

Masonic and Eastern Star Home of North Carolina, Inc.

2022 Audit Results and Report to the Audit Committee

May 16, 2023

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Required Auditor Communications



Area	Comments
<p>Our responsibility under Generally Accepted Auditing Standards</p>	<ul style="list-style-type: none"> • Express an opinion on the fair presentation of the financial statements of Whitestone in conformity with generally accepted accounting principles • Plan and perform the audits to obtain reasonable, not absolute, assurance that the financial statements are free of material misstatement • Evaluate internal control over financial reporting • Determine the nature, timing, and extent of audit procedures based on risk assessments and our evaluation of internal control • Utilize a risk-based audit approach • Communicate significant matters to appropriate parties
<p>Planned scope and timing of the audit</p>	<ul style="list-style-type: none"> • Performed the audit according to the planned scope and timing previously communicated
<p>Other information in documents containing audited financial statements</p>	<ul style="list-style-type: none"> • Financial statements may only be used in their entirety • Our prior approval is required to use our audit report in a client prepared document • We have no responsibility to perform procedures beyond those related to the financial statements • We have no obligation to corroborate other information
<p>Significant accounting policies</p>	<ul style="list-style-type: none"> • Management is responsible for accounting policies • Outlined in Note 2 to the financial statements • Adoption of Lease Standard – No impact on financial statements as leases were not material • Appropriate accounting policies • No significant or unusual transactions occurred
<p>Significant accounting estimates</p>	<ul style="list-style-type: none"> • Allowance for uncollectible accounts, life expectancies for amortization calculations, future service obligation • Determined based on management’s knowledge and experience • No indicators of management bias • Estimates are reasonable • Estimate uncertainty disclosed in the financial statements
<p>Significant disclosures</p>	<ul style="list-style-type: none"> • Disclosures are neutral, consistent, and clear



Area	Comments
Corrected and uncorrected misstatements	<ul style="list-style-type: none"> • Three Audit Adjusting Entries were recorded: <ul style="list-style-type: none"> - Record December invoice on construction project: No impact on Change in Net Assets - To record 2022 change in split interest agreements: (\$866,107) impact on Change in Net Assets - To record contribution and investment: \$150,102 impact on Change in Net Assets • Seven reclassification entries were recorded for financial statement purposes • One potential passed adjustment – Pledges Receivable
Disagreements with management	<ul style="list-style-type: none"> • No disagreements with management regarding accounting, reporting, or auditing matters.
Difficulties encountered in performing the audit	<ul style="list-style-type: none"> • No significant difficulties encountered in performing the audit.
Management representation	<ul style="list-style-type: none"> • Management will provide a signed management representation letter upon acceptance of the financial statements.
Consultations with other independent accountants	<ul style="list-style-type: none"> • No consultations with other independent accountants.
Issues discussed prior to retention as independent auditors	<ul style="list-style-type: none"> • No issues discussed prior to retention as independent auditors.
Other findings or issues	<ul style="list-style-type: none"> • No significant findings or issues were discussed with, or communicated, to management.





Discussion of Draft Financial Statements



**MASONIC AND EASTERN STAR HOME
OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
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YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Masonic and Eastern Star Home of North Carolina, Incorporated
dba: Whitestone
Greensboro, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Masonic and Eastern Star Home of North Carolina, Incorporated dba: Whitestone (the Home), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Home as of December 31, 2022 and 2021, and the results of its operations, change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

CliftonLarsonAllen LLP

Charlotte, North Carolina
REPORT DATE

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,001,744	\$ 2,985,338
Assets Limited as to Use, Current Portion	2,031,550	3,410,055
Accounts Receivable	859,259	393,430
Accounts Receivable, Other	565,415	472,653
Prepaid Expenses and Other Assets	356,085	325,056
Total Current Assets	5,814,053	7,586,532
INVESTMENTS AND OTHER ASSETS		
Investments	10,588,464	13,168,641
Assets Limited as to Use, Net of Current Portion	33,685,364	55,542,957
Assets in Split-Interest Agreements	3,502,851	4,368,958
Deferred Costs, Net	225,008	116,217
Total Investments and Other Assets	48,001,687	73,196,773
PROPERTY AND EQUIPMENT, NET		
	87,523,068	57,538,272
Total Assets	\$ 141,338,808	\$ 138,321,577
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 340,000	\$ 325,000
Accounts Payable	8,401,709	3,564,704
Accrued Expenses	2,271,381	2,099,530
Refundable Advance Fees, Current	106,300	692,320
Total Current Liabilities	11,119,390	6,681,554
LONG-TERM DEBT		
	96,650,897	97,047,398
DEFERRED REVENUE AND OTHER LIABILITIES		
Deferred Revenue from Advance Fees	16,101,323	12,159,909
Refundable Advance Fees	4,079,187	3,624,197
Deposits on Unoccupied Units	1,655,873	1,208,230
Long-Term Accounts Payable	40,000	40,000
Resident Trust Funds Payable	182,228	320,351
Total Deferred Revenue and Other Liabilities	22,058,611	17,352,687
Total Liabilities	129,828,898	121,081,639
NET ASSETS		
Without Donor Restrictions	6,918,252	11,483,414
With Donor Restrictions	4,591,658	5,756,524
Total Net Assets	11,509,910	17,239,938
Total Liabilities and Net Assets	\$ 141,338,808	\$ 138,321,577

See accompanying Notes to Financial Statements.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES, GAINS AND OTHER SUPPORT		
Resident Service Revenues	\$ 5,201,178	\$ 5,250,180
Health Care Revenues	5,546,347	4,560,161
Amortization of Advance Fees	2,171,913	2,014,029
Total Resident Service and Health Care Revenues	12,919,438	11,824,370
Contributions	2,822,252	1,688,329
Contributions - Paycheck Protection Program	-	1,434,400
Investment Income	486,267	2,870
Provider Relief Fund Revenue	-	419,192
Other Income	76,344	27,236
Releases from Restriction	75,165	84,390
Total Revenues, Gains and Other Support	16,379,466	15,480,787
EXPENSES		
Salaries and Benefits	9,266,607	7,779,125
Contract Labor	661	595
Medical Supplies and Services	919,415	862,332
Food Supplies and Services	846,560	745,705
Other Supplies and Activities	780,370	1,123,395
Utilities and Communications	644,304	591,460
Repairs and Maintenance	912,017	767,325
Property and Liability Insurance	255,624	241,901
Depreciation	1,818,081	1,718,815
Amortization of Contract Acquisition Costs	8,238	6,246
Interest Expense	1,030,613	1,033,262
Management Fees	405,677	514,753
Other Operating Expenses	1,087,141	1,147,885
Total Expenses	17,975,308	16,532,799
OPERATING LOSS	(1,595,842)	(1,052,012)
NONOPERATING INCOME (LOSS)		
Change in Unrealized Gains (Losses) on Investments	(2,969,320)	1,766,673
Excess (Deficit) of Revenues Over (Under) Expenses and Changes in Net Assets Without Donor Restrictions	\$ (4,565,162)	\$ 714,661

See accompanying Notes to Financial Statements.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (4,565,162)	\$ 714,661
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	30,280	20,650
Investment Income (Loss)	(253,874)	237,725
Change in the Value of Split-Interest Agreements	(866,107)	271,705
Net Assets Released from Restriction	(75,165)	(84,390)
Change In Net Assets With Donor Restrictions	<u>(1,164,866)</u>	<u>445,690</u>
CHANGE IN NET ASSETS	(5,730,028)	1,160,351
Net Assets - Beginning of Year	<u>17,239,938</u>	<u>16,079,587</u>
NET ASSETS - END OF YEAR	<u>\$ 11,509,910</u>	<u>\$ 17,239,938</u>

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See accompanying Notes to Financial Statements.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (5,730,028)	\$ 1,160,351
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,826,319	1,725,061
Amortization of Deferred Financing Costs	79,452	92,035
Amortization of Bond Premium	(135,953)	(159,124)
Nonrefundable Advance Fees Received	6,300,997	2,798,051
Amortization of Advance Fees	(2,171,913)	(2,014,029)
Unrealized (Gains) Losses on Investments	2,969,320	(1,766,673)
Change in Value of Split-Interest Agreements	866,107	(271,705)
(Increase) Decrease in:		
Accounts Receivable, Net	(465,829)	258,896
Accounts Receivable, Other	(190,248)	(115,020)
Prepaid Expenses and Other Assets	(31,029)	(17,599)
Increase (Decrease) in:		
Accounts Payable	(2,925,928)	(499,207)
Accrued Expenses	171,851	853,797
Refundable Advance - Paycheck Protection Program	-	(1,434,400)
Other Deposits and Liabilities	(375,860)	53,665
Net Cash Provided by Operating Activities	<u>187,258</u>	<u>664,099</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(24,039,944)	(20,222,802)
Payments on Deferred Costs	(117,029)	(48,751)
Net Purchases of Investments	(389,143)	(1,117,580)
Net Change in Assets Limited As To Use	(177,857)	860,472
Net Cash Used by Investing Activities	<u>(24,723,973)</u>	<u>(20,528,661)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of Advance Fees	(1,517,190)	(904,879)
Refundable Advance Fees Received	1,533,713	-
Refundable Fees and Deposits on Unoccupied Units Received	447,643	228,370
Payments on Long-Term Debt	(325,000)	(315,000)
Net Cash Used by Financing Activities	<u>139,166</u>	<u>(991,509)</u>
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(24,397,549)	(20,856,071)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	<u>56,203,008</u>	<u>77,059,079</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	<u>\$ 31,805,459</u>	<u>\$ 56,203,008</u>

See accompanying Notes to Financial Statements.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Cash and Cash Equivalents	\$ 2,001,744	\$ 2,985,338
Restricted Cash Included in Assets Limited as to Use	29,803,715	53,217,670
Total Cash, Cash Equivalents, and Restricted Cash	\$ 31,805,459	\$ 56,203,008
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Property and Equipment Additions in Accounts Payable and Accrued Interest	\$ 8,358,699	\$ 3,358,337
Cash Payment of Interest, Net of Amounts Capitalized	\$ 1,099,380	\$ 1,094,050

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See accompanying Notes to Financial Statements.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 ORGANIZATION

Masonic and Eastern Star Home of North Carolina, Incorporated dba: Whitestone (the Home) is a nonprofit organization that principally provides housing, health care and other related services to residents through the operation of a continuing care retirement facility providing general and advanced care. The Home is located in Greensboro, North Carolina. It is subject to various laws and regulations enacted by the state of North Carolina regarding its activities. The Home is a philanthropic charity of the Grand Lodge and the Grand Chapter and subordinate lodges and chapters. Each lodge and chapter solicits contributions from its members for the support of the Home.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

For purposes of reporting cash flows, the Home considers cash accounts and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents exclude money market accounts and mutual funds held in broker or trust accounts since they represent investment proceeds that will be reinvested in allowable investments of the Home. Restricted cash is included with cash and cash equivalents in the statements of cash flows.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Pooled fund investments are reflected at fair value based on the net asset value per share of the investment, as a practical expedient. Changes in the fair value of investments, including both realized and unrealized gains and losses, are included in the accompanying statements of operations and statements of changes in net assets. In determining realized gains and losses, the cost of investments is determined using the specific-identification method.

Assets Limited as to Use

Assets limited as to use include assets set aside by the board of directors to meet North Carolina General Statute operating reserve requirements, deposits held in trust, and assets held by trustees under indenture agreements. Amounts required to meet current liabilities of the Home have been classified as current assets in the balance sheets.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use (Continued)

North Carolina General Statute 58-64-33 requires that continuing care retirement communities with occupancy levels in excess of 90% maintain an operating reserve equal to 25% of total operating costs projected for the 12-month period following the most recent annual statement filed with the Department of Insurance, upon approval of the Commissioner. Continuing care retirement communities with less than 90% occupancy are required to maintain an operating reserve equal to 50% of projected total operating costs.

Total operating costs shall include budgeted operating expenses plus debt service less depreciation and amortization expense, and revenue associated with noncontractual expenses. The operating reserve can only be released upon the submittal of a detailed request from the Home and must be approved by the North Carolina Department of Insurance.

Deposits held in trust include resident trust funds held by the Home on behalf of residents. Funds are provided to the resident or used to pay bills at the direction of the resident or responsible party. The funds are recorded as both an asset and a liability. Deposits held in trust also include deposits on unoccupied units. The deposits are held in trust until the prospective resident moves into the Home's facility. These funds are also recorded as an asset and liability.

Accounts Receivable

The Home records accounts receivable at amounts expected to be collected from residents. The Home determines past-due status of individual accounts receivable based on the contractual terms of the original contract (or based on how recently payments have been made, for example). The Home estimates an allowance for doubtful accounts based on a combination of factors, including the Home's historical loss experience and any anticipated effects related to current economic conditions, and management's knowledge of the current composition of accounts receivable. Accounts receivable that management believes to be ultimately not collectible are written off upon such determination. At December 31, 2022 and 2021, the allowance for doubtful accounts was approximately \$481,000 and 210,000, respectively.

Deferred Costs

The costs associated with the acquisition of new contract of an expansion project are being deferred and will be amortized using the average life expectancy of the initial occupants of the facility. Amortization of these costs was approximately \$8,000 and \$6,000 for the years ended December 31, 2022 and 2021, respectively. Deferred financing costs relating to the financing of the facility are amortized over the life of the associated bonds. Amortization expense for the deferred financing costs was approximately \$79,000 and 92,000 for the years ended December 30, 2022 and 2021, respectively.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets in Split-Interest Agreements

The Home has beneficial interest in several irrevocable, unconditional split-interest agreements, which are all administered by third parties and for which the Home has categorized as beneficial interests in perpetual trusts. The Home has the irrevocable right to receive a share of income from the assets of these trusts. These assets are stated at the fair value of the Home's net asset value per share of trust assets, which is an approximation of the present value of the estimated future distributions from the trusts and have been recorded as net assets with donor restrictions based on restrictions associated with related trust agreements. Income distributions to the Home are included in investment income in net assets without donor restrictions. The change in the value of the beneficial interest is recorded as the change in the value of split-interest agreements in net assets with donor restrictions related to their respective trusts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. All items with a cost over \$1,000 are capitalized. Depreciation is determined by the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

The Home periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. For assets to be disposed of, impairment is determined to exist if the estimated net realizable value is less than the carrying amount.

Net Assets

The Home classifies its funds for accounting and reporting purposes as either without donor restrictions or with donor restrictions:

Net Assets Without Donor Restrictions – All revenue not restricted by donors, unrestricted contributions designated by the board, and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for as net assets without donor restrictions.

Net Assets With Donor Restrictions – All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. The investment income arising from endowment funds, if any, are accounted for in accordance with donor stipulations. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. Those resources for which the restrictions are met in the same fiscal year they are received are included in net assets without donor restrictions.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advance Fees

Fees paid by a resident upon entering into a continuing care or independent living contract are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Independent residents choose the option of refundability from the following three options: (a) Depreciating Zero Refund Plan, (b) Depreciating 50% Refund Plan, or (c) Depreciating 90% Refund Plan. In the Depreciating Zero Refund Plan, no refund of the entrance fee will be paid to the resident after 50 months of occupancy. In the Depreciating 50% Refund Plan, the refund will not be less than 50% of the entrance fee. In the Depreciating 90% Refund Plan, the refund will not be less than 90% of total entrance fee. In addition to the entrance fee, monthly maintenance fees are also charged based on the unit selected.

At December 31, 2022 and 2021, the portion of advance fees subject to refund provisions amounted to approximately \$4,185,000 and \$4,316,000, respectively. Amounts expected to be refunded to current residents, based on the Home's experience, are approximately \$106,000 and \$692,000 at December 31, 2022 and 2021, respectively.

Estimated Obligation to Provide Future Services

The Home annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income.

The obligation is discounted at 5%, based on the expected long-term rate of return on government obligations. The Home computes this liability by estimating the cost per year per resident at the current level of care for each resident (skilled/intermediate care or residential care). This cost is multiplied by the future life expectancy of each resident based upon actuarially computed tables and increased for an estimated inflation factor of 3% per annum. No liability has been recorded as of December 31, 2022 and 2021.

Provider Relief Funding

Due to the Coronavirus pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Total grant funds approved and received by the Home in December 31, 2021 were \$419,192. The PRFs are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. For the year ended December 31, 2021, the Home recognized all of its PRF received during the year as operating income in the statements of operations. Management believes the amounts have been recognized appropriately as of December 31, 2022.

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Refundable Advance

In April 2020, the Home received proceeds in the amount of \$1,434,400 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The PPP Loan may be forgiven by the U.S. Small Business Administration (SBA) subject to certain performance barriers, as outlined in the loan agreement and the CARES Act. Therefore, the Home classified this loan as a conditional contribution for accounting purposes as of December 31, 2020. In 2021, the SBA granted forgiveness on the entire PPP loan. This forgiveness is shown as Contributions - Paycheck Protection Program Loan in the accompanying statements of operations in 2021. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Home's financial position.

Income Taxes

The Home is a nonprofit organization exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

The Home files as a tax-exempt organization. Management is not aware of any activities that would jeopardize the tax-exempt status of the Home. Management is not aware of any significant activities that are subject to tax on unrelated business income or excise or other taxes for the Home.

The Home follows guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance has had no impact on the Home's financial statements.

Fair Value Measurements

The Home categorizes its assets measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine 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 in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

MASONIC AND EASTERN STAR HOME OF NORTH CAROLINA, INCORPORATED
DBA: WHITESTONE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Home has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on the Home's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Home may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as money market funds. The fair value of split-interest agreements are based on the fair value of fund investments as reported by the trustees. These are considered to be Level 3 measurements. There are no assets valued at Level 2 inputs.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$618,000 and \$398,000 for the years ended December 31, 2022 and 2021, respectively.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Management has determined that there were no material leases at December 31, 2022.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through REPORT DATE, which is the date the financial statements were available to be issued.

NOTE 3 RESIDENT SERVICE AND HEALTH CARE REVENUES

Resident service and health care revenues are reported at the amount that reflects the consideration to which the Home expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Home bills the residents and third-party payors several days after the services are performed. Service fees paid by residents for maintenance, meals, and other services are assessed monthly and are recognized as revenue in the period services are rendered. Revenue is recognized as performance obligations are satisfied.

The Home generates revenues, primarily by providing housing, amenities (recreational, dining, etc.) and access to health care services to its residents. The various life care contract streams of revenue are recognized as follows:

Entrance Fees

The nonrefundable entrance fees received are recognized as deferred revenue upon receipt of the payment under the life care contract and included in liabilities in the balance sheets until the performance obligations are satisfied. These deferred amounts are then amortized on a straight-line basis into revenue on a monthly basis over the life of the resident as the performance obligation is associated with access to future services. The refundable portion of an entrance fee is not considered part of the transaction price and as such is recorded as a liability in the balance sheets.

Health Care Services

The Home also provides assisted and nursing care to residents who are covered by government and commercial payers. The Home is paid fixed rates from government and commercial payers. These fixed rates are billed in arrears monthly when the service is provided. The monthly fees represent the most likely amount to be received from the third-party payors.

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NOTE 3 RESIDENT SERVICE AND HEALTH CARE REVENUES (CONTINUED)

Monthly Service Fees

The life care contracts that residents select require an advanced fee and monthly fees based upon the type of space they are applying for. Resident monthly service fee revenue for recurring and routine monthly services is generally billed monthly in advance. Payment terms are usually due within 30 days. The services provided encompass social, recreational, dining along with assisted living and nursing care and these performance obligations are earned each month. Resident fee revenue for nonroutine or additional services are billed monthly in arrears and recognized when the service is provided.

Performance obligations are determined based on the nature of the services provided by the Home. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Home believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the facilities receiving skilled nursing services or housing residents receiving services in the facilities. The Home considers daily services provided to residents of the skilled nursing facilities and monthly rental for housing services as a separate performance obligation and measures this on a monthly basis, or upon move-out within the month, whichever is shorter.

Nonrefundable entrance fees are considered to contain a material right associated with access to future services, which is the related performance obligation. Revenue from nonrefundable entrance fees is recognized ratably in future periods covering a resident's life expectancy using a time-based measurement similar to the output method. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our residents and customers in a retail setting (for example, gift shop and cafeteria meals) and the Home does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Home has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Home determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors and/or implicit price concessions provided to residents. The Home determines its estimates of contractual adjustments based on contractual agreements, its policy, and historical experience. The Home determines its estimate of implicit price concessions based on its historical collection experience.

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NOTE 3 RESIDENT SERVICE AND HEALTH CARE REVENUES (CONTINUED)

The opening and closing contract balances were as follows:

	Accounts Receivable	Deferred Revenue From Advance Fees
January 1, 2021	652,326	12,116,837
December 31, 2021	393,430	12,159,909
December 31, 2022	859,259	16,101,323

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid

The Home's licensed nursing facility participates in the Medicare program. This federal program is administered by the Centers for Medicare and Medicaid Services (CMS). The nursing facility was paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and met the coverage guidelines for skilled nursing facility services. The PPS was a per diem price-based system. On October 1, 2019, CMS finalized the Patient Driven Payment Model (PDPM) to replace the existing Medicare reimbursement system. Under PDPM, therapy minutes are removed as the primary basis for payment and instead the underlying complexity and clinical needs of a patient are used as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

Nursing facilities licensed for participation in the Medicare and Medical Assistance programs are subject to annual licensure renewal. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance. Such a payment ban would have a negative impact on the revenues of the licensed nursing facility.

The Home's licensed nursing facility participates in the Medicaid program which is administered by the North Carolina Division of Health Benefits. Services rendered to Medicaid program beneficiaries are reimbursed using predetermined per diem rate as defined for each Medicaid provider in North Carolina. Annual cost report filings are required for Medicaid providers, which include the completion of the North Carolina Division of Health Benefit's supplemental schedules. For Continuing Care Retirement Communities, the Supplemental Schedules do not contain a cost settlement.

Other

Payment agreements with certain commercial insurance carriers provide for payment using prospectively determined daily rates.

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NOTE 3 RESIDENT SERVICE AND HEALTH CARE REVENUES (CONTINUED)

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

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Home estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change.

Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended December 31, 2022 and 2021. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

The Home has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, service line, method of reimbursement, and timing of when revenue is recognized.

The composition of resident service and health care revenue by primary payor for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Medicare	\$ 171,373	\$ 251,658
Medicaid	1,462,775	1,366,319
Private	10,552,112	10,191,346
Other Insurance	733,178	15,047
	<u>\$ 12,919,438</u>	<u>\$ 11,824,370</u>

Revenue from residents' deductibles and coinsurance are included in the categories presented above based on the primary payor.

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NOTE 3 RESIDENT SERVICE AND HEALTH CARE REVENUES (CONTINUED)

The composition of resident service and health care revenues on the Home's lines of business, method of reimbursement, and timing of revenue recognition for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Service Lines:		
Independent Living	\$ 4,822,104	\$ 4,497,575
Assisted Living	1,007,710	732,504
Home Health	379,074	752,605
Health Care Services	4,538,637	3,827,657
Amortization of Advance Fees	2,171,913	2,014,029
Total	<u>\$ 12,919,438</u>	<u>\$ 11,824,370</u>
Method of Reimbursement:		
Monthly Service Fees	\$ 5,829,814	\$ 5,230,079
Amortization of Advance Fees	2,171,913	2,014,029
Fee for Service	4,917,711	4,580,262
Total	<u>\$ 12,919,438</u>	<u>\$ 11,824,370</u>
Timing of Revenue and Recognition:		
Health Care Services Transferred Over Time	<u>\$ 12,919,438</u>	<u>\$ 11,824,370</u>

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use were comprised of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 29,803,715	\$ 53,217,670
Money Market	1,487,533	934,010
Equities	49,506	-
Mutual Funds	35,066	352,465
Pooled Funds Accounts	14,929,558	17,617,508
Total	<u>\$ 46,305,378</u>	<u>\$ 72,121,653</u>

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NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Assets limited as to use are allocated as follows:

	2022	2021
Operating Reserve for Department of Insurance	\$ 2,874,000	\$ 2,734,000
Trustee Deposit Accounts Required by Long-Term Debt Agreements	29,561,962	52,903,325
Board-Designated Investments to Refund Advance Fees	828,436	992,345
Donor Designated for Benevolence Assistance	788,761	1,074,987
Restricted Cash for Residents	176,222	314,345
Restricted Cash for Admission Payments	1,487,533	934,010
Total	<u>\$ 35,716,914</u>	<u>\$ 58,953,012</u>

Investment income (loss) consists of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Interest and Dividends	\$ 232,393	\$ 240,595
Unrealized Gains (Losses)	(2,969,320)	1,766,673
Total	<u>\$ (2,736,927)</u>	<u>\$ 2,007,268</u>

The table below presents the balance of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2022 and 2021:

	2022			Total
	Level 1	Level 2	Level 3	
Investments and Assets Limited as to Use:				
Money Market	\$ 1,487,533	\$ -	\$ -	\$ 1,487,533
Mutual Funds	35,066	-	-	35,066
Equities	49,506	-	-	49,506
Assets in Split-Interest Agreements	-	-	3,502,851	3,502,851
Total	<u>\$ 1,572,105</u>	<u>\$ -</u>	<u>\$ 3,502,851</u>	<u>\$ 5,074,956</u>
	2021			Total
	Level 1	Level 2	Level 3	
Investments and Assets Limited as to Use:				
Money Market	\$ 934,010	\$ -	\$ -	\$ 934,010
Mutual Funds	352,465	-	-	352,465
Assets in Split-Interest Agreements	-	-	4,368,958	4,368,958
Total	<u>\$ 1,286,475</u>	<u>\$ -</u>	<u>\$ 4,368,958</u>	<u>\$ 5,655,433</u>

Certain investments held by the Home were measured at net asset value per share (or its equivalent) as a practical expedient and have not been classified in the fair value hierarchy.

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NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

The following table summarizes investments measured at fair value based on net asset value per share:

	2022			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Income Fund	\$ 4,867,291	N/A	As Needed	One Month
Stock Fund	10,062,267	N/A	As Needed	One Month
	\$ 14,929,558			

	2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Income Fund	\$ 5,357,809	N/A	As Needed	One Month
Stock Fund	12,259,699	N/A	As Needed	One Month
	\$ 17,617,508			

The following table summarizes the valuation techniques and unobservable inputs of assets valued at Level 3:

Instrument	Fair Value		Principal Valuation Technique	Unobservable Inputs
	2022	2021		
Assets in Split-Interest Agreements	\$ 3,502,851	\$ 4,368,958	FMV of Trust Investments	Timing of Distributions

The Home's investments potentially subject it to concentrations of credit risk. The Home maintains various types of investments that encompass many different companies with varied industrial and geographical characteristics designed to limit exposure to any one industry, company or geographical location. However, as most of the Home's investments are traded in public markets, they are subject to general fluctuations in the market's overall performance. The Home retains investment managers who perform periodic evaluations of the relative credit standing of the companies and financial institutions in which the Home invests.

NOTE 5 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2022 and 2021:

	2022	2021
Land and Improvements	\$ 1,176,902	\$ 1,045,442
Buildings and Improvements	51,355,093	49,866,356
Equipment	2,126,145	1,921,731
Furniture and Fixtures	1,495,036	1,424,635
Vehicles	372,161	322,991
Construction In Progress	58,960,402	29,101,706
Total	115,485,739	83,682,861
Less: Accumulated Depreciation	(27,962,671)	(26,144,589)
Total	\$ 87,523,068	\$ 57,538,272

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NOTE 5 PROPERTY AND EQUIPMENT (CONTINUED)

Capitalized interest totaled approximately \$3,505,000 and \$4,381,000 for the years ended December 31, 2022 and 2021, respectively.

Construction in progress at December 31, 2022 and 2021 was related to expansion projects at the Home's facilities to create an additional 67 independent living units and an additional 24 new assisted living units, as well as relocate 12 memory care beds and make improvements to the health care center, including the conversion of semi-private skilled nursing beds into private skilled nursing beds. As of December 31, 2022, the Home has remaining construction commitments amounting to approximately \$12,595,000 related to these expansion projects. Proceeds from the Series 2020 bonds described in Note 6 are being used to pay for this project.

NOTE 6 LONG-TERM DEBT

The following is a summary of long-term debt as of December 31, 2022 and 2021:

	2022	2021
Public Finance Authority:		
Retirement Facilities First Mortgage Revenue Refunding Bonds (Whitestone Project), Series 2017:		
Term Bonds Due 2027, Yielding 3.66%	\$ 1,850,000	\$ 2,175,000
Term Bonds Due 2037, Yielding 4.22%	5,270,000	5,270,000
Term Bonds Due 2052, Yielding 4.40%	14,955,000	14,955,000
Retirement Facilities First Mortgage Revenue Bonds (Whitestone), Series 2020:		
Term Bonds Due 2026, Yielding 3.00%	9,190,000	9,190,000
Term Bonds Due 2027, Yielding 3.50%	4,000,000	4,000,000
Term Bonds Due 2030, Yielding 4.00%	5,310,000	5,310,000
Term Bonds Due 2045, Yielding 5.25%	19,865,000	19,865,000
Term Bonds Due 2055, Yielding 5.25%	34,930,000	34,930,000
Subtotal	95,370,000	95,695,000
Less: Current Portion	(340,000)	(325,000)
Less: Unamortized Deferred Financing Costs	(2,227,881)	(2,307,333)
Plus: Unamortized Bond Premium	3,848,778	3,984,731
Long-Term Portion	\$ 96,650,897	\$ 97,047,398

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NOTE 6 LONG-TERM DEBT (CONTINUED)

Scheduled principal repayments on long-term debt for the next five years and thereafter are summarized as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 340,000
2024	1,025,000
2025	1,065,000
2026	10,300,000
2027	5,155,000
Thereafter	77,485,000
Total	<u>\$ 95,370,000</u>

During 2017, the Home entered into a financing arrangement with the Public Finance Authority under which the Authority issued tax-exempt Series 2017 Revenue Refunding Bonds of \$23,855,000. The bonds were issued to refund the series 2011 bonds. These bonds are collateralized by a deed of trust on the Home, as well as a security interest in pledged assets.

During 2020, the Home entered into a financing arrangement with the Public Finance Authority under which the Authority issued tax-exempt Series 2020-A First Mortgage Revenue Bonds of \$60,105,000, Series 2020 B-1 First Mortgage Revenue Bonds of \$4,000,000, and Series 2020 B-2 First Mortgage Revenue Bonds of \$9,190,000. The bonds were issued to pay for the expansion project described in Note 5, to fund debt service reserve funds and pay a portion of interest on the bonds, and to pay certain costs of issuance. These bonds are collateralized by a deed of trust on the Home, as well as a security interest in pledged assets.

Under the terms of the bonds, the Home is required to maintain certain deposits with the trustees. Such deposits are included with assets limited as to use of the Home. The Master Trust Indenture Agreement for the bonds include certain covenants and restrictions. As of December 31, 2022, management believes the Home is in compliance with all covenants and restrictions.

NOTE 7 LIQUIDITY AND AVAILABILITY

The following reflects the Home's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing that could be drawn upon if the governing board approves that action.

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NOTE 7 LIQUIDITY AND AVAILABILITY (CONTINUED)

	2022	2021
Cash and Cash Equivalents	\$ 2,001,744	\$ 2,985,338
Investments	10,588,464	13,168,641
Accounts Receivable	859,259	393,430
Accounts Receivable, Other	565,415	472,653
Less: Purpose Restricted Net Assets	(300,046)	(312,579)
Total Financial Assets Available to Meet		
Liquidity Needs	\$ 13,714,836	\$ 16,707,483

The Home is substantially supported by resident service and health care revenues. As part of the Home's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Home invests cash in excess of daily requirements in various investments held in assets limited as to use and as board designated funds. These funds may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	2022	2021
Subject to Expenditures for Specified Purpose:		
Glasser Fund, Hair Treatments for Residents		
Needing Assistance	\$ 36,608	\$ 36,608
Resident Council	212	288
Sunshine Fund, Special Activities for Residents	23,516	12,821
Longdon Chapel Fund	205,210	228,187
Other Specific Purposes	34,500	34,675
Total	300,046	312,579
Split Interest Agreements	3,502,851	4,368,958
Subject to the Home's Spending Policy and Appropriation:		
Benevolent Fund	788,761	1,074,987
Total Net Assets With Donor Restrictions	\$ 4,591,658	\$ 5,756,524

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or appropriation of approximately \$75,000 and \$84,000 during 2022 and 2021, respectively.

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NOTE 9 ENDOWMENTS

The Home's endowments consist of a board designated operating reserve fund and donor-restricted endowment funds to provide benevolent care to residents in need. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Laws and regulations allow the governing board to appropriate portions of an endowment fund as is prudent considering the following relevant factors: the duration and preservation of the endowment fund, the purposes of the Home and the endowment fund, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, the Home's other resources and investment policy. Under the Home's endowment spending policy, distributions will be permitted to the extent that they do not exceed a level that would erode the endowment's real assets over time.

Changes in endowment net assets and composition by type of fund consist of the following:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning Endowment Net Assets	\$ 3,784,308	\$ 1,074,987	\$ 4,859,295
Contributions			-
Investment Returns:			
Investment Income	72,483	-	72,483
Net Appreciation	(508,517)	(230,897)	(739,414)
Total Investment Return	(436,034)	(230,897)	(666,931)
Appropriation of Endowment	-	55,329	55,329
Ending Net Assets	<u>\$ 3,348,274</u>	<u>\$ 788,761</u>	<u>\$ 4,137,035</u>
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning Endowment Net Assets	\$ 3,613,612	\$ 938,116	\$ 4,551,728
Contributions	-	-	-
Investment Returns:			
Investment Income	74,835	-	74,835
Net Appreciation	95,861	210,044	305,905
Total Investment Return	170,696	210,044	380,740
Appropriation of Endowment	-	73,173	73,173
Ending Net Assets	<u>\$ 3,784,308</u>	<u>\$ 1,074,987</u>	<u>\$ 4,859,295</u>

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NOTE 10 FUNCTIONAL EXPENSES

The classification of functional expenses is as follows at December 31, 2022 and 2021:

	2022			
	Program Services	Management and General	Fundraising	Total
Salaries and Benefits	\$ 6,949,955	\$ 2,293,485	\$ 23,167	\$ 9,266,607
Contract Labor	661	-	-	661
Medical Supplies and Services	919,415	-	-	919,415
Food Supplies and Services	634,920	211,640	-	846,560
Other Supplies and Activities	351,166	429,204	-	780,370
Utilities and Communications	386,582	257,722	-	644,304
Repairs and Maintenance	364,807	547,210	-	912,017
Property and Liability Insurance	-	255,624	-	255,624
Depreciation	1,090,849	727,232	-	1,818,081
Amortization of Contract				
Acquisition Costs	-	8,238	-	8,238
Interest Expense	654,368	376,245	-	1,030,613
Management Fees	-	405,677	-	405,677
Other Operating Expenses	243,090	835,610	8,441	1,087,141
Total Expenses	<u>\$ 11,595,813</u>	<u>\$ 6,347,887</u>	<u>\$ 31,608</u>	<u>\$ 17,975,308</u>
	2021			
	Program Services	Management and General	Fundraising	Total
Salaries and Benefits	\$ 5,777,358	\$ 1,976,498	\$ 25,269	\$ 7,779,125
Contract Labor	595	-	-	595
Medical Supplies and Services	862,332	-	-	862,332
Food Supplies and Services	559,279	186,426	-	745,705
Other Supplies and Activities	505,528	617,867	-	1,123,395
Utilities and Communications	-	591,460	-	591,460
Repairs and Maintenance	306,930	460,395	-	767,325
Property and Liability Insurance	-	241,901	-	241,901
Depreciation	1,031,289	687,526	-	1,718,815
Amortization of Contract				
Acquisition Costs	-	6,246	-	6,246
Interest Expense	619,957	413,305	-	1,033,262
Management Fees	-	514,753	-	514,753
Other Operating Expenses	228,846	909,961	9,078	1,147,885
Total Expenses	<u>\$ 9,892,114</u>	<u>\$ 6,606,338</u>	<u>\$ 34,347</u>	<u>\$ 16,532,799</u>

The financial statements report certain categories of expenses that are attributable to one or more supporting services of the Home. Those expenses are allocated using a ratable portion of the labor hours performed by the management team.

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NOTE 11 RELATED PARTY TRANSACTIONS

The Home is affiliated with the Grand Lodge of North Carolina, A.F. and A.M. (Grand Lodge) and the Grand Chapter of North Carolina, Order of the Eastern Star (Grand Chapter), and the Home's board of directors includes officers of and is elected by the Grand Lodge and the Grand Chapter.

The North Carolina Masonic Foundation, Incorporated (the Masonic Foundation) is a private, charitable foundation established by the Grand Lodge to fund its philanthropic endeavors. The Masonic Foundation is the sole member of the North Carolina Masonic and Eastern Star Home Foundation, LLC (the MESH Foundation LLC), a limited liability company organized for the purpose of providing financial support directly to the Home on behalf of deserving individual members of the Masonic and Eastern Star Fraternity and their qualified relations who reside at or receive services through the Home.

The Home also receives other substantial support from the Grand Chapter and other Masonic bodies, which is summarized as follows:

	<u>2022</u>	<u>2021</u>
Grand Chapter of The Eastern Star of North Carolina	\$ 328,776	\$ 376,546
North Carolina Masonic Foundation	163,088	-
MESH Foundation LLC	855,965	804,099
Other Masonic Bodies	151,414	-

NOTE 12 MANAGEMENT AGREEMENT

The Home has a management agreement with Life Care Services, LLC to manage, operate, and maintain the Home's retirement community. The agreement was effective through September 2021, however, the Home or Life Care Services, LLC can terminate this agreement without cause six months after formal notice is given. The Home agreed to pay Life Care Services, LLC a monthly management fee of \$47,500 and an annual application service provider fee of \$10,000 throughout the term of the contract. In 2020, this agreement was renewed effective September 1, 2021 for an additional five years. The renewal agreement was also updated so that the monthly management fee is 3.8% of revenues of the Home as defined in the agreement.

NOTE 13 RETIREMENT PLAN

The Home and Grand Lodge maintain a defined contribution participant-directed, multiemployer 401(k) plan. The plan covers all employees who are at least 18 years of age with at least six months of service. The Home will make yearly matching contributions determined at its discretion. Contributions were approximately \$229,000 and \$79,000 for the years ended December 31, 2022 and 2021, respectively.

The Home also maintains a multiemployer deferred compensation plan, under Internal Revenue Code Section 457, with the Grand Lodge. No contributions were made to this plan during 2022 or 2021.

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NOTE 14 CONCENTRATIONS OF CREDIT RISK

The Home maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (the FDIC). Deposit accounts, at times, may exceed federally insured limits.

The Home's investments potentially subject it to market risk and concentrations of credit risk. The Home maintains various types of investments that encompass many different companies with varied industry and geographical characteristics designed to limit exposure to any one industry, company or geographical location. However, as most of the Home's investments are traded in public markets, they are subject to general fluctuations in the market's overall performance. The Home retains investment managers who perform periodic evaluations of the relative credit standing of the companies and financial institutions in which the Home invests.

The Home grants credit without collateral to its residents and is insured under third-party payor agreements. The mix of receivables from residents and third-party payors:

	2022	2021
Medicare	66 %	36 %
Medicaid	11	4
Private and Other Insurance	23	60
Total	100 %	100 %

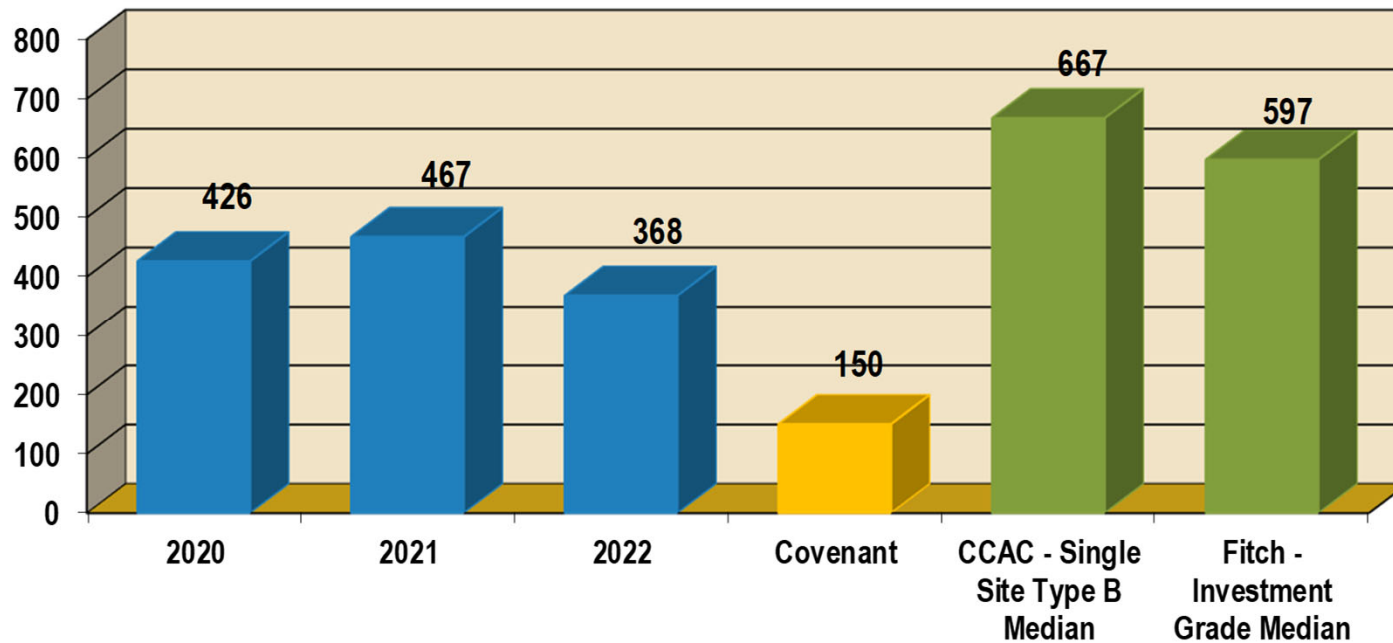


Financial Ratios and Trending



Days Cash on Hand - Covenant (Desired Direction: Up)

The Days Cash on Hand Ratio measures the number of days of cash operating expenses a provider could cover with its unrestricted cash, cash equivalents, and marketable securities on hand.



(a) Median for Type B Contract, Single Site CCAC CCRCs (2021 Benchmark)

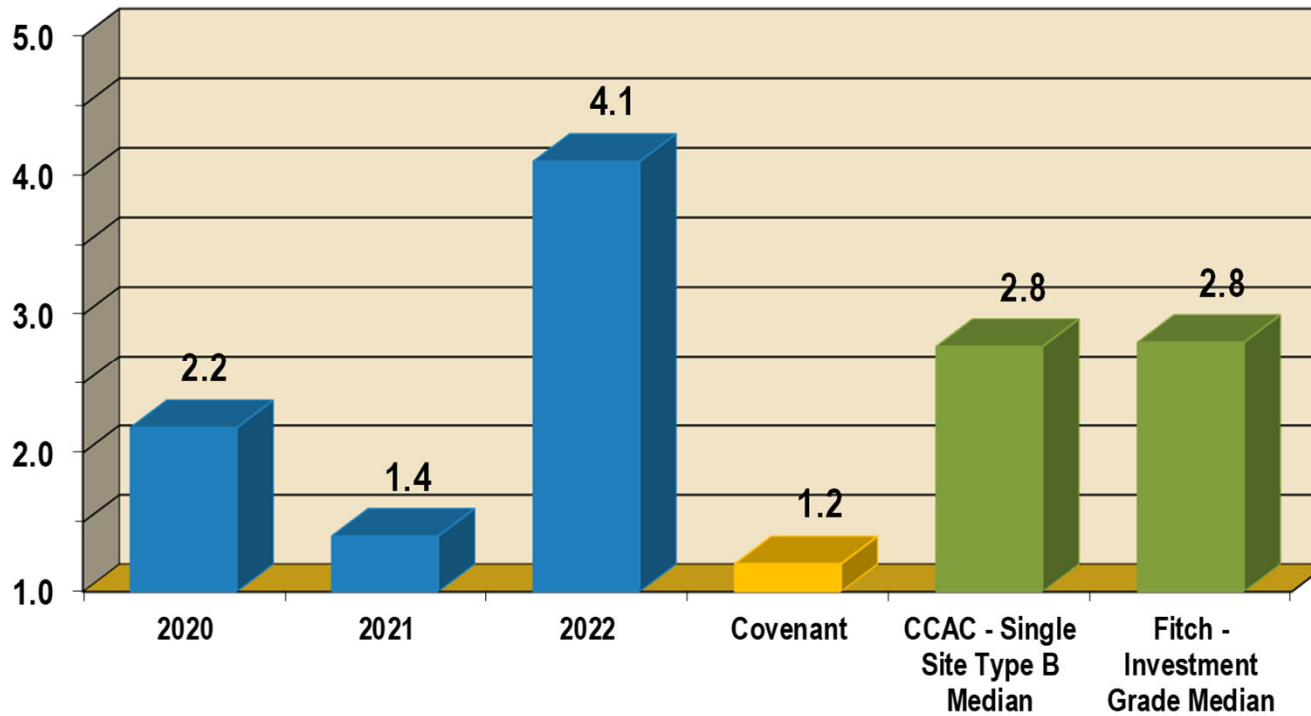
(b) Fitch Data represents data for single-site providers of investment grade bonds (2021 Benchmark)



Long-Term Debt Service Coverage Ratio- Covenant

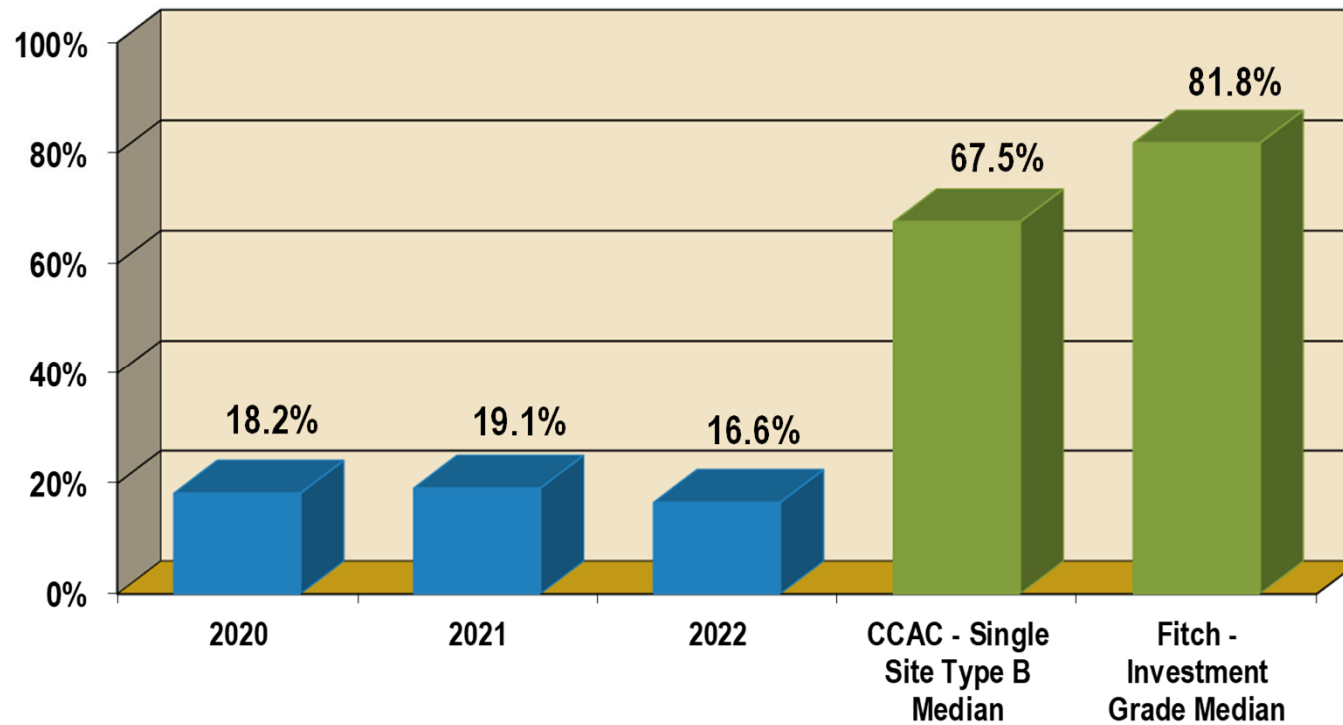
(Desired Direction: Up)

The Long-Term Debt Service Coverage Ratio measures the ability to cover debt service with cash flows from net revenues and net entrance fees received.



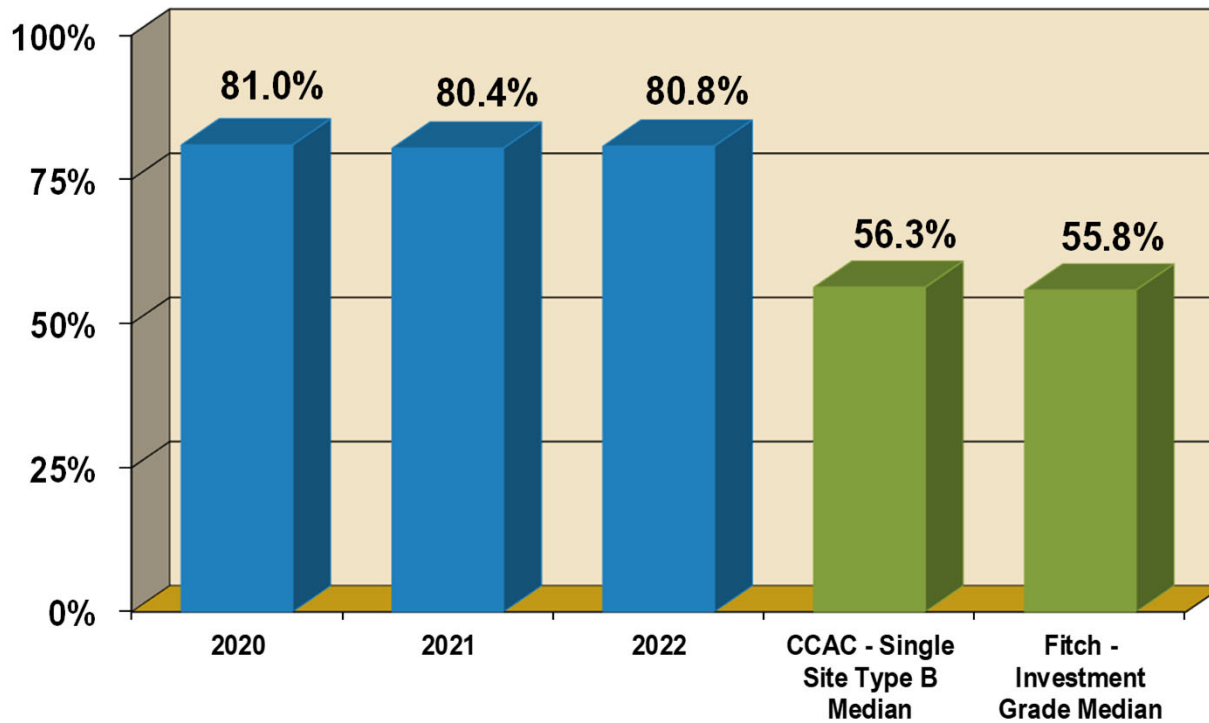
Unrestricted Cash and Investments to Long-Term Debt (Desired Direction: Up)

The Unrestricted Cash and Investments to Long-Term Debt Ratio measures a provider's position in available cash and marketable securities in relation to its long-term debt.



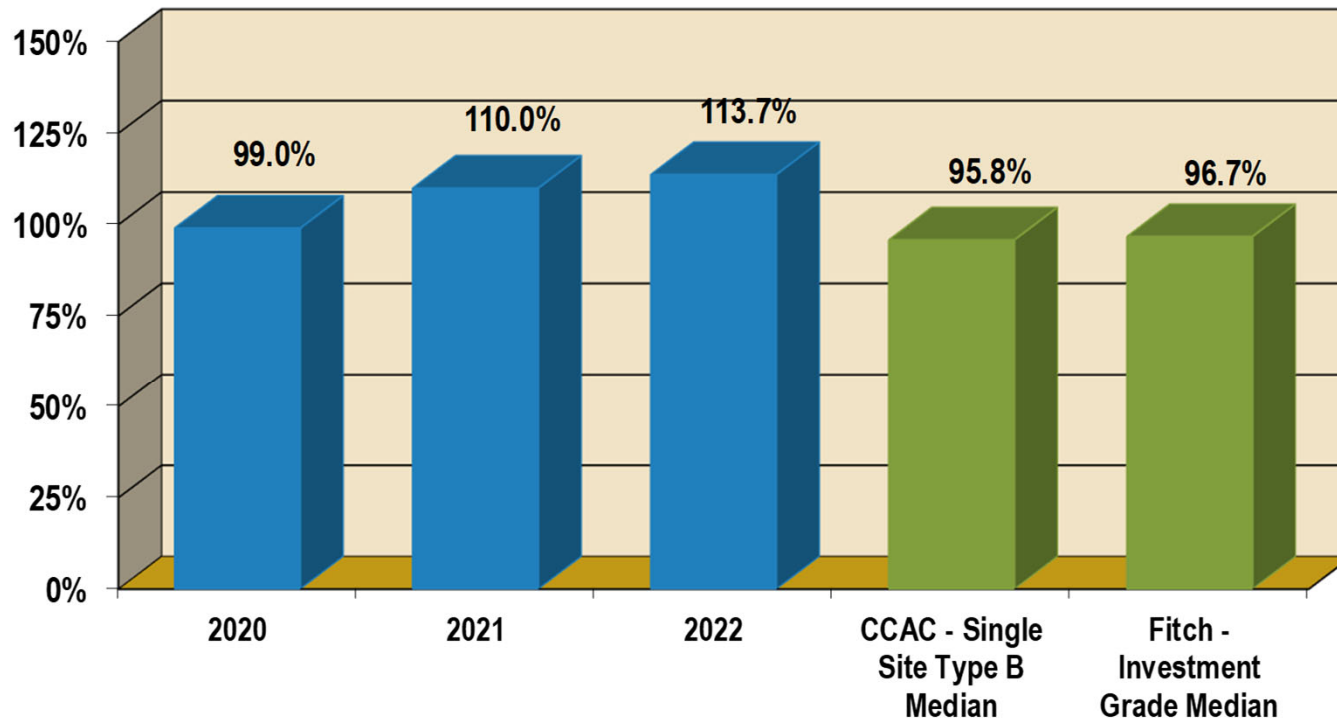
Long-Term Debt as a % of Total Capital – Adjusted (Desired Direction: Down)

The Long-Term Debt as a Percentage of Total Capital – Adjusted Ratio is a measure of the extent to which a provider has relied on debt versus retained earnings, invested or donated capital, and nonrefundable entrance fees.



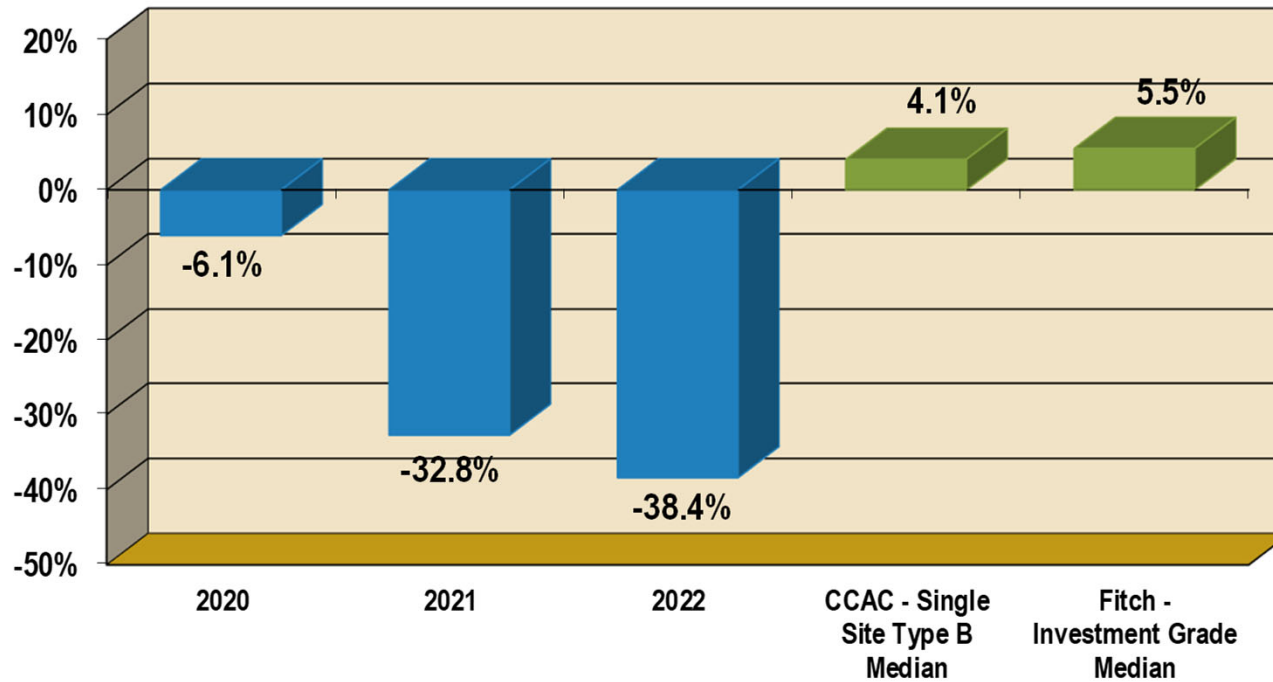
Operating Ratio (Desired Direction: Down)

The Operating Ratio measures whether current year cash operating revenues are sufficient to cover current year cash operating expenses.



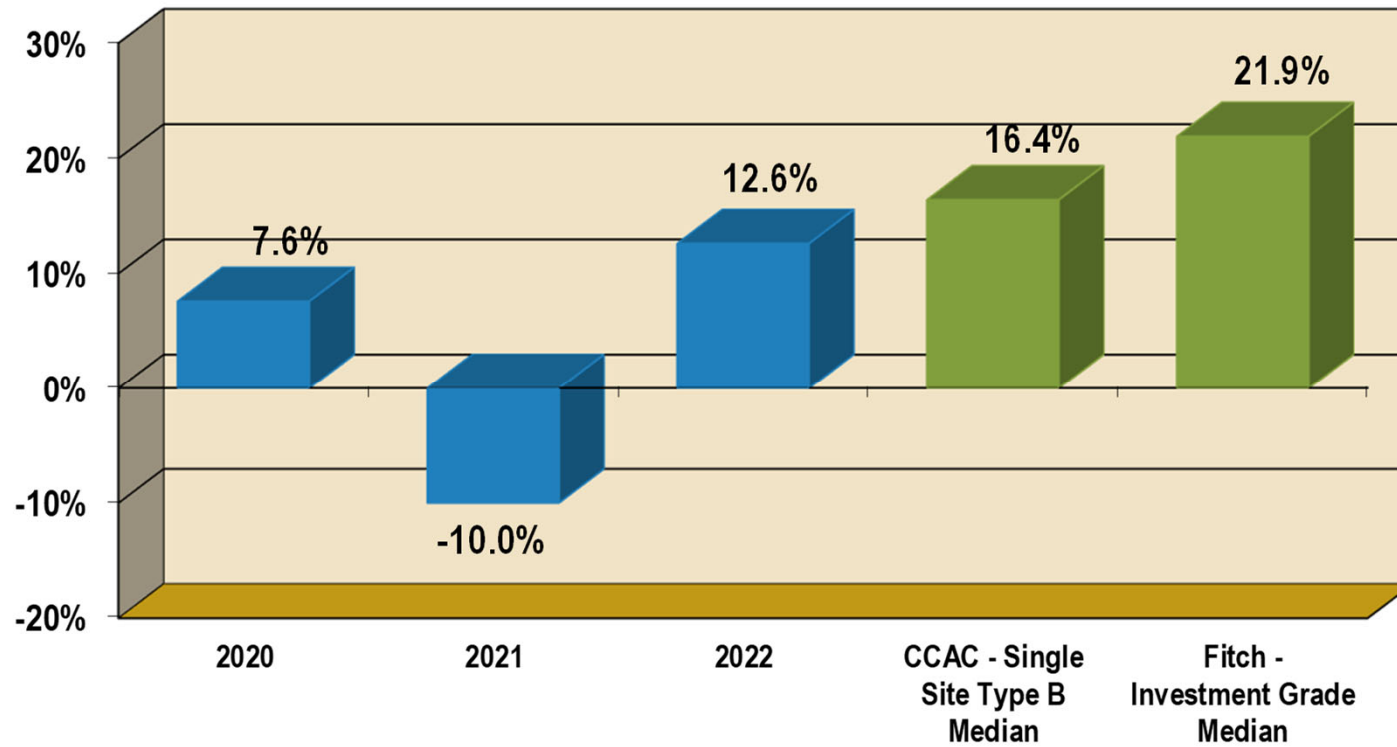
Net Operating Margin Ratio (Desired Direction: Up)

The Net Operating Margin Ratio looks at the core, sustainable business of a CCRC, which is revenues and expenses realized solely in the delivery of services to residents. This ratio provides a benchmark from which providers can determine the margin generated by cash operating revenues after payment of cash operating expenses.



Net Operating Margin Ratio – Adjusted (Desired Direction: Up)

The Net Operating Margin Ratio – Adjusted is the Net Operating Margin Ratio including net entrance fee receipts.





Communication of Internal Control Related Matters

The following is a summary of various items discussed in your 2022 internal control communication.

Area	Comments
Purpose (Required communication)	<ul style="list-style-type: none"> • The purpose of our consideration of internal control was to express an opinion on the financial statements, but not to express an opinion on the effectiveness of the entity’s internal control. • We do not express an opinion on the effectiveness of the entity’s internal control. • Our consideration of internal control was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. • Communication is intended solely for the information and use of management, those charged with governance, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.
Material weaknesses (Required communication)	<ul style="list-style-type: none"> • Definition: A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.
Significant deficiencies (Required communication)	<ul style="list-style-type: none"> • Definition: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material weaknesses (Specific findings)	<ul style="list-style-type: none"> • No items noted
Other Comments	<ul style="list-style-type: none"> • Certain items we communicated to management, but none that are considered significant enough to require written communication to those charged with governance.





Auditor Independence

The following projects were performed or will be performed by CLA for Masonic and Eastern Star Home of North Carolina, Inc. (Whitestone) and are considered to be outside of the scope of our audit of the financial statements for the year ended December 31, 2022. We are providing this information to ensure you agree we have remained independent, both in fact and appearance. CLA does not believe the performance of these projects has impaired our independence to Whitestone. We have remained, and will continue to remain, independent with respect to Whitestone.

- Preparation of the Form 990
- Preparation of cost reports
- Forecast for NC Department of Insurance
- Consulting on various accounting related matters

