Consolidated Financial Statement	December 31, 2016

MASONIC VILLAGES OF THE GRAND LODGE OF PENNSYLVANIA

INDEX

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Masonic Villages of the Grand Lodge of Pennsylvania and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, 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 $ 10,638,742 and $ 10,006,187 as of December 31, 2016 and 2015, respectively, and total revenues of $ 848,190 and $ 948,152, 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, 2016 and 2015, 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.

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
April 20, 2017

MASONIC VILLAGES OF THE
GRAND LODGE OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

ASSETS	2016	2015
Current Assets:		
Cash and cash equivalents (Note 3)	$ 22,862,928	$ 23,914,124
Assets whose use is limited and that are required for current liabilities (Note 8)	2,467,972	3,538,380
Resident accounts receivable, net of estimated uncollectibles of $ 767,000 in 2016 and $ 752,000 in 2015 (Note 4)	7,432,385	8,877,237
Accounts receivable:		
Pennsylvania Masonic Youth Foundation	602	1,757
Masonic Charities Fund	38,731	32,431
The Masonic Library and Museum of Pennsylvania	-	109
Investment income receivable	1,411,567	1,317,196
Estimated third party settlements receivable (Note 18)	2,286,496	778,707
Inventory	2,758,817	2,313,998
Other current assets	2,876,285	3,469,479
Notes receivable (Note 6)	1,972,525	2,596,619
Contributions receivable (Note 5)	70,671	63,866
Total current assets	44,178,979	46,903,903
Contributions receivable, net of current portion (Note 5)	339,760	348,094
Minimum liquid reserve requirement (Notes 7, 24)	16,539,600	15,969,405
Investments (Note 7)	631,664,921	655,755,640
Property and equipment, net (Note 9)	362,669,658	357,564,213
Other Assets:		
Deferred costs, net (Note 10)	316,800	369,600
Loan receivable - Susquehanna-Wagman Associates, LLC	-	33,602
Other long-term assets	3,973	4,223
Total other assets	320,773	407,425
Collections (Note 1)	-	-
Total assets	$ 1,055,713,691	$ 1,076,948,680

LIABILITIES AND NET ASSETS	2016	2015
Current Liabilities:		
Current installments of long-term debt (Note 12)	$ 9,765,000	$ 9,425,000
Accrued expenses	13,639,038	14,195,962
Accounts payable:		
Trade	8,178,100	8,438,434
Grand Lodge	8,975	26,206
The Masonic Library and Museum of Pennsylvania	843	-
Deferred revenue from estates and trusts	33,000	36,549
Deposits - Residents	880,127	865,007
Deposits on unoccupied units	2,633,030	1,086,306
Annuities payable	1,111,157	3,350,013
Total current liabilities	36,249,270	37,423,477
Accrued pension costs (Note 17)	12,636,977	13,480,807
Annuities payable, net of current portion	5,537,610	16,327,915
Contributions payable (Note 22)	-	11,799,147
Deferred revenue from landfill settlement	27,500	37,500
Refundable fees	80,383,893	74,972,137
Deferred revenue from entrance fees	101,771,398	101,746,576
Interest rate swap agreements (Note 11)	21,881,266	24,921,867
Long-term debt, including unamortized premium of $ 4,411,437 in 2016 and $ 4,906,273 in 2015	169,014,377	179,158,004
Total liabilities	427,502,291	459,867,430
Net Assets:		
Unrestricted	345,740,231	337,421,782
Temporarily restricted	73,439,726	70,733,957
Permanently restricted	209,031,443	208,925,511
Total net assets	628,211,400	617,081,250
Total liabilities and net assets	$ 1,055,713,691	$ 1,076,948,680

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, 2016 and 2015

	2016	2015
Operating revenues:		
Resident service revenue (Note 18)	$ 138,014,781	$ 133,268,300
Provision for bad debts	(416,380)	(498,561)
Net resident service revenue	137,598,401	132,769,739
Amortization of entrance fees	12,657,494	11,169,716
Other operating revenue	4,718,695	5,263,080
Investment income	11,682,204	9,994,301
Total operating revenues	166,656,794	159,196,836
Operating expenses:		
Wages, salaries, and benefits	106,080,424	100,015,973
Supplies	18,033,578	17,454,726
Purchased services	18,764,433	18,693,865
Energy and utilities	7,354,803	7,651,099
Depreciation and amortization	25,615,316	22,395,479
Interest	6,156,848	5,949,616
Other operating expenses	8,953,113	7,327,816
Loss on refunding of long-term debt	-	2,548,159
Total operating expenses	190,958,515	182,036,733
Loss from operations before change in fair value of derivative financial instruments	(24,301,721)	(22,839,897)
Unrealized appreciation on interest rate swap agreements	3,040,601	2,347,888
Loss from operations	(21,261,120)	(20,492,009)
Nonoperating gains (losses):		
Contributions, gifts, and bequests	4,690,655	15,865,228
Contributions from Pennsylvania Masonic Youth Foundation	62,030	-
Contributions from Grand Lodge permanently restricted net assets	1,072,279	1,146,631
Income from perpetual trusts held by third parties	2,188,914	1,786,277
Realized gains on sale of investments	16,751,193	21,308,635
Adjustment of actuarial liabilities of split-interest agreements	(705,908)	30,758
(Loss) gain on disposal of property and equipment	(62,872)	73,034
Total nonoperating gains	23,996,291	40,210,563
Excess of revenues and gains over expenses and losses	2,735,171	19,718,554
Net assets released from restrictions:		
Satisfaction of program restrictions - Operations	6,355,827	6,707,205
Satisfaction of program restrictions - Purchase of property and equipment	1,488,141	407,768
Total net assets released from restrictions	7,843,968	7,114,973
Change in pension liability (Note 17)	1,310,677	6,585,823
Net unrealized depreciation on investments	(3,571,367)	(29,460,195)
Increase in unrestricted net assets	$ 8,318,449	$ 3,959,155

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, 2016 and 2015

	2016				2015			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenues and Gains:								
Total operating revenues	$ 166,656,794	$ 166,656,794	$ -	$ -	$ 159,196,836	$ 159,196,836	$ -	$ -
Unrealized appreciation on interest rate swap agreements	3,040,601	3,040,601	-	-	2,347,888	2,347,888	-	-
Nonoperating investment income	102,114	-	102,114	-	87,644	-	87,644	-
Realized gains (losses) on sale of investments	28,468,649	16,751,193	11,718,079	(623)	36,676,686	21,308,635	15,371,458	(3,407)
(Loss) gain on sale of property and equipment	(62,872)	(62,872)	-	-	73,034	73,034	-	-
Contributions, gifts, and bequests	7,842,048	4,690,655	3,071,255	80,138	17,724,727	15,865,228	1,460,520	398,979
Contribution from Pennsylvania Masonic Youth Foundation	72,030	62,030	10,000	-	-	-	-	-
Contributions from Grand Lodge permanently restricted net assets	1,072,279	1,072,279	-	-	1,146,631	1,146,631	-	-
Income from perpetual trusts held by third parties	2,208,952	2,188,914	2,654	17,384	1,809,156	1,786,277	5,823	17,056
Total revenues and gains	209,400,595	194,399,594	14,904,102	96,899	219,062,602	201,724,529	16,925,445	412,628
Expenses and Losses:								
Unrestricted expenses	190,958,515	190,958,515	-	-	182,036,733	182,036,733	-	-
Adjustment of actuarial assets and liabilities of split-interest agreements	689,577	705,908	(16,331)	-	(48,796)	(30,758)	(18,038)	-
Total expenses and losses	191,648,092	191,664,423	(16,331)	-	181,987,937	182,005,975	(18,038)	-
Excess of revenues and gains over expenses and losses	17,752,503	2,735,171	14,920,433	96,899	37,074,665	19,718,554	16,943,483	412,628
Net assets released from restrictions - Satisfaction of program restrictions	-	7,843,968	(9,023,061)	1,179,093	-	7,114,973	(7,616,304)	501,331
Change in pension liability (Note 17)	1,310,677	1,310,677	-	-	6,585,823	6,585,823	-	-
Net unrealized depreciation on investments	(7,933,030)	(3,571,367)	(3,191,603)	(1,170,060)	(53,321,669)	(29,460,195)	(19,005,709)	(4,855,765)
Increase (decrease) in net assets	11,130,150	8,318,449	2,705,769	105,932	(9,661,181)	3,959,155	(9,678,530)	(3,941,806)
Net assets at January 1	617,081,250	337,421,782	70,733,957	208,925,511	626,742,431	333,462,627	80,412,487	212,867,317
Net assets at December 31	$ 628,211,400	$ 345,740,231	$ 73,439,726	$ 209,031,443	$ 617,081,250	$ 337,421,782	$ 70,733,957	$ 208,925,511

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, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities and Nonoperating Gains:		
Increase (decrease) in net assets	$ 11,130,150	$ (9,661,181)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	25,615,316	22,395,479
Amortization of deferred financing costs	116,209	114,879
Bad debts	416,380	498,561
Bond premium amortization	(494,836)	(448,641)
Loss (gain) on disposal of property and equipment	62,872	(73,034)
Loss on refunding of long-term debt	-	2,548,159
Amortization of entrance fees	(12,657,494)	(11,169,716)
Initial contributions recognized from split-interest agreements	(738,480)	(366,982)
Actuarial adjustment for split-interest agreements	689,577	(48,796)
Contributions restricted for long-term investments	(97,522)	(416,035)
Net realized and unrealized (gains) losses on long-term investments	(20,535,619)	16,644,983
Increase in fair value of interest rate swap agreements	(3,040,601)	(2,347,888)
Decrease (increase) in receivables	45,370	(992,872)
Decrease (increase) in other current assets and inventory	148,375	(1,413,363)
(Decrease) in accounts payable and accrued expenses	(833,646)	(2,385,627)
(Decrease) in other current and noncurrent liabilities	(22,342,327)	(12,842,437)
Proceeds from entrance fees and deposits	26,923,360	36,538,190
Net cash provided by operating activities and nonoperating gains	4,407,084	36,573,679
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(30,730,833)	(37,362,277)
Decrease in assets whose use is limited	1,070,408	14,490,277
Proceeds from the sale of investments	58,427,911	31,989,838
Purchases of investments	(14,371,768)	(33,335,288)
Decrease in other long-term assets	33,852	350
Net cash provided by (used in) investing activities	14,429,570	(24,217,100)

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, 2016 and 2015

	2016	2015
Cash Flows from Financing Activities:		
Refunds of entrance fees and deposits	$ (8,829,288)	$ (6,956,537)
Proceeds from contributions restricted for long-term investments	97,522	416,035
Proceeds from contributions under split-interest agreements	1,201,328	611,512
Net payments made on split-interest agreements	(2,922,412)	(3,361,974)
Decrease in deferred revenue from landfill settlement	(10,000)	(10,000)
Proceeds from 2015 bonds	-	44,195,000
Advance refunding of 2006 Bonds	-	(33,320,000)
Refunding of 2008 Bonds, Series C	-	(14,190,000)
Premium received from 2015 Bonds	-	5,350,009
Payments for bond issue costs	-	(710,438)
Principal payment on long-term debt	(9,425,000)	(5,640,000)
Net cash used in financing activities	(19,887,850)	(13,616,393)
Net decrease in cash and cash equivalents	(1,051,196)	(1,259,814)
Cash and cash equivalents - Beginning of year	23,914,124	25,173,938
Cash and cash equivalents - End of year	$ 22,862,928	$ 23,914,124
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 6,805,033	$ 6,418,169
Cash paid during the year for income taxes	$ -	$ -

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

NOTE 1: Summary of Significant Accounting Policies

Organization

The 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, 2016 include:

1. a 453 bed nursing facility providing nursing care (Nursing Home)
2. 983 units of Retirement Living consisting of apartments and cottages
3. a 133 bed personal care facility (Personal Care)
4. a 40 bed home for disadvantaged children (Children's Home)
5. meeting and conference facilities
6. an Outreach program
7. an Adult Daily Living program
8. an 8 bed Residential care program (Residential Care) for developmentally disabled individuals
9. a farm.

As of December 31, 2016, 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, 60 beds of personal care, and 272 units of Retirement Living Apartments and Villas as of December 31, 2016.

As of December 31, 2016, services provided at the Lafayette Hill campus include a 60 bed nursing facility, 40 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, 2016.

Masonic Villages also provides significant financial support to the Pennsylvania Masonic Youth Foundation and The Masonic Library and Museum of Pennsylvania.

NOTE 1: Summary of Significant Accounting Policies – Continued

Principles of Consolidation

The consolidated financial statements include the financial statements of Masonic Villages and its wholly-owned subsidiaries, ILC Corp, Pennsylvania Acacia Insurance Company, Ltd. (PAIC), Acacia Services, LLC, Ashlar Creative Solutions, LLC, and Ashlar Home Health and Hospice Services, LLC 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.

Inventory

Inventory consists of medical supplies and pharmaceutical products, livestock, and maintenance supplies and is valued at the lower of cost or market. 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.

NOTE 1: Summary of Significant Accounting Policies – Continued

Contributions Receivable

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

Masonic Villages will be the recipient of specified funds over the terms of several charitable lead trusts and the remaining assets of several charitable remainder unitrusts 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 2.17% 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.

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 unrestricted investments are reported as operating revenues. Investment income and gains (losses) on investments of donor restricted funds are added to (deducted from) the appropriate donor restricted net assets.

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.

NOTE 1: Summary of Significant Accounting Policies – Continued

Collections

Masonic Villages owns collections of Masonic memorabilia, paintings, antique furniture, farm equipment, and other artifacts related to the history of Masonic Villages. These collections are located at the Elizabethtown, Pennsylvania campus. The collections, which were primarily acquired through contributions since Masonic Villages' inception, are not recognized as assets on 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.

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, 2016 and 2015, entrance fees of approximately $ 80,384,000 and $ 74,972,000, 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, 2016 or 2015, using a discount rate of 5.00% for 2016 and 2015.

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.

NOTE 1: Summary of Significant Accounting Policies – Continued

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 $ 880,127 and $ 865,007 as of December 31, 2016 and 2015, respectively.

Worker's Compensation Claims

For the years ended December 31, 2016 and 2015, 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 $ 1,275,000 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.

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 4.20% 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.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Masonic Villages has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Masonic Villages in perpetuity.

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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted support.

Gifts of goods and equipment are reported as unrestricted support 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 restricted support. 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.

NOTE 1: Summary of Significant Accounting Policies – Continued

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.

Resident Service Revenue

Masonic Villages' resident service revenue is earned from providing both health care and non-health care services. Health care programs include nursing care, personal care, hospice, medical supplies, pharmacy, and medical ancillary clinics. Non-health care programs include retirement living, the Children's Home, adult day care, the Residential Care program, home care, and wellness centers. Ordinary activities that are part of a resident's life at Masonic Villages also produce resident service revenue. These revenue producing activities include beauty and barber services, resident and guest meals, laundry, transportation, parking, and communications services.

Resident service revenue is recorded initially at the established rates. This amount is reduced by contractual adjustments and charity allowances to arrive at resident service revenue reported in the consolidated statement of operations.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments related to final settlements with third-party payors are included in net resident service revenue in the year in which such adjustments become known.

Charity Care

Charity care is provided to residents who have demonstrated the inability to pay and are not eligible for third-party reimbursement. Certain residents qualify for charity care upon admission or when their financial resources are depleted. 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' statement 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 unrestricted revenue 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 unrestricted revenue 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 of revenues and gains over expenses and losses to measure its annual earnings. The excess 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 and changes in the minimum pension obligation are excluded from the excess 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.

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.

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 statements of operations and the statements of changes in net assets for the years ended December 31, 2016 and 2015. Masonic Villages has not recorded liabilities for income taxes or unrecognized income tax benefits in the balance sheets as of December 31, 2016 and 2015. The tax years subsequent to 2012 may be subject to review by federal, state, and local taxing authorities.

Use 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.

NOTE 1: Summary of Significant Accounting Policies – Continued

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: Adoption of New Accounting Standard

In April of 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, "Interest – Imputation of Interest" (ASU #2015-03). The objective of ASU #2015-03 is to simplify presentation of debt issuance costs and achieve consistency in this area between United States generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The new standard requires organizations to report deferred costs related to debt issuance as a deduction from the carrying value of the debt liability recorded on the balance sheet. ASU #2015-03 also requires organizations to report the amortization of deferred financing costs as a component of interest expense. ASU #2015-03 must be implemented for annual financial statements of public entities for fiscal years beginning after December 15, 2015.

Masonic Villages has borrowed funds through tax-exempt bond financing transactions since 1989. As of December 31, 2016, four separate bond issues remain outstanding. Costs incurred to issue these outstanding bonds were deferred at the time of issuance and are amortized over the period the related obligation is outstanding. Prior to 2016, Masonic Villages' practice was to report deferred debt issuance costs related to its outstanding bond issues, net of accumulated amortization, as other noncurrent assets on the balance sheet. Amortization of these deferred financing costs was reported as a component of depreciation and amortization expense on the statement of operations.

Masonic Villages has adopted the provisions of ASU #2015-03 for the year ended December 31, 2016. Application of the new provisions of ASU #2015-03 to Masonic Villages' financial reporting practices resulted in a change in the reporting of deferred financing costs on the balance sheet from a component of other noncurrent assets to a component of long-term debt. Recognition of the amortization of deferred financing costs changed from a component of depreciation and amortization expense to a component of interest expense. The financial statements for the year ended December 31, 2015 have been restated to conform to the new requirements of ASU #2015-03.

NOTE 2: Adoption of New Accounting Standard– Continued

The restatements occurred as follows:

	Deferred Costs, Net	Long-term Debt	Depreciation and Amortization	Interest
January 1, 2015, as originally reported	$ 1,371,293	$ 185,744,051		
Prior period adjustment	(948,893)	(948,893)		
January 1, 2015, as restated	$ 422,400	$ 184,795,158		
December 31, 2015, as originally reported	$ 1,592,869	$ 180,381,273	$ 22,510,358	$ 5,834,737
Prior period adjustment	(1,223,269)	(1,223,269)	(114,879)	114,879
December 31, 2015, as restated	$ 369,600	$ 179,158,004	$ 22,395,479	$ 5,949,616

NOTE 3: 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, 2016 and 2015 are as follows:

	2016	2015
Available for operations	$ 18,607,383	$ 20,232,607
Retirement living escrow funds	-	652,641
Held for residents deposits	880,127	865,007
Total unrestricted	19,487,510	21,750,255
Temporarily restricted	3,375,418	2,163,869
	$ 22,862,928	$ 23,914,124

NOTE 4: Resident Accounts Receivable

Masonic Villages' resident accounts receivable consists of amounts owed from individuals, insurance companies, and government agencies. As of December 31, 2016 and 2015, Masonic Villages' aggregate resident accounts receivable over 90 days past due totaled $ 1,243,939 and $ 1,900,611, 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.

NOTE 4: Resident Accounts Receivable – Continued

The changes in the allowance for uncollectible accounts receivable for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Allowance at January 1	$ 752,000	$ 540,000
Provision for bad debts	416,380	498,561
Accounts receivable written off, net of recoveries	(401,380)	(286,561)
Allowance at December 31	$ 767,000	$ 752,000

NOTE 5: Contributions Receivable

Contributions receivable consisted of the following as of December 31, 2016 and 2015:

	2016	2015
Charitable lead annuity trusts	$ 390,859	$ 399,921
Promises to give	19,572	12,039
Total contributions receivable	410,431	411,960
Less:		
Current portion of charitable lead annuity trusts	56,171	51,366
Current portion of promises to give	14,500	12,500
Noncurrent portion	$ 339,760	$ 348,094

Promises to give consist of the following as of December 31, 2016 and 2015:

	2016	2015
Promises to give before unamortized discount and allowance for uncollectibles	$ 20,500	$ 12,500
Unamortized discount	(928)	(461)
Allowance for uncollectibles	-	-
Net promises to give	$ 19,572	$ 12,039

The schedule of payments to be received from promises to give as of December 31, 2016 is as follows:

2017	$ 14,500
2018	2,000
2019	2,000
2020	2,000
	$ 20,500

The discount rates used for promises to give received during the years ended December 31, 2016 and 2015 were 2.45% and 2.27%, respectively.

NOTE 6: Notes Receivable

Notes receivable with Masonic Villages' Retirement Living residents totaled $ 1,972,525 and $ 2,596,619, as of December 31, 2016 and 2015, 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 $ 539,840 and $ 217,253 as of December 31, 2016 and 2015, respectively. There was no notes receivable on nonaccrual status as of December 31, 2016 and 2015. Based on management's evaluation of the notes receivable portfolio, no provision for uncollectible notes receivable is required.

NOTE 7: 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 fifteen different investment management firms and held in safekeeping by JPMorgan Chase Bank, N. A. Approximately 89% of the pooled investments are attributable to the Masonic Villages.

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

At December 31, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Domestic stocks	$ 120,926,307	$ 41,203,591	$ 2,867,318	$ 159,262,580
International stocks	33,187,424	2,779,684	2,708,244	33,258,864
U.S. Government and Agency bonds	13,921,776	2,729	601,903	13,322,602
Domestic corporate bonds	104,247,036	339,490	2,473,792	102,112,734
Municipal bonds	8,509,955	44,020	439,842	8,114,133
Mutual funds - Equity securities	57,133,619	8,741,633	2,066,933	63,808,319
Exchange traded funds	194,794,378	7,444,468	8,613,770	193,625,076
Limited partnership - International investments	304,640	93,229	45,806	352,063
Mortgage backed securities	25,315,962	250,532	283,279	25,283,215
Asset backed securities	30,871,737	366,544	315,522	30,922,759
Real estate investment trusts	1,434,550	94,035	29,877	1,498,708
Money market funds	49,365,161	-	-	49,365,161
Total Consolidated Fund	$ 640,012,545	$ 61,359,955	$ 20,446,286	$ 680,926,214

NOTE 7: Investments – Continued

At December 31, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Domestic stocks	$ 121,807,672	$ 34,648,544	$ 5,083,216	$ 151,373,000
International stocks	33,044,143	3,389,476	3,724,773	32,708,846
U.S. Government and Agency bonds	10,296,574	154,381	57,049	10,393,906
Domestic corporate bonds	85,687,664	448,933	2,221,000	83,915,597
Municipal bonds	7,876,448	53,320	129,953	7,799,815
Mutual funds - Equity securities	127,455,408	36,953,644	3,414,887	160,994,165
Exchange traded funds	121,917,249	-	13,179,030	108,738,219
Limited partnership - International investments	438,992	172,555	41,978	569,569
Mortgage backed securities	22,275,818	330,544	146,861	22,459,501
Asset backed securities	29,179,788	867,857	257,554	29,790,091
Demand notes	98,750	-	804	97,946
Real estate investment trusts	974,703	46,416	99,547	921,572
Money market funds	67,175,778	-	-	67,175,778
Total Consolidated Fund	$ 628,228,987	$ 77,065,670	$ 28,356,652	$ 676,938,005

At December 31, 2016 and 2015, Masonic Villages' investments consisted of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money Market Funds	$ 9,607,463	$ 9,607,463	$ 4,619,823	$ 4,619,823
Consolidated Fund	355,234,007	359,824,947	354,289,803	363,622,099
Other investments	-	-	159,524	184,972
Lincoln Financial Group	501,651	501,651	-	-
State Street Bank & Trust	-	-	374,362	374,362
National Financial Services LLC	-	-	27,424,152	26,242,702
Charles Schwab Institutional	161,325	143,222	170,321	148,704
Wells Fargo Bank Common Trust Funds	359,451	383,707	378,268	392,051
Total Unrestricted	365,863,897	370,460,990	387,416,253	395,584,713
Money Market Funds	854,620	854,620	1,092,417	1,092,417
Consolidated Fund	222,905,010	237,540,707	216,620,839	234,448,138
BNY Mellon Financial Dreyfus Money Market Fund	-	-	60,157	60,157
Perpetual Trusts Held by Third Parties	24,023,201	39,348,204	24,044,557	40,539,620
Total Restricted	247,782,831	277,743,531	241,817,970	276,140,332
	$ 613,646,728	$ 648,204,521	$ 629,234,223	$ 671,725,045

Masonic Villages' investments are presented on the balance sheets in the following categories as of December 31, 2016 and 2015:

	2016	2015
Minimum liquid reserve requirement	$ 16,539,600	$ 15,969,405
Investments at fair value	631,664,921	655,755,640
	$ 648,204,521	$ 671,725,045

NOTE 7: Investments – Continued

Total return on Masonic Villages' investments for the years ended December 31, 2016 and 2015 consisted of the following:

	2016	2015
Operating investment income - Unrestricted	$ 11,682,204	$ 9,994,301
Nonoperating investment income - Temporarily restricted	102,114	87,644
Total investment income	11,784,318	10,081,945
Realized gains on sale of investments	28,468,649	36,676,686
Net unrealized depreciation on investments	(7,933,030)	(53,321,669)
	$ 32,319,937	$ (6,563,038)

Masonic Villages has designated portions of its unrestricted Consolidated Fund investments to use for specific programs or functions. The composition of Masonic Villages' designated investments as of December 31, 2016 and 2015 is as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Masonic Villages Reserve Fund	$ 171,002,889	$ 177,872,782	$ 173,351,434	$ 182,952,086
Masonic Temple Preservation Fund	11,503,866	11,687,019	12,010,747	12,351,010
Children's Home Fund	7,631,468	7,495,288	7,616,048	7,561,828
Ilgen Trust	11,512,042	11,127,718	10,994,303	10,736,301
Charitable Gift Annuity Reserve Fund	10,484,735	10,638,980	11,237,062	11,535,131
C. Austin Buck Gift Annuity Administration	2,945,697	2,771,440	2,773,146	2,628,474
Masonic Eastern Star Homes Building and Improvement Fund	946,509	794,492	909,702	766,545
Warminster Building and Improvement Fund	3,339,425	2,880,399	3,150,426	2,721,772
Masonic Eastern Star Endowment Fund	1,463,928	1,227,342	1,407,068	1,184,170
Dallas Retirement Living Fund	2,085,863	2,039,627	1,958,882	1,934,413
Sewickley Retirement Living Fund	108,051,322	107,235,990	101,375,144	101,461,863
Lafayette Hill General Fund	23,579,462	23,067,800	20,778,521	20,718,106
Lafayette Hill Minimum Reserve Fund	-	-	1,890,473	1,870,935
Pennsylvania Acacia Insurance Company	10,260,172	10,559,441	9,564,451	9,952,517
	$ 364,807,378	$ 369,398,318	$ 359,017,407	$ 368,375,151

During the year ended December 31, 2014, Masonic Villages entered into a unique single-life charitable gift annuity agreement with a donor. This unique agreement required establishment of a separate investment portfolio to fund the annuity payments Masonic Villages made to the beneficiary of the charitable gift annuity agreement. These investments were held in safekeeping by the custodian, National Financial Services, LLC (NFS). The investment portfolio was administered by the investment manager, Mill Creek Capital Advisors, LLC. The beneficiary of the charitable gift annuity arrangement died during the year ended December 31, 2016. Since the death of the beneficiary ended Masonic Villages' obligations for annuity payments under the charitable gift annuity agreement, the separate investment portfolio was liquidated in December 2016.

NOTE 7: Investments – Continued

The composition of this separate investment portfolio as of December 31, 2015 was as follows:

	2015	
	Cost	Fair Value
Corporate bonds	$ 10,660,499	$ 10,372,784
Asset-backed securities	494,933	472,475
Mutual funds - Fixed income	1,947,913	1,810,478
Equity exchange traded funds	12,778,806	12,094,316
Mutual funds - Equity	349,123	299,771
Money market funds	1,192,878	1,192,878
	$ 27,424,152	$ 26,242,702

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 unrestricted investments in excess of the spending maximum. For the years ended December 31, 2016 and 2015, the spending percentage recommended by the Grand Lodge Committee on Finance and elected by the Trustees of the Consolidated Fund was 5.00%. Masonic Villages reports the cumulative excess of the restricted spending maximum over amounts withdrawn from restricted Consolidated Fund investments as temporarily restricted net assets.

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

	Unrestricted	Permanently Restricted	Total
Masonic Villages' Consolidated Fund spending maximum amount for 2016	$ 17,537,372	$ 11,602,216	$ 29,139,588
Amounts withdrawn from Consolidated Fund	21,549,647	11,450,863	33,000,510
Excess (deficiency) of spending maximum amount over amounts withdrawn	$ (4,012,275)	$ 151,353	$ (3,860,922)

	Unrestricted	Permanently Restricted	Total
Masonic Villages' Consolidated Fund spending maximum amount for 2015	$ 16,769,561	$ 10,745,178	$ 27,514,739
Amounts withdrawn from Consolidated Fund	21,414,829	10,575,009	31,989,838
Excess (deficiency) of spending maximum amount over amounts withdrawn	$ (4,645,268)	$ 170,169	$ (4,475,099)

NOTE 8: 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, 2016 and 2015, is set forth below.

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Under indenture agreement held by trustee - Cash and short-term investments	$ 2,467,972	$ 2,467,972	$ 3,538,380	$ 3,538,380
Less current portion	2,467,972	2,467,972	3,538,380	3,538,380
	$ -	$ -	$ -	$ -

NOTE 9: Property and Equipment

A summary of property and equipment at December 31, 2016 and 2015 follows:

	2016	2015
Land	$ 5,175,608	$ 5,139,578
Land improvements	21,712,315	18,057,367
Buildings and improvements	403,818,366	389,724,866
Equipment	247,818,090	221,743,078
	678,524,379	634,664,889
Less accumulated depreciation	320,749,518	295,771,941
	357,774,861	338,892,948
Construction in progress	4,894,797	18,671,265
Property and equipment, net	$ 362,669,658	$ 357,564,213

Depreciation expense for the years ended December 31, 2016 and 2015 was $ 25,562,516 and $ 22,342,679, respectively.

NOTE 10: Deferred Costs

A summary of deferred costs at December 31, 2016 and 2015 follows:

	2016	2015
Costs to upgrade Elizabethtown Borough wastewater treatment plant	$ 1,056,000	$ 1,056,000
Less accumulated amortization	(739,200)	(686,400)
	$ 316,800	$ 369,600

Amortization expense related to deferred costs totaled $ 52,800 for the years ended December 31, 2016 and 2015.

NOTE 11: 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.

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 expires 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. This transaction is described in Note 12.

NOTE 11: Interest Rate Swap Agreements - Continued

The interest rate swaps are recognized as an asset or liability on the consolidated balance sheets at their fair value. Changes in fair value are recorded as a change in unrealized appreciation or depreciation on the consolidated statements of operations and the consolidated statements of changes in net assets. As of December 31, 2016 and 2015, the fair values of Masonic Villages' interest rate swap agreements were as follows:

	2016	2015
Liabilities:		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	$ (10,471,079)	$ (11,733,600)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(5,688,716)	(6,598,373)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	(5,721,471)	(6,589,894)
	$ (21,881,266)	$ (24,921,867)

At both December 31, 2016 and 2015, the accumulated derivative loss which had been reported outside of the performance indicator was:

	2016	2015
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	(3,510,225)	(3,510,225)
	$ (14,085,235)	$ (14,085,235)

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, 2016 and 2015, the net payments associated with the terms of the swap agreements totaled:

Fixed rate payments	2016	2015
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	$ 1,611,164	$ 1,663,748
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	1,162,251	1,213,381
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	1,111,118	1,157,418
Total fixed rate payments	3,884,533	4,034,547
Variable rate payments		
1999 Bonds / 2008 Bonds (Series D) interest rate swap agreement	(115,592)	(48,027)
2001 Bonds / 2008 Bonds (Series A) interest rate swap agreement	(93,519)	(39,214)
2002 Bonds / 2008 Bonds (Series B) interest rate swap agreement	(87,226)	(36,490)
Total variable rate payments	(296,337)	(123,731)
Net payments to interest rate swap provider	$ 3,588,196	$ 3,910,816

NOTE 12: Long-Term Debt

On February 12, 2015, the Lancaster County Hospital Authority issued Fixed Rate Health Center Revenue Bonds (Masonic Villages Project), Series 2015 (2015 Bonds) for $ 44,195,000, plus a premium above the principal amount of $ 5,350,009. The proceeds of the 2015 Bonds and the premium were used to advance refund the outstanding principal of the Series of 2006 Bonds (2006 Bonds) and refund the 2008 Bonds (Series C), and to pay the cost of terminating the interest rate swap agreement corresponding to the principal repayment schedule of the 2008 Bonds (Series C). Some proceeds of the 2015 Bonds were also used to pay the issuance costs of the 2015 Bonds.

The refunding transaction will reduce Masonic Villages' aggregate debt service payments by approximately $ 6,456,000 through November 2036. Masonic Villages will recognize an economic gain or present value savings of approximately $ 3,933,000 over the life of the 2015 Bonds. The aggregate accounting loss on the refunding of the 2006 Bonds and 2008 Bonds (Series C) of $ 2,548,159 was recorded as an operating expense of Masonic Villages for the year ended December 31, 2015.

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, 2016 and 2015 follows:

	2016	2015
Lancaster County Hospital Authority (Series of 1996) - variable rate demand/fixed rate bonds, maturing through 2027	$ 11,685,000	$ 12,530,000
Lancaster County Hospital Authority (Series of 2008) - variable rate demand bonds, maturing through 2034	88,235,000	91,815,000
Lancaster County Hospital Authority (Series of 2013) - variable rate demand bonds, maturing through 2038	35,415,000	36,605,000
Lancaster County Hospital Authority (Series of 2015) - 2.00% to 5.00% bonds, maturing through 2035	40,140,000	43,950,000
Total long-term debt	175,475,000	184,900,000
Add premium on bonds payable	4,411,437	4,906,273
Less deferred financing costs	(1,107,060)	(1,223,269)
Less current installments of long-term debt	(9,765,000)	(9,425,000)
	$ 169,014,377	$ 179,158,004

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, 2016 and 2015, Masonic Villages met the minimum debt service coverage ratio contained in the loan agreements.

NOTE 12: Long-Term Debt - Continued

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

Bond Series	2017	2018	2019	2020	2021	Thereafter	Total
1996	$ 875,000	$ 910,000	$ 945,000	$ 980,000	$ 1,015,000	$ 6,960,000	$ 11,685,000
2008 (A)	1,345,000	1,400,000	1,460,000	1,525,000	1,590,000	20,275,000	27,595,000
2008 (B)	1,170,000	1,220,000	1,270,000	1,325,000	1,385,000	19,775,000	26,145,000
2008 (D)	1,230,000	1,295,000	1,360,000	1,425,000	1,495,000	27,690,000	34,495,000
2013	1,220,000	1,250,000	1,285,000	1,315,000	1,350,000	28,995,000	35,415,000
2015	3,925,000	4,070,000	4,255,000	1,270,000	1,300,000	25,320,000	40,140,000
	$ 9,765,000	$ 10,145,000	$ 10,575,000	$ 7,840,000	$ 8,135,000	$ 129,015,000	$ 175,475,000

The fair value of Masonic Villages' total outstanding bonds, based on quoted market prices, at December 31, 2016 and 2015 was approximately $ 178,008,000 and $ 189,133,000, respectively.

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, 2016 and 2015 follows:

2016	Capitalized	Interest Expense	Investment Income	Total
Bond premium amortization	$ -	$ (494,836)	$ -	$ (494,836)
Interest cost	-	3,212,659	-	3,212,659
Net payments to interest rate swap provider	-	3,588,196	-	3,588,196
Interest cost of borrowed funds capitalized for assets constructed with internal funds	265,380	(265,380)	-	-
Amortization of deferred financing costs	-	116,209	-	116,209
Investment income - Funds held by Trustee	-	-	(163,583)	(163,583)
	$ 265,380	$ 6,156,848	$ (163,583)	$ 6,258,645
2015				
Bond premium amortization	$ -	$ (448,641)	$ -	$ (448,641)
Interest cost	635,308	2,372,562	-	3,007,870
Net payments to interest rate swap provider	-	3,910,816	-	3,910,816
Interest cost of borrowed funds capitalized for assets constructed with internal funds	-	-	-	-
Amortization of deferred financing costs	-	114,879	-	114,879
Investment income - Funds held by Trustee	(15,262)	-	(1,648)	(16,910)
	$ 620,046	$ 5,949,616	$ (1,648)	$ 6,568,014

NOTE 12: Long-Term Debt - Continued

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 October 3, 2016, Masonic Villages amended the 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. As required under the Continuing Covenants Agreement with Wells Fargo, Masonic Villages obtained Wells Fargo's consent prior to the refunding of the 2008 Bonds (Series C) through the issuance of the 2015 Bonds in February 2015. On October 3, 2016, 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 four-year term expiring October 3, 2020.

NOTE 13: 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.

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 temporarily restricted activity. All interest income, dividends, and capital appreciation in excess of the annual spending amount are reported as temporarily restricted net assets available to be spent in subsequent 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 permanently restricted net assets (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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are 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.

NOTE 13: Endowments - Continued

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, 2016 and 2015, 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.

Endowment net assets consisted of the following as of December 31, 2016 and 2015:

	2016	2015
Board designated endowment funds	$ 1,230,214	$ 1,186,740
Donor restricted endowment funds, temporarily restricted portion	65,982,551	64,336,972
Donor restricted endowment funds, permanently restricted portion	169,683,239	168,385,891
	$ 236,896,004	$ 233,909,603

NOTE 13: Endowments – Continued

The changes in endowment net assets for the years ended December 31, 2016 and 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2015	$ 1,206,425	$ 74,317,431	$ 167,464,577	$ 242,988,433
Investment return:				
Investment income	18,064	3,596,170	-	3,614,234
Realized gains	72,242	15,151,332	-	15,223,574
Unrealized depreciation	(90,837)	(18,749,914)	-	(18,840,751)
Total investment return	(531)	(2,412)	-	(2,943)
Contributions and bequests	-	-	398,979	398,979
Income from perpetual trust held by third party	-	-	17,056	17,056
Transfers from unrestricted and temporarily restricted funds	-	-	501,331	501,331
Proceeds from liquidation of outside trusts	-	-	3,948	3,948
Appropriation of endowment assets for expenditure	(19,154)	(9,978,047)	-	(9,997,201)
Endowment net assets at December 31, 2015	1,186,740	64,336,972	168,385,891	233,909,603
Investment return:				
Investment income	21,077	4,118,280	-	4,139,357
Realized gains	56,860	11,579,384	-	11,636,244
Unrealized depreciation	(13,688)	(3,161,600)	-	(3,175,288)
Total investment return	64,249	12,536,064	-	12,600,313
Contributions and bequests	-	-	80,138	80,138
Income from perpetual trust held by third party	-	-	17,384	17,384
Transfers from unrestricted and temporarily restricted funds	-	-	1,199,826	1,199,826
Appropriation of endowment assets for expenditure	(20,775)	(10,890,485)	-	(10,911,260)
Endowment net assets at December 31, 2016	$ 1,230,214	$ 65,982,551	$ 169,683,239	$ 236,896,004

The amounts reported as appropriation of temporarily restricted endowment assets for expenditure consist of two components. Income from donor restricted endowments recognized as unrestricted investment income in the statement of operations totaled $ 4,052,962 and $ 3,554,565, respectively, for the years ended December 31, 2016 and 2015. Amounts withdrawn from the endowments and reported as satisfaction of program restrictions in the statements of operations and changes in net assets for the years ended December 31, 2016 and 2015 totaled $ 6,837,523 and $ 6,423,482, respectively.

NOTE 14: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

	2016	2015
Support of Masonic Villages and its activities	$ 2,327,169	$ 2,181,513
Support of Children's Home and its activities	4,121,976	3,606,416
Support of Residential program for developmentally disabled individuals	165,829	144,875
Scholarship awards	2,113,639	1,955,956
General operations of the organization	57,253,938	56,448,212
Total endowment funds	65,982,551	64,336,972
Support of Masonic Villages and its activities	1,182,768	1,141,163
Support of Children's Home and its activities	222,033	92,471
Building renovations and construction projects	256,708	300,061
Care and support of eligible Retirement Living residents	2,072,873	2,070,423
Scholarship awards	218,685	308,340
General operations of the organization	3,504,108	2,484,527
	7,457,175	6,396,985
Total temporarily restricted funds	$ 73,439,726	$ 70,733,957

NOTE 15: Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following purposes at December 31, 2016 and 2015:

	2016	2015
Investment in perpetuity, the investment income from which is expendable to support:		
Support of Masonic Villages and its activities	$ 2,965,183	$ 2,959,329
Support of Children's Home and its activities	11,574,747	10,328,280
Support of Residential program for developmentally disabled individuals	447,426	425,144
Scholarship awards	1,438,713	1,438,288
General operations of the organization	153,257,170	153,234,850
Total endowment funds	169,683,239	168,385,891
General operations of the organization	39,348,204	40,539,620
Total perpetual trusts held by third parties	39,348,204	40,539,620
	$ 209,031,443	$ 208,925,511

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, 2016 and 2015 are as follows:

	2016	2015
Purpose restrictions accomplished:		
Support of Masonic Villages and its activities	$ 21,720	$ 10,982
Support of Children's Home and its activities	141,127	175,747
Support of Residential Care and its activities	2,891	3,895
General operations of the organization	6,969,272	6,420,445
Care and support of eligible Retirement Living residents	303,694	507,859
Scholarship awards	96,216	89,608
Satisfaction of restrictions - Operations	7,534,920	7,208,536
Satisfaction of restrictions - Purchase of property and equipment	1,488,141	407,768
	$ 9,023,061	$ 7,616,304

During the years ended December 31, 2016 and 2015, assets totaling $ 1,199,826 and $ 120,000, respectively, were transferred from the unrestricted Charitable Gift Annuity Reserve Fund into the permanently 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 liquidating distributions on two trusts previously recorded as perpetual trusts held by third parties during 2016. These distributions, totaling $ 20,733, were recorded as satisfaction of the donor's restrictions and transferred from permanently restricted net assets to unrestricted net assets for the year ended December 31, 2016.

During the year ended December 31, 2015, assets totaling $ 381,331 were transferred from unrestricted to permanently restricted endowment funds. The transferred assets consisted primarily of the proceeds from the sale of real estate previously donated to Masonic Villages. The individuals who contributed the real estate specified the sales proceeds from the properties should be added to certain permanently restricted endowment funds.

NOTE 17: Retirement Plans

Masonic Villages and Grand Lodge have a noncontributory defined benefit pension plan covering substantially all employees as of December 31, 2010. The benefits are based on achieving a minimum of five years of service and the employee's average annual compensation for the five highest consecutive years of service. The employer contributions to the Plan are determined annually by the Grand Lodge Committee on Finance within limits established by the Employee Retirement Income Security Act (ERISA) of 1974. Masonic Villages contributed $0 and $5,200,000 to the Plan during the years ended December 31, 2016 and 2015, respectively. Contributions provide for benefits earned to date as well as benefits expected to be earned in the future.

NOTE 17: Retirement Plans - Continued

In September 2010, the Administrators of the Pension Plan and the Grand Lodge Committee on Finance adopted an amendment to the noncontributory defined benefit pension plan. The amendment resulted in ceasing all benefit accruals as of December 31, 2010. Grand Lodge and Masonic Villages will terminate the defined benefit pension plan when the plan's assets equal or exceed the projected benefit obligation. When this occurs, the defined benefit pension plan will purchase annuity contracts from insurance companies to provide the guaranteed retirement income for eligible employees. The plan may also be amended and lump sum payments issued to certain participants. The Administrators of the Pension Plan also adopted a resolution to implement a defined contribution retirement plan effective January 1, 2011. The new defined contribution retirement plan, which is funded by contributions from both the employer and employees, replaced the defined benefit pension plan.

Generally accepted accounting principles require an employer to recognize the over-funded or under-funded status of a defined benefit post-retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. An employer must measure the funded status of a plan as of the date of its year-end statement of financial position. The measurement date requirement has been met, since the fiscal year of the noncontributory defined benefit pension plan is already consistent with the Masonic Villages' fiscal year. The recognition of the change in the accrued pension liability is reported separately from net periodic pension expense.

The net change in the accrued pension liability reported in the statement of changes in net assets for the years ended December 31, 2016 and 2015 consists of the following:

	2016	2015
Amortization of net gain	$ 1,041,953	$ 1,484,054
Net actuarial gain (loss)	268,724	5,101,769
	$ 1,310,677	$ 6,585,823

The estimated amount that will be amortized from unrestricted net assets into net periodic pension expense in 2017 is $ 925,000.

NOTE 17: Retirement Plans - Continued

The following table sets forth the Masonic Villages' share of plan obligations and plan assets and amounts recognized in the consolidated financial statements at and for the years ended December 31, 2016 and 2015:

	2016	2015
Change in projected benefit obligation for service rendered to date:		
Projected benefit obligation at January 1	$ 121,434,000	$ 131,912,000
Service cost	364,009	351,917
Interest cost	5,422,534	5,273,875
Actuarial (gain) loss	43,701	(12,115,947)
Settlements	(113,559)	(176,141)
Expenses paid	(390,771)	(359,872)
Benefits paid	(3,713,914)	(3,451,832)
Projected benefit obligation at December 31	123,046,000	121,434,000
Change in plan assets, primarily stocks and bonds:		
Plan assets at fair value at January 1	107,953,193	107,283,352
Actual return on plan assets	6,674,074	(542,314)
Employer contributions	-	5,200,000
Settlements	(113,559)	(176,141)
Expenses paid	(390,771)	(359,872)
Benefits paid	(3,713,914)	(3,451,832)
Plan assets at fair value at December 31	110,409,023	107,953,193
Projected benefit obligation in excess of plan assets at December 31	$ (12,636,977)	$ (13,480,807)
Accrued pension cost at December 31	$ (12,636,977)	$ (13,480,807)
Accumulated benefit obligation at December 31	$ 123,046,000	$ 121,434,000
Net pension cost for 2016 and 2015 includes the following components:		
Service cost - Benefits earned during the year	$ 364,009	$ 351,917
Interest cost on projected benefit obligation	5,422,534	5,273,875
Expected return on plan assets	(6,361,649)	(6,471,864)
Net amortization and deferrals	1,041,953	1,484,054
Net periodic pension cost	$ 466,847	$ 637,982
Benefits paid	$ 3,713,914	$ 3,451,832

The following assumptions were used in determining the actuarial present value of the projected benefit obligation and the long-term rate of return on assets:

	2016	2015
Weighted discount rate	4.55%	4.05%
Rate of compensation increase	0.00%	0.00%
Long-term rate of return on assets	6.00%	6.00%

NOTE 17: Retirement Plans – Continued

The overall expected long-term rate of return on assets assumption (6.00%) is based upon the defined benefit pension plan's past investment performance and the general economic conditions at the time the annual pension calculations are prepared. The defined benefit pension plan's investment objective is to achieve the greatest return possible for the amount of risk assumed. To achieve this objective, the defined benefit pension plan's investment policy establishes target asset allocation percentages and permissible ranges of asset allocations between equity securities and fixed income securities. The goal to terminate the defined benefit pension plan resulted in significant changes to the investment strategy. In 2011, the defined benefit pension plan adopted a liability driven investment strategy focused on accumulating the assets necessary to terminate the plan. The target percentages for the years ended December 31, 2016 and 2015 were 30% in risk assets such as equity securities and 70% in fixed income and cash equivalents, with a permissible additional range of 30% for risk assets and 30% for fixed income securities. There are additional target allocations established for subcategories of potential investments within the equity and fixed income categories. These targets and ranges are periodically reviewed by the administrators of the defined benefit pension plan and adjusted when necessary to meet changes in financial market conditions and future benefit payment requirements.

The investments in the defined benefit pension plan as of December 31, 2016 consisted of approximately 54% in equity securities, 42% in fixed income securities, and approximately 4% in cash equivalents. As of December 31, 2015, the investments in the defined benefit pension plan consisted of approximately 47% in equity securities, 47% in fixed income securities, and approximately 6% in cash equivalents.

The defined benefit pension plan measures the fair value of its investments in accordance with generally accepted accounting principles. Generally accepted accounting principles for fair value measurements are described in Note 23.

NOTE 17: Retirement Plans – Continued

The fair values of the defined benefit pension plan's investments (including Grand Lodge's share) measured on a recurring basis are as follows:

At December 31, 2016	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government securities	$ 7,537,692	$ -	$ 7,537,692	$ -
Asset backed securities	12,623,312	-	12,623,312	-
Mortgage backed securities	6,164,503	-	6,164,503	-
Corporate debt:				
A credit rating	569,568	-	569,568	-
Baa credit rating	215,764	-	215,764	-
Bbb credit rating	744,805	-	744,805	-
Unrated	13,916,261	-	13,916,261	-
Total corporate debt	15,446,398	-	15,446,398	-
Exchange traded funds	62,398,718	62,398,718	-	-
Municipal bonds:				
Unrated	3,106,761	-	3,106,761	-
Total municipal bonds	3,106,761	-	3,106,761	-
Money market funds	2,916,101	-	2,916,101	-
Investments measured at net asset value: *				
Registered investment companies	2,839,734	-	-	-
Total registered investment companies	2,839,734	-	-	-
	$ 113,033,219	$ 62,398,718	$ 47,794,767	$ -

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

NOTE 17: Retirement Plans – Continued

At December 31, 2015	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government securities	$ 5,794,575	$ -	$ 5,794,575	$ -
Asset backed securities	15,591,915	-	15,591,915	-
Mortgage backed securities	5,964,907	-	5,964,907	-
Corporate debt:				
A credit rating	680,130	-	680,130	-
Baa credit rating	635,127	-	635,127	-
Bbb credit rating	1,291,927	-	1,291,927	-
Unrated	12,846,017	-	12,846,017	-
Total corporate debt	15,453,201	-	15,453,201	-
Registered investment companies:				
Fixed income fund	4,844,906	4,844,906	-	-
Total registered investment companies	4,844,906	4,844,906	-	-
Exchange traded funds	53,247,611	53,247,611	-	-
Municipal bonds:				
Unrated	2,285,084	-	2,285,084	-
Total municipal bonds	2,285,084	-	2,285,084	-
Money market funds	7,828,766	-	7,828,766	-
Investments measured at net asset value: *				
Registered investment companies	2,583,895	-	-	-
Total registered investment companies	2,583,895	-	-	-
	$ 113,594,860	$ 58,092,517	$ 52,918,448	$ -

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

The following table summarizes investments for which fair value is measured using the net asset value per share expedient as of December 31, 2016 and 2015. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the plan.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
At December 31, 2016				
Registered investment companies:				
NIS High Yield Fund, LLC	$ 2,839,734	$ -	Monthly	3 Days

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
At December 31, 2015				
Registered investment companies:				
NIS High Yield Fund, LLC	$ 2,583,895	$ -	Monthly	3 Days

NOTE 17: Retirement Plans – Continued

The following benefit payments are expected to be made from the Masonic Villages portion of the defined benefit pension plan during the years ending December 31:

2017	$ 4,218,000
2018	4,541,000
2019	4,932,000
2020	5,226,000
2021	5,709,000
2022 through 2026	33,139,000
	$ 57,765,000

Masonic Villages will not make an estimated contribution to the defined benefit pension plan during the year ending December 31, 2017.

In addition to the noncontributory defined benefit plan, 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 $ 3,073,564 and $ 2,984,587 during the years ended December 31, 2016 and 2015, respectively. Masonic Villages also incurred administrative costs related to the defined contribution retirement plan totaling $ 32,297 and $ 10,100 during the years ended December 31, 2016 and 2015, 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 on the balance sheets. Masonic Villages incurred administrative costs related to this noncontributory retirement plan totaling $ 1,115 and $ 5,733 during the years ended December 31, 2016 and 2015, respectively.

NOTE 18: Resident Service Revenue

Masonic Villages has agreements with third-party payors that provide for reimbursement to the 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, 2016 and 2015, 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.

NOTE 18: Resident Service Revenue - Continued

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 $ 1,752,821 and $ 1,739,324 for the years ended December 31, 2016 and 2015, 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 $ 3,101,957 and $ 2,980,813 from the nursing assessment program for the years ended December 31, 2016 and 2015, 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, 2016 and 2015 was $ 2,286,496 and $ 778,707, 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.

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, 2016 and 2015 from these major payor sources is as follows:

	2016			
	Medicare and Medicaid	Other Third Party Payors	Private Pay	Total
Gross resident service revenue	$ 64,674,163	$ 26,292,586	$ 93,700,319	$ 184,667,068
Less provisions for:				
Contractual adjustments under third party reimbursement programs	21,757,928	13,657,311	-	35,415,239
Charity care allowances	-	-	11,237,048	11,237,048
Net resident service revenue, before provision for bad debts	$ 42,916,235	$ 12,635,275	$ 82,463,271	$ 138,014,781

	2015			
	Medicare and Medicaid	Other Third Party Payors	Private Pay	Total
Gross resident service revenue	$ 56,645,070	$ 24,300,922	$ 95,037,945	$ 175,983,937
Less provisions for:				
Contractual adjustments under third party reimbursement programs	18,364,886	13,206,717	-	31,571,603
Charity care allowances	-	-	11,144,034	11,144,034
Net resident service revenue, before provision for bad debts	$ 38,280,184	$ 11,094,205	$ 83,893,911	$ 133,268,300

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.

NOTE 19: Charity Care and Community Service – Continued

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.

Charges forgone for charity care and the estimated costs of providing charity care for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Charges forgone	$ 11,237,048	$ 11,144,034
Estimated cost to provide charity care	$ 10,016,561	$ 8,977,488

Masonic Villages has received contributions restricted for the care and support of Retirement Living residents eligible for charity care. These contributions are recorded as temporarily restricted net assets 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 $ 303,694 and $ 507,859 for the years ended December 31, 2016 and 2015, 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 $ 19,705,000 and $ 15,457,000 in 2016 and 2015, 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 $ 75,653 and $ 42,804 for the years ended December 31, 2016 and 2015, 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 $ 1,609 and $ 1,886 for the years ended December 31, 2016 and 2015, respectively.

During 2016 and 2015, Masonic Villages permitted its meeting and conference facilities to be used by several not-for-profit organizations, including the Pennsylvania Masonic Youth Foundation and 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 $ 187,000 and $ 217,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 19: Charity Care and Community Service – Continued

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, 2016 and 2015, these contributions totaled $ 228,029 and $ 139,745, 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 $ 113,912 and $ 109,202 for the years ended December 31, 2016 and 2015.

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. The following table summarizes operating expenses on a functional basis for the years ended December 31, 2016 and 2015.

	2016	2015
Program Services:		
Nursing Care	$ 62,009,907	$ 58,183,132
Medical Ancillary Clinics	6,713,458	6,842,685
Pharmacy	5,631,540	5,511,193
Personal Care	9,389,323	8,524,385
Retirement Living	42,306,298	43,586,484
Children's Home	2,134,937	2,048,047
Adult Daily Living Center	324,224	321,233
Residential Care Program	267,299	268,569
Hospice	2,516,215	2,104,192
Wellness Center	994,079	955,677
Home Health Care Services	79,322	-
Home Care Services	822,098	758,188
Community Services	352,484	206,442
Child Day Care Center	2,200,091	2,128,279
Conference Facilities	2,372,538	2,638,395
Contributions to Affiliates	3,634,422	2,696,977
Employee Housing and Rental Property	884,185	378,204
Member Services	1,345,827	-
Farm	1,816,152	1,710,706
Communications Services	544,845	632,522
Admissions and Resident Services	2,033,391	1,931,635
Support Services	4,473,449	4,207,350
Maintenance	7,832,171	7,416,810
Food Services	5,289,832	5,642,544
Total program services expense	165,968,087	158,693,649
Management and general - Administration	23,546,502	21,678,827
Fundraising - Gift Planning	1,443,926	1,664,257
	$ 190,958,515	$ 182,036,733

NOTE 21: Transactions with Affiliated Organizations

Contributions from Affiliated Organizations

Masonic Villages receives contributions from certain Grand Lodge permanently restricted net assets. The contributions are made from trusts established by the donors to benefit needy Masons, widows, and children. Contributions were received by Masonic Villages from the following trusts for the years ended December 31, 2016 and 2015:

	2016	2015
Thomas Ranken Patton Contingency Fund	$ 512,209	$ 601,458
Thomas Ranken Patton Masonic Institution for Boys	77,149	71,128
Thomas Ranken Patton Memorial Charity Fund	438,000	438,000
Henry C. and Anna C. Ellis Trust	24,348	17,349
Joseph W. Murray Memorial Fund	16,100	14,844
Charles W. Jackson McClary Memorial Fund #1	4,473	3,852
	$ 1,072,279	$ 1,146,631

The Pennsylvania Masonic Youth Foundation contributed $ 26,030 to Masonic Villages for the year ended December 31, 2016. This contribution represented the proceeds from contributions received by the Pennsylvania Masonic Youth Foundation restricted for the purchase of furniture for the conference facilities used by the Pennsylvania Masonic Youth Foundation and owned by Masonic Villages. Masonic Villages purchased the furniture as part of a remodeling project for the conference facilities. Since Masonic Villages incurred the cost to purchase the assets identified by the donor, the Pennsylvania Masonic Youth Foundation elected to reimburse Masonic Villages with the proceeds from the contributions, thereby fulfilling the donor's request.

During the year ended December 31, 2016, the Pennsylvania Masonic Youth Foundation contributed $ 36,000 to Masonic Villages to help Masonic Villages support the "Raising a Reader" program (RAR). RAR is a national nonprofit organization that helps children and families successfully build, practice and sustain literacy routines vital to academic success, with special attention to children at highest risk for educational failure. Masonic Villages made contributions totaling $ 120,000 to RAR for the year ended December 31, 2016.

These contributions from Grand Lodge and the Pennsylvania Masonic Youth Foundation are included in non-operating gains on the consolidated statements of operations for the years ended December 31, 2016 and 2015.

The Pennsylvania Masonic Youth Foundation contributed $ 10,000 to Masonic Villages during the year ended December 31, 2016 for the purpose of eventually establishing a Children's Home in western Pennsylvania. This contribution was reported as a temporarily restricted contribution on the consolidated statement of changes in net assets for the year ended December 31, 2016.

Contributions to Affiliated Organizations

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

	2016	2015
Pennsylvania Masonic Youth Foundation	$ 521,681	$ 475,445
The Masonic Library and Museum of Pennsylvania	3,111,906	2,221,533
	$ 3,633,587	$ 2,696,978

NOTE 21: Transactions with Affiliated Organizations - Continued

Contributions to Affiliated Organizations - Continued

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 $ 3,111,906 to The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) for the year ended December 31, 2016. These contributions consisted of cash payments of $ 3,089,686 and donated services provided by Masonic Villages' employees with a cost of $ 22,220.

Masonic Villages made contributions totaling $ 2,221,533 to The Masonic Library and Museum of Pennsylvania (Masonic Library and Museum) for the year ended December 31, 2015. These contributions consisted of cash payments of $ 2,203,682 and donated services provided by Masonic Villages' employees with a cost of $ 17,851.

Contributions from Masonic Villages Temporarily Restricted Net Assets 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 $835 and $0 for the years ended December 31, 2016 and 2015, respectively.

Administrative and Program Service Expenses

For the years ended December 31, 2016 and 2015, 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, 2016 and 2015 were $ 20,967 and $ 7,083, respectively. Reimbursement received for these costs is included in other operating revenue on the consolidated statements of operations.

During the years ended December 31, 2016 and 2015, 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 $ 22,220 and $ 17,851 for 2016 and 2015, respectively, and are included in operating expenses on 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 years ended December 31, 2016 and 2015 were $ 31,803 and $ 21,346, respectively. These costs are included in operating expenses on the consolidated statements of operations.

During 2016 and 2015, Masonic Villages' employees provided fundraising services to the Masonic Charities Fund under an expense reimbursement arrangement with Masonic Villages. Masonic Villages' cost for these services allocated to the Masonic Charities Fund for the years ended December 31, 2016 and 2015 were $ 61,190 and $ 56,991, respectively, and are included in other operating revenue on the consolidated statements of operations.

NOTE 21: Transactions with Affiliated Organizations - Continued

Administrative and Program Service Expenses - Continued

For the years ended December 31, 2016 and 2015, 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 years ended December 31, 2016 and 2015 were $ 364,826 and $ 311,931, respectively. These costs are included in operating expenses on 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 years ended December 31, 2016 and 2015 were $ 121,332 and $ 139,746, respectively. These costs are included in operating expenses on the consolidated statements of operations.

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 unrestricted or temporarily restricted based on the existence of any donor imposed conditions in the split-interest agreement.

As of December 31, 2016 and 2015, the fair value of assets recognized under split-interest agreements by Masonic Villages, consisting principally of cash and investments, was as follows:

	2016	2015
Perpetual trusts held by third parties	$ 39,348,204	$ 40,539,620
Charitable gift annuities	10,638,980	37,777,833
Charitable remainder unitrusts	526,929	540,755
	$ 50,514,113	$ 78,858,208

NOTE 22: Split-Interest Agreements - Continued

Contribution revenues recognized by Masonic Villages under split-interest agreements for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Unrestricted -		
Charitable gift annuities	$ 699,703	$ 301,562
Temporarily restricted -		
Charitable lead trust	40,777	65,420
Total unrestricted and restricted	$ 740,480	$ 366,982

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 $ 2,208,952 and $ 1,809,156 for the years ended December 31, 2016 and 2015, respectively.

During the year ended December 31, 2014, Masonic Villages entered into a single-life charitable gift annuity agreement with a donor in which the donor specified that his designee had the power to direct the disposition of 90% of the residual assets at the conclusion of the annuity to qualified charitable organizations. Masonic Villages was the recipient of the remaining 10% of the residual assets. The present value of the estimated 90% of the residual assets subject to the power of appointment at the conclusion of the annuity totaled $ 11,799,147 as of December 31, 2015. This amount is recognized as a charitable remainder payable to others on the consolidated balance sheet. The beneficiary of this charitable gift annuity agreement died during the year ended December 31, 2016. In December 2016, Masonic Villages paid 90% of the residual assets related to this charitable gift annuity agreement to the charitable organization selected by the donor's designee, which completed the agreement and eliminated the liability.

NOTE 23: Fair Value Measurements

Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available.

NOTE 23: Fair Value Measurements – Continued

The levels of the hierarchy and those investments included in each are as follows:

Level 1 – Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states, and political subdivisions and certain corporate, asset backed securities, swap agreements, and internally developed values with little uncertainty.

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement including the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and internally developed values with significant uncertainty.

As described in Note 7, Masonic Villages' most significant investment is its share of the Consolidated Fund.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement* (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, *Fair Value Measurement*, from categorization within the fair value hierarchy. The guidance requires retrospective application and is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2015. For all other entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. Management adopted the provisions of this new standard as of December 31, 2016. Accordingly, the amendment was retrospectively applied resulting in categorization of $ 46,059,049 of investments measured at net asset value and not included in the fair value hierarchy that were previously categorized within the fair value hierarchy as of December 31, 2015.

NOTE 23: Fair Value Measurements – Continued

The fair values of the Consolidated Fund's assets measured on a recurring basis as of December 31, 2016 and 2015 are as follows:

At December 31, 2016	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	$ 62,200,956	$ 62,200,956	$ -	$ -
Energy	10,920,716	10,920,716	-	-
Financial	34,790,189	34,790,189	-	-
Industrials	65,156,446	65,156,446	-	-
Information technology	800,183	800,183	-	-
Materials	8,398,185	8,398,185	-	-
Transportation	5,873,378	5,873,378	-	-
Telecommunications services	4,381,391	4,381,391	-	-
Total domestic and international common stocks	192,521,444	192,521,444	-	-
U.S. Government securities	13,322,602	-	13,322,602	-
Domestic corporate bonds:				
Aa credit rating	864,483	-	864,483	-
A credit rating	1,158,993	-	1,158,993	-
B credit rating	1,095,521	-	1,095,521	-
Bbb credit rating	5,684,490	-	5,684,490	-
Unrated	93,309,247	-	93,309,247	-
Total domestic corporate bonds	102,112,734	-	102,112,734	-
Municipal bonds:				
Unrated	8,114,133	-	8,114,133	-
Total municipal bonds	8,114,133	-	8,114,133	-
Mutual funds - Equity securities	43,269,928	41,709,337	1,560,591	-
Exchange traded funds	193,625,076	193,625,076	-	-
Mortgage backed securities	25,283,215	-	25,283,215	-
Asset backed securities	30,922,759	-	30,922,759	-
Real estate investment trusts	1,498,708	1,498,708	-	-
Money Market funds	49,365,161	-	49,365,161	-
Investments measured at net asset value:				
Limited partnership - international	352,063	-	-	-
Mutual funds - equity securities	20,538,391	-	-	-
Total investments measured at net asset value	20,890,454	-	-	-
Total - All Investment Types	$ 680,926,214	$ 429,354,565	$ 230,681,195	$ -

NOTE 23: Fair Value Measurements – Continued

At December 31, 2015	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	$ 64,359,399	$ 64,359,399	$ -	$ -
Energy	7,717,839	7,717,839	-	-
Financial	31,062,993	31,062,993	-	-
Industrials	60,743,842	60,743,842	-	-
Information technology	340,671	340,671	-	-
Materials	9,348,026	9,348,026	-	-
Transportation	5,961,481	5,961,481	-	-
Telecommunications services	4,547,595	4,547,595	-	-
Total domestic and international common stocks	184,081,846	184,081,846	-	-
U.S. Government securities	10,393,906	-	10,393,906	-
Domestic corporate bonds:				
Aa credit rating	547,570	-	547,570	-
A credit rating	5,624,868	-	5,624,868	-
Baa credit rating	419,150	-	419,150	-
Bb credit rating	540,240	-	540,240	-
Bbb credit rating	7,271,659	-	7,271,659	-
Unrated	69,512,110	-	69,512,110	-
Total domestic corporate bonds	83,915,597	-	83,915,597	-
Municipal bonds:				
Unrated	7,799,815	-	7,799,815	-
Total municipal bonds	7,799,815	-	7,799,815	-
Mutual funds - Equity securities	115,504,685	108,420,679	7,084,006	-
Exchange traded funds	108,738,219	108,738,219	-	-
Mortgage backed securities	22,459,501	-	22,459,501	-
Asset backed securities	29,790,091	-	29,790,091	-
Demand notes	97,946	-	97,946	-
Real estate investment trusts	921,572	921,572	-	-
Money Market funds	67,175,778	-	67,175,778	-
Investments measured at net asset value:				
Limited partnership - international	569,569	-	-	-
Mutual funds - equity securities	45,489,480	-	-	-
Total investments measured at net asset value	46,059,049	-	-	-
Total - All Investment Types	$ 676,938,005	$ 402,162,316	$ 228,716,640	$ -

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, 2016 and 2015:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
At December 31, 2016				
Mutual fund - Equity securities	$ 12,204,313	$ -	Quarterly	60 Days
Mutual fund - Equity securities	8,334,078	-	Monthly	5 Days
Limited partnership - international	352,063	-	Quarterly	45 Days
	$ 20,890,454	$ -		

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
At December 31, 2015				
Mutual fund - Equity securities	$ 11,217,069	$ -	Quarterly	60 Days
Mutual fund - Equity securities	14,497,088	-	Monthly	5 Days
Mutual fund - Equity securities	19,775,323	-	Daily	Same Day
Limited partnership - international	569,569	-	Quarterly	45 Days
	$ 46,059,049	$ -		

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 Consolidated Fund expects liquidations of special investment funds created from the redemption process will occur over the next several years at the fair value reported as of December 31, 2016.

As described in Note 7, Masonic Villages established a separate investment portfolio during the year ended December 31, 2014 as part of a charitable gift annuity agreement with a donor. This separate investment portfolio was liquidated in December 2016 after the death of the beneficiary of the charitable gift annuity agreement. The fair values of this separate investment portfolio's assets measured on a recurring basis as of December 31, 2015 were as follows:

At December 31, 2015	Fair Value	Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Corporate bonds	$ 10,372,784	$ -	$ 10,372,784	$ -
Asset-backed securities	472,475	-	472,475	-
Mutual funds - Fixed income	1,810,478	1,810,478	-	-
Equity exchange traded funds	12,094,316	12,094,316	-	-
Mutual funds - Equity	299,771	299,771	-	-
Money market funds	1,192,878	-	1,192,878	-
	$ 26,242,702	$ 14,204,565	$ 12,038,137	$ -

NOTE 23: Fair Value Measurements – Continued

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 2.45% to 3.83%.

The fair values of assets measured on a recurring basis as of December 31, 2016 and 2015 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, 2016				
Investments (excluding Consolidated Fund):				
Money Market Funds	$ 10,462,083	$ 10,462,083	$ -	$ -
Equity Funds	644,873	644,873	-	-
Common Trust Funds	383,707	-	383,707	-
Perpetual Trusts Held by Third Parties	39,348,204	-	39,348,204	-
Contributions receivable:				
Charitable lead annuity trusts	390,859	-	390,859	-
Promises to give	19,572	-	-	19,572
	$ 51,249,298	$ 11,106,956	$ 40,122,770	$ 19,572
At December 31, 2015				
Investments (excluding Consolidated Fund):				
Money Market Funds	$ 5,772,397	$ 5,772,397	$ -	$ -
Other investments	26,427,674	14,389,537	12,038,137	-
Equity Funds	523,066	523,066	-	-
Common Trust Funds	392,051	-	392,051	-
Perpetual Trusts Held by Third Parties	40,539,620	-	40,539,620	-
Contributions receivable:				
Charitable lead annuity trusts	399,921	-	399,921	-
Promises to give	12,039	-	-	12,039
	$ 74,066,768	$ 20,685,000	$ 53,369,729	$ 12,039

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, 2016 and 2015:

	2016	2015
Fair value as of January 1	$ 12,039	$ 50,274
Promises to give received	10,000	-
Cash payments received	(2,000)	(39,000)
Actuarial adjustment of fair value based on remaining terms of promises to give and risk-free interest rates	(467)	765
Fair value as of December 31	$ 19,572	$ 12,039

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, 2016 and 2015 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, 2016				
Annuities payable	$ 6,648,767	$ -	$ 6,648,767	$ -
Interest rate swap agreements	21,881,266	-	21,881,266	-
	$ 28,530,033	$ -	$ 28,530,033	$ -
At December 31, 2015				
Annuities payable	$ 19,677,928	$ -	$ 19,677,928	$ -
Contributions payable	11,799,147	-	11,799,147	-
Interest rate swap agreements	24,921,867	-	24,921,867	-
	$ 56,398,942	$ -	$ 56,398,942	$ -

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 calculated under the two methods were as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Operating Expense Method		
Operating expenses	$ 190,958,515	$ 182,036,733
Less: Depreciation expense	25,562,516	22,342,679
Cash expenses for minimum liquid reserve	165,395,999	159,694,054
Percentage of cash expenses to be held in reserve	10%	10%
Minimum liquid reserve requirement under Operating Expense Method	$ 16,539,600	$ 15,969,405
Debt Service Method		
Interest expense	$ 6,156,848	$ 5,949,616
Principal payments	9,425,000	5,640,000
Minimum liquid reserve requirement under Debt Service Method	$ 15,581,848	$ 11,589,616

The fair value of the Masonic Villages Reserve Fund at December 31, 2016 and 2015 totaled $ 177,872,782 and $ 182,952,086, respectively. Masonic Villages met the minimum liquid reserve required by the Insurance Department for the years ended December 31, 2016 and 2015.

NOTE 25: Subsequent Events

Masonic Villages has evaluated events and transactions subsequent to December 31, 2016 through April 20, 2017, the date these financial statements were issued. Based on the definitions and requirements of generally accepted accounting principles, Masonic Villages has identified the following event that occurred subsequent to December 31, 2016 and through April 20, 2017, that requires recognition or disclosure in the financial statements:

On February 22, 2017, the Lancaster County Hospital Authority issued Fixed Rate Health Center Revenue Bonds (Masonic Villages Project), Series 2017 (2017 Bonds) for $29,000,000, plus a premium above the principal amount of $ 2,274,247. The proceeds of the 2017 Bonds and the premium will be used to pay for the construction of 72 new retirement living cottages at Masonic Villages' Elizabethtown campus, including the costs of relocating the landscape operations building and resident gardens from their current sites. Some proceeds of the 2017 Bonds were also used to pay the issuance costs of the 2017 Bonds.

NOTE 26: Commitments and Contingencies

Masonic Villages has signed contracts for various construction projects approximating $ 30,695,000. Approximately $ 1,290,000 has been paid or accrued on these contracts as of December 31, 2016.

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 $ 1,262,334 and $ 1,260,010, respectively, in lieu of tax payments under this agreement for the years ended December 31, 2016 and 2015. For the year ending December 31, 2017, Masonic Villages' commitment under the agreement is approximately $ 1,285,000.

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 $ 816,080 and $ 804,088, respectively, under this agreement for the years ended December 31, 2016 and 2015. For the year ending December 31, 2017 Masonic Villages' commitment under the agreement is approximately $ 826,000.

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 $ 45,837 and $ 45,694 under these two agreements for the years ended December 31, 2016 and 2015, 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 $ 34,918 and $ 34,087 under this agreement for the years ended December 31, 2016 and 2015, respectively. For the year ending December 31, 2017, Masonic Villages' commitment under the agreement is approximately $ 35,000.

NOTE 26: Commitments and Contingencies - Continued

Masonic Villages entered into an agreement to invest the debt service reserve fund for the 2006 Bonds in November 2006. This agreement was a Debt Service Reserve Guaranteed Investment Contract with Bank of America, NA. This agreement required Masonic Villages to invest $ 2,524,015, representing the 2006 Bonds Debt Service Reserve Fund, with Bank of America, NA. The money invested pursuant to this agreement earned interest at a rate of 5.23% through the maturity of the contract on November 1, 2036. The investments that collateralized the debt service reserve fund were held in custody of US Bank for the benefit of Masonic Villages, beginning on January 9, 2012. This agreement was terminated in February 2015 as part of the issuance of the 2015 Bonds described in Note 12.

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 and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

NOTE 28: Reclassifications

Certain items in the 2015 financial statements have been reclassified to conform to the 2016 presentation.