
EASTERN STAR HOMES OF CALIFORNIA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017



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To The Board of Trustees
Eastern Star Homes of California
Yorba Linda, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of *Eastern Star Homes of California* which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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, the financial statements referred to above present fairly, in all material respects, the financial position of *Eastern Star Homes of California* as of September 30, 2018 and 2017, and the changes 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.

Mueller Prost LC

January 25, 2019
St. Louis, MO

Certified Public Accountants

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 236,818	\$ 176,139
Receivables	108,952	14,903
Due from affiliated organization	67,245	61,450
Prepaid expenses and other assets	<u>78,558</u>	<u>96,957</u>
Total Current Assets	<u>491,573</u>	<u>349,449</u>
Property and Equipment, Net	<u>6,305,887</u>	<u>6,656,642</u>
Other Long Term Assets	<u>19,622</u>	<u>-</u>
Total Assets	\$ <u>6,817,082</u>	\$ <u>7,006,091</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities		
Accounts payable and accrued expenses	\$ <u>190,729</u>	\$ <u>139,673</u>
Total Current Liabilities	<u>190,729</u>	<u>139,673</u>
Obligation to Provide Future Services	<u>14,535,388</u>	<u>14,211,437</u>
Total Liabilities	<u>14,726,117</u>	<u>14,351,110</u>
Net Assets		
Unrestricted deficit	<u>(7,909,035)</u>	<u>(7,345,019)</u>
Total Liabilities and Net Assets	\$ <u>6,817,082</u>	\$ <u>7,006,091</u>

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF ACTIVITIES
SEPTEMBER 30, 2018 AND 2017

	2018	2017
Support, Revenue and Gains		
Contributions		
Per capita - members of Grand Chapter of California, Order of the Eastern Star	\$ 67,245	\$ 57,808
Resident revenue	693,192	713,397
Donations	42,998	35,722
Grant from Endowment Fund of the Grand Chapter of California, Order of the Eastern Star	2,360,000	2,540,000
Rental income	476,185	357,427
Other miscellaneous revenue	9,124	7,238
Total Support, Revenue and Gains	3,648,744	3,711,592
Expenses		
Program Services		
Elderly care	3,327,812	3,245,017
Support Services		
Management and general	406,633	431,666
Rental property	122,557	166,875
Fundraising	31,807	39,269
Total Expenses	3,888,809	3,882,827
Change in Net Assets Before Obligation to Provide Future Services	(240,065)	(171,235)
Increase (Decrease) in Net Assets from Change in Obligation to Provide Future Services	(323,951)	(88,059)
Change in Net Assets	(564,016)	(259,294)
Net Assets, Beginning of the Year, As Originally Stated	(7,345,019)	(7,294,094)
Prior Period Adjustment - Reduction in Obligation to Provide Future Services	-	208,369
Net Assets, Beginning of the Year, Restated	(7,345,019)	(7,085,725)
Net Assets, End of Year	\$ (7,909,035)	\$ (7,345,019)

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Program Services</u>		<u>Support Services</u>		<u>Fundraising</u>	<u>Total Support Services and Fundraising</u>	<u>Total</u>
	<u>Elderly Care</u>	<u>Management and General</u>	<u>Rental Property</u>	<u>Fundraising</u>			
Compensation and related expenses							
Salaries and wages	\$ 1,326,300	\$ 103,157	\$ 29,473	\$ 14,737	\$ 147,367	\$ 1,473,667	
Employee benefits	176,550	13,732	3,923	1,962	19,617	196,167	
Payroll taxes	105,764	8,226	2,350	1,175	11,751	117,515	
Other employee expenses	32,408	2,521	720	360	3,601	36,009	
Professional and consultant fees	-	43,520	-	-	43,520	43,520	
Administration fee	7,306	72,461	5,182	-	77,643	84,949	
Insurance							
Property and liability	92,385	7,185	2,053	1,026	10,264	102,649	
Workers' compensation	124,574	9,689	2,768	1,384	13,841	138,415	
Occupancy							
Electricity	149,962	13,183	1,648	-	14,831	164,793	
Gas	38,102	4,234	-	-	4,234	42,336	
Water and sewer	41,172	4,575	11,437	-	16,012	57,184	
Depreciation and amortization	293,788	50,778	18,135	-	68,913	362,701	
Minor equipment and other supplies	103,831	5,900	7,079	1,180	14,159	117,990	
Equipment rental and maintenance	4,664	363	104	52	519	5,183	
Telephone	14,735	1,146	327	164	1,637	16,372	
Licenses and taxes	24,435	6,187	21,368	-	27,555	51,990	
Member assistance - outreach	-	-	-	-	-	-	
Resident activities	35,611	-	-	-	-	35,611	
Resident allowances	60,472	-	-	-	-	60,472	
Resident admission expenses	24,990	-	-	-	-	24,990	
Holiday gifts - residents	2,156	-	-	-	-	2,156	
Contract labor	146,996	54,850	15,358	2,194	72,402	219,398	
Board member expenses	205	822	-	-	822	1,027	
Hospitalization / medical supplies	233,141	-	-	-	-	233,141	
Dues and subscriptions	9,948	203	-	-	203	10,151	
Office expense	28,418	2,210	632	316	3,158	31,576	
Food services	232,013	-	-	-	-	232,013	
Other resident services	10,629	-	-	-	-	10,629	
Publications	-	951	-	-	951	951	
Events	7,257	740	-	7,257	7,997	15,254	
Total Expenses	\$ <u>3,327,812</u>	\$ <u>406,633</u>	\$ <u>122,557</u>	\$ <u>31,807</u>	\$ <u>560,997</u>	\$ <u>3,888,809</u>	

The notes to financial statements are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services		Support Services		Fundraising	Total Support Services and Fundraising	Total
	Elderly Care		Management and General	Rental Property	Fundraising		
Compensation and related expenses							
Salaries and wages	\$ 1,361,347	\$	110,008	\$	36,702	\$ 19,096	\$ 1,527,153
Employee benefits	208,819		16,823		4,983	2,920	233,545
Payroll taxes	124,534		10,187		4,920	1,768	141,409
Other employee expenses	40,966		7,754		-	1,237	49,957
Professional and consultant fees	-		32,769		-	-	32,769
Administration fee	7,644		68,473		3,503	-	79,620
Insurance							
Property and liability	91,226		7,372		2,459	1,280	102,337
Workers' compensation	138,614		11,167		3,308	1,939	155,028
Occupancy							
Electricity	145,331		12,672		2,326	-	160,329
Gas	32,940		3,660		-	-	36,600
Water and sewer	30,708		3,513		9,645	-	43,866
Depreciation and amortization	299,215		52,354		18,048	-	369,617
Minor equipment and other supplies	95,495		15,546		34,210	2,793	148,044
Equipment rental and maintenance	3,084		2,524		-	-	5,608
Telephone	11,694		2,924		-	-	14,618
Licenses and taxes	23,146		5,853		21,219	-	50,218
Member assistance - outreach	1,796		-		-	-	1,796
Resident activities	35,827		-		-	-	35,827
Resident allowances	61,059		-		-	-	61,059
Resident admission expenses	4,674		-		-	-	4,674
Holiday gifts - residents	2,840		-		-	-	2,840
Contract labor	99,255		48,431		25,027	1,150	173,863
Board member expenses	2,023		8,089		-	-	10,112
Hospitalization / medical supplies	215,918		-		-	-	215,918
Dues and subscriptions	5,220		5,220		-	-	10,440
Office expense	11,453		3,818		525	-	15,796
Food services	174,183		-		-	-	174,183
Other resident services	7,003		-		-	-	7,003
Publications	1,917		1,918		-	-	3,835
Events	7,086		591		-	7,086	14,763
Total Expenses	\$ 3,245,017	\$	431,666	\$	166,875	\$ 39,269	\$ 3,882,827

The notes to financial statements are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF CASH FLOWS
SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Contributions received	\$ 803,435	\$ 806,927
Grants received from Grand Chapter of California		
Order of the Eastern Star Endowment Fund	2,360,000	2,540,000
Rental income	476,185	357,427
Miscellaneous income received	5,184	7,238
Administrative and operating expenses paid	<u>(3,579,283)</u>	<u>(3,641,712)</u>
Net cash provided by operating activities	<u>65,521</u>	<u>69,880</u>
 Cash Flows from Investing Activities		
Purchases of property and equipment	(8,782)	(5,490)
Proceeds from sale of property and equipment	<u>3,940</u>	<u>-</u>
Net cash used by investing activities	<u>(4,842)</u>	<u>(5,490)</u>
 Net Change in Cash and Cash Equivalents	60,679	64,390
 Cash and Cash Equivalents, Beginning of Year	<u>176,139</u>	<u>111,749</u>
 Cash and Cash Equivalents, End of Year	\$ <u>236,818</u>	\$ <u>176,139</u>
 Reconciliation of Change in Net Deficit to Net Cash Provided by Operating Activities		
Change in net assets	\$ <u>(564,016)</u>	\$ <u>(259,294)</u>
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation and amortization	362,701	369,617
Gain on disposal of asset	(3,940)	-
Decrease in obligation to provide future services	323,951	88,059
Changes in operating assets and liabilities:		
Receivables	(94,049)	(10,513)
Due from/to affiliated organizations, net	(5,795)	(17,507)
Prepaid expenses and other	18,399	4,414
Other long-term assets	(22,786)	-
Accounts payable and accrued expenses	<u>51,056</u>	<u>(104,896)</u>
Net cash provided by operating activities	\$ <u>65,521</u>	\$ <u>69,880</u>

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF OPERATIONS

Eastern Star Homes of California (the "Home") is a California not-for-profit corporation organized in 1930 for the purpose of operating a home, under the name of "Senior Living Community," for the care of aged members of the Order of the Eastern Star and community. The Home also operates a medical office rental facility under the name "Eastern Star Professional Plaza."

The Home is the income beneficiary of the Endowment Fund ("the Endowment Fund") of the Grand Chapter of California Order of the Eastern Star (the "Grand Chapter"). Net investment income is transferred to the Home to the extent that funds are needed for operations. Additional funds as necessary for the maintenance and operation of the Home are transferred from the temporarily restricted portion of the Endowment Fund.

Residents, other than those under fee for service arrangements, are affiliated members of the Grand Chapter, in good standing for at least five years, who are at least sixty-five years of age, as described in the Constitution and Laws. Upon admission to the Home, residents contribute their assets to the Endowment Fund of the Grand Chapter of California, Order of the Eastern Star. Fee for service arrangements are also available for members and nonaffiliated applicants. The Home is committed to maintain their residents, to the extent it is possible and according to its policies, even if they subsequently become unable to pay their monthly charges.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Home have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Home is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets which are described as follows:

Unrestricted – Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted – Net assets whose use by the Home is subject to either explicit donor-imposed stipulations, or by operation of law that can be fulfilled by actions of the Home or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Home and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law.

At September 30, 2018 and 2017, the Home does not have any temporarily or permanently restricted net assets.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and all highly liquid investments with an initial maturity at date of purchase of three months or less.

Concentrations

Financial instruments, which potentially subject the Home to concentrations of credit risk, consist primarily of cash deposits and money market funds at financial institutions. The Home maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

Receivables

Receivables are stated at net realizable amounts. Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. The Home had no bad debt expense for the years ended September 30, 2018 and 2017.

Property and Equipment

Acquisitions of property and equipment are recorded at cost. Donated property is recorded at its estimated fair value at the date of receipt. Currently, there are no donor or legal restrictions on the proceeds from the disposition of donated property. The cost of normal maintenance and repairs and minor replacements are charged to expense when incurred. Major replacements or betterments of properties are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, generally from two to thirty years.

Impairment of Long-Lived Assets

When facts and circumstances indicate that the carrying values of long-lived assets may be impaired, the Home performs an evaluation of recoverability by comparing the carrying values of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. No impairment charges were recorded for the years ended September 30, 2018 and 2017.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated Obligation to Provide Future Services

The Home expects to provide services and the use of facilities to residents, other than those under fee for service arrangements, over their remaining lives. 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 as described in Note 4.

Revenue Recognition - Contributions

Contributions received, including unconditional promises to give, are recorded as revenue in the period received at their fair value. Contributions from residents after admission consist primarily of social security and retirement payments.

For financial reporting purposes, the Home distinguishes between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets. Contributions for which donors have imposed restrictions limiting the use of the donated assets are reported as restricted support. When such donor-imposed restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted net assets. Contributions for which donors have not stipulated restrictions are reported as unrestricted support.

Unconditional promises to give, with payments due in future periods, are reported as restricted support. Gifts of land, buildings and equipment are recorded 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. Absent explicit donor stipulation, the Home reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Donated Goods, Facilities and Services

Donated non-cash assets, such as use of facilities and goods, are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets, or that require specialized skills (which include accounting and legal services), are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received. The Home receives a significant amount of donated services from unpaid volunteers who assist with the different functions of the Home. No donated services have been recognized in the statements of activities because the criteria for recognition was not satisfied.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Fund

Support from the Endowment Fund for the years ended September 30, 2018 and 2017, was \$2,360,000 and \$2,540,000, respectively. At September 30, 2018 and 2017, the Endowment Fund has temporarily restricted net assets of \$17,695,908 and \$17,401,037, respectively, and permanently restricted net assets of \$14,439,715 and \$13,487,946, respectively.

Prior period adjustments for the year ended September 30, 2017 were applied to the Endowment's temporarily restricted and permanently restricted net assets due to recording receivables for donations of assets at year end and beneficial interests in trusts, respectively. As originally stated, the Endowment's temporarily restricted and permanently restricted net assets at September 30, 2017 were \$17,238,871 and 12,683,364, respectively. Increases to the temporarily restricted and permanently restricted net assets were made in the amounts of \$162,166 and \$804,582, respectively, and as restated, the balances at September 30, 2017 are \$17,401,037 and \$13,487,946, respectively.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Home is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the Revenue Taxation Code of California and is a publicly supported organization as described in Section 509(a) of the IRC. The Home has assessed its federal and state tax positions and determined that there were no unrelated business income taxes and no uncertainties or possible related effects that need to be recorded for the year ended September 30, 2018. The returns of the Home for 2017 (when filed), 2016, 2015, and 2014 are subject to examination by the respective taxing authorities generally for three years after they were filed.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which is effective for fiscal years beginning after December 15, 2018 for entities other than public business entities and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts and customers. ASU 2014-09 supersedes most current revenue recognition guidance, including industry-specific guidance, and outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and reward. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time, and ensuring the time value of money is considered in the transaction price. ASU 2014-09 can be applied either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption. Management is currently evaluating the impact of adopting ASU 2014-09 on the Home's financial statements and related disclosures.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, Leases: Amendments to the FASB Accounting Standards Codification, which amends the existing guidance on accounting for leases, and is effective for fiscal years beginning after December 15, 2019 for entities other than public business entities. This ASU requires the recognition of lease assets and liabilities on the statement of financial position and the disclosure of key information about leasing arrangements. Early adoption is permitted and modified retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements. Management is currently evaluating the impact of adopting ASU 2016-02 on the Home's financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which makes several changes to the current reporting model for nonprofit entities, including the number of net asset classifications, the classification and disclosure of underwater endowments, functional expense disclosures, and other changes. The standard is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. Management is currently evaluating the impact of adopting ASU 2016-14 on the Home's financial statements and related disclosures.

NOTE 3 PROPERTY AND EQUIPMENT

At September 30, 2018 and 2017, property and equipment consists of the following:

	2018	2017
Land	\$ 2,738,904	\$ 2,738,904
Buildings	8,422,881	8,422,882
Building improvements	1,598,586	1,589,803
Furniture, fixtures and equipment	396,907	530,243
Fixture & fixture improvements	133,336	-
Automobiles	168,443	189,195
Computer equipment and software	64,261	64,261
	13,523,318	13,535,288
Less accumulated depreciation	(7,217,431)	(6,878,646)
	\$ 6,305,887	\$ 6,656,642

The Home's property also includes office facilities that are leased to the Grand Chapter and various other medical offices (Note 8).

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 4 OBLIGATION TO PROVIDE FUTURE SERVICES

Certain applicants for admission to the Home are required to make a contribution of their personal assets to the Endowment Fund of the Grand Chapter. In exchange for this contribution, the Home agrees to care for the residents for the remainder of their lives. This does not apply to residents under a fee for service arrangement. The Home has recorded a liability for its obligation to provide care for the residents for the remainder of their lives. The obligation is calculated by estimating the cost of providing care and the use of the facilities over the remaining lives of the residents less estimated cash revenue before any realized gains from the Endowment Fund or proceeds on future property sales. The excess of projected expenses over revenue has been estimated to increase at 2.15% and 2.01% annually (representing inflation) as of September 30, 2018 and 2017, respectively, and is based on actual historical expenses and revenue related to the resident care facility. The resulting liability has been discounted by 5% to reflect net present value. This liability reflected in the accompanying statements of financial position amounted to \$14,535,388 and \$14,211,437 at September 30, 2018 and 2017, respectively. The change in obligation from year to year is shown on the statements of activities. Management estimates that the cost to provide future care for existing residents at a replacement facility providing a similar continuum of care in the local area to range from \$11,406,529 to \$15,124,176 at September 30, 2018 based on actual reported expenses at such replacement facilities over estimated revenues increasing at 2.15% annually for inflation and discounted by 5% to reflect net present value.

The Home is licensed to operate a seventy-six bed continuing care home, and at September 30, 2018 and 2017, the Home had 42 and 37 residents, respectively. Any shortfall in future operating cash flow is obligated to be met by the Endowment Fund of the Grand Chapter (Note 2).

NOTE 5 CASH RESERVES

The Grand Chapter's Constitution and Laws require that the operating cash balance of the Home is to be limited to \$250,000 plus appropriations. Excess amounts are to be transferred to the unrestricted Endowment Fund for the future use of the Home, to be maintained by the Grand Chapter. Any shortfall in future operating cash flow is obligated to be met by the Endowment Fund. At September 30, 2018 and 2017, the Home had operating cash balances of \$236,818 and \$176,139, respectively.

NOTE 6 RELATED PARTY TRANSACTIONS

The Home incurred \$84,949 and \$79,620 in administrative expense charges during the years ended September 30, 2018 and 2017, respectively, for services provided by the Grand Chapter. The Home also leases office space to the Grand Chapter (Note 8). For the years ended September 30, 2018 and 2017, the Home earned \$15,931 and \$18,450, respectively, of rental income from the Grand Chapter. At September 30, 2018 and 2017, \$60,671 and \$61,450 was due from the Grand Chapter, respectively. At September 30, 2018 and 2017, \$8,151 and \$0 was due to the Endowment Fund, respectively.

The Home had an existing business relationship with an insurance company owned by an officer of the organization. For the years ended September 30, 2018 and 2017 the Home paid \$21,366 and \$21,315, respectively, to the insurance company. For the years ended September 30, 2018 and 2017, there were no amounts due to the insurance company.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 7 CONTINUING CARE RESERVE REQUIREMENTS

The State of California Health and Safety Code requires continuing care retirement communities to report on the adequacy of certain reserve requirements. The Home's required statutory reserve at September 30, 2018 and 2017 was \$682,733 and \$701,217, respectively. The Home reported a surplus of qualifying assets over the required reserve amount of \$17,249,993 and \$16,713,794 at September 30, 2018 and 2017 respectively, which includes temporarily restricted net assets held in the Endowment Fund of the Grand Chapter for the benefit of the Home.

NOTE 8 OPERATING LEASES – RENTAL INCOME

The Home leases various medical offices to non-related parties under operating leases expiring through July 2025. At September 30, 2018 and 2017, property and equipment held for leasing consisted of the following:

	2018	2017
Buildings	\$ 458,187	\$ 458,187
Building improvements	303,779	303,779
Furniture, fixtures and equipment	13,232	13,232
	775,198	775,198
Less accumulated depreciation	(526,532)	(495,555)
	<u>\$ 248,666</u>	<u>\$ 279,643</u>

The future minimum lease payments to be received under the non-cancelable leases are as follows:

	Related Party	Non-related Parties	Total
<u>Year Ending September 30,</u>			
2019	\$ 15,188	\$ 271,141	\$ 286,329
2020	15,415	253,699	269,114
2021	15,647	203,918	219,565
2022	15,881	131,979	147,860
2023	2,653	58,014	60,667
Thereafter	-	62,799	62,799
	<u>\$ 64,784</u>	<u>\$ 981,550</u>	<u>\$ 1,046,334</u>

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 9 COMMITMENTS AND CONTINGENCIES

Health Care

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for resident services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Litigation

The Home may be subject to asserted and unasserted claims encountered in the normal course of business. The Home's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Home or unasserted claims that may result in such proceedings, the Home's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. In the opinion of management, disposition of these matters will not have a material effect on the Home's financial condition or results of operation.

Professional Liability Coverage

The Home is insured for professional liability under an occurrence policy for a combined occurrence and maximum annual aggregate of \$3,000,000.

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk Management

The Home has obtained workers' compensation insurance through a private insurer. Worker's Compensation expense through coverage by this entity was \$138,415 and \$155,028 for the years ended September 30, 2018 and 2017, respectively.

Affordable Care Act

The Patient Protection and Affordable Care Act and the Health Care and Education Tax Credits Reconciliation Act of 2010 is currently in force. Together, these two acts affect the health care system and impact payments received by health care providers. Under the new Administration, action has been taken to start repealing the Affordable Care Act. The overall impact of these actions to the Home is not presently determinable.

NOTE 10 RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements and related disclosures as of and for the year ended September 30, 2017 to conform to the year ended September 30, 2018 presentation.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 11 PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2018, the Home determined that fee for service residents should not have been included in prior calculations of the obligation to provide future services liability. As such, due to the reduction of the liability at September 30, 2016, the opening balance of unrestricted net assets for the year ended September 30, 2017 was increased by \$208,369.

See Note 2 for prior period adjustments to the Endowment net assets at September 31, 2017, that are for the benefit of the Home.

NOTE 12 SUBSEQUENT EVENTS

Subsequent events have been evaluated by the Home through the date of the auditor's report which is the date the financial statements were available to be issued.