & Company, LLC.

Carlisle, Pennsylvania
April 27, 2021

Masonic Villages of the Grand Lodge of Pennsylvania
Schedule of Findings and Responses
December 31, 2020

Findings - Financial Statement Audit

Material Weaknesses:

2020-001 Investment Reconciliation

Criteria:	Investment balances should be reconciled to the applicable general ledger balances on a monthly basis.
Condition/Context:	The investments are reconciled with the general ledger balances on a monthly basis; however, the investment reconciliation did not agree to the general ledger balance due to a formula error in the reconciliation spreadsheet. A difference of \$ 4.5 million was identified for a Reserve Fund with a \$181 million fair value at December 31, 2020.
Effect:	The error would have resulted in the Consolidated Fund investments and unrealized gain balances being overstated by \$ 4.5 million if it had not been discovered during the audit and corrected prior to the issuance of the financial statements.
Cause:	An error in a formula within the Excel spreadsheet used to reconcile investments caused the error. This error was not detected by management during the review of the reconciliation.
Repeat Finding:	Not applicable
Recommendation:	Management should periodically review the spreadsheet formulas and reconciliation presentation to ensure an accurate reconciliation is being prepared.

**View of Responsible
Officials and Planned
Corrective Actions/
Auditee's Response:**

During your audit of Masonic Villages' financial statements for the year ended December 31, 2020 you identified a material weakness in internal control involving the reconciliation process over the monthly calculation of the fair value of Masonic Villages' Consolidated Fund investment accounts. A formula error in the Excel spreadsheet used to calculate the monthly fair value of investments resulted in double-counting the separate cash participant account within the Masonic Villages Reserve Fund. The Masonic Villages Reserve Fund had an average quarterly fair value of approximately \$158 million during 2020. This error originated in the spring of 2020 during the preparation of the new 2020 calculation spreadsheet that incorporated a significant number of fund reassignments authorized by the Grand Lodge Committee on Finance. This transition was further complicated by the disruptions in the work environment at the onset of the COVID-19 pandemic. The error in the fair value calculation was undetected by our internal processes throughout 2020.

We have implemented the following procedures to correct this material weakness:

- Eliminated the distinction between cash and units for the Masonic Villages Reserve Fund participant account on the Excel fair value spreadsheet. This helps in the reconciliation to the third party administrator's monthly statement and eliminates the need for a formula adjustment.
- The Director of Finance will review each month's reconciliation prior to the monthly close of the Workday general ledger. This process will also involve an independent verification of the totals from the Consolidated Fund custodian, the third party administrator and the Finance Department-prepared spreadsheets to ensure all are in agreement at the entity level as well as at the Consolidated Fund level.