
CALIFORNIA EASTERN STAR FOUNDATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018



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To the Audit Committee and Board of Trustees
California Eastern Star Foundation
Yorba Linda, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of *California Eastern Star Foundation (a nonprofit organization)*, which comprise the statements of financial position as of September 30, 2019 and 2018 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.

Auditors' 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 *California Eastern Star Foundation* as of September 30, 2019 and 2018, 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.

February 5, 2020
St. Louis, Missouri

Mueller Prost LC
Certified Public Accountants

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CALIFORNIA EASTERN STAR FOUNDATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

| <u>ASSETS</u> | <u>2019</u> | <u>2018</u> |
|-----------------------------------|----------------------------|----------------------------|
| Cash | \$ 127,177 | \$ 103,495 |
| Prepaid expenses | - | 107 |
| Due from affiliate | - | 6,402 |
| Investments | <u>9,622,716</u> | <u>9,253,589</u> |
| Total Assets | \$ <u>9,749,893</u> | \$ <u>9,363,593</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Accounts payable | \$ - | \$ 1,621 |
| Due to affiliate | 14 | - |
| Grants payable | <u>31,659</u> | <u>36,382</u> |
| Total Liabilities | <u>31,673</u> | <u>38,003</u> |
| Net assets | | |
| Without donor restrictions | 23,707 | 24,221 |
| With donor restrictions | <u>9,694,513</u> | <u>9,301,369</u> |
| Total Net Assets | <u>9,718,220</u> | <u>9,325,590</u> |
| Total Liabilities and Net Assets | \$ <u>9,749,893</u> | \$ <u>9,363,593</u> |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|---|--|--------------|
| Support and Revenue | | | |
| Contributions | | | |
| Donations | \$ 24,595 | \$ 168,296 | \$ 192,891 |
| Member dues | - | 6,935 | 6,935 |
| Investment income, net | 697 | 441,678 | 442,375 |
| Subtotal - Support and Revenue | 25,292 | 616,909 | 642,201 |
| Net assets released from restrictions | 223,765 | (223,765) | - |
| Total Support and Revenue | 249,057 | 393,144 | 642,201 |
| Expenses | | | |
| Program services | | | |
| Member assistance | 147,833 | - | 147,833 |
| Humanitarian assistance | 69,137 | - | 69,137 |
| Support services | | | |
| Management and general | 31,650 | - | 31,650 |
| Fundraising | 951 | - | 951 |
| Total Expenses | 249,571 | - | 249,571 |
| Change in Net Assets | (514) | 393,144 | 392,630 |
| Net Assets, Beginning of Year | 24,221 | 9,301,369 | 9,325,590 |
| Net Assets, End of Year | \$ 23,707 | \$ 9,694,513 | \$ 9,718,220 |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------|---|--|---------------------|
| Support and Revenue | | | |
| Contributions | | | |
| Donations | \$ 758 | \$ 77,382 | \$ 78,140 |
| Members dues | - | 7,397 | 7,397 |
| Investment income, net | <u>1,766</u> | <u>490,846</u> | <u>492,612</u> |
| Subtotal - Support and Revenue | <u>2,524</u> | <u>575,625</u> | <u>578,149</u> |
| Net assets released from restrictions | <u>250,769</u> | <u>(250,769)</u> | <u>-</u> |
| Total Support and Revenue | <u>253,293</u> | <u>324,856</u> | <u>578,149</u> |
| Expenses | | | |
| Program services | | | |
| Member assistance | 175,623 | - | 175,623 |
| Humanitarian assistance | 45,197 | - | 45,197 |
| Support services | | | |
| Management and general | 32,196 | - | 32,196 |
| Fundraising | <u>576</u> | <u>-</u> | <u>576</u> |
| Total Expenses | <u>253,592</u> | <u>-</u> | <u>253,592</u> |
| Change in Net Assets | (299) | 324,856 | 324,557 |
| Net Assets, Beginning of Year | <u>24,520</u> | <u>8,976,513</u> | <u>9,001,033</u> |
| Net Assets, End of Year | <u>\$ 24,221</u> | <u>\$ 9,301,369</u> | <u>\$ 9,325,590</u> |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

| | Program Services | | | Support Services | | |
|------------------------------|-------------------|-------------------------|------------------------|------------------------|---------------|-------------------|
| | Member Assistance | Humanitarian Assistance | Total Program Services | Management and General | Fundraising | Total |
| Administration fees | \$ 3,276 | \$ 172 | \$ 3,448 | \$ 13,795 | \$ - | \$ 17,243 |
| Assistance to members | 73,555 | 872 | 74,427 | - | - | 74,427 |
| Fundraising Committee | 252 | - | 252 | - | 951 | 951 |
| Professional and consulting | - | - | - | 16,785 | - | 16,785 |
| Grants, awards and donations | 70,750 | 68,093 | 138,843 | - | - | 138,843 |
| Office expenses | - | - | - | 1,070 | - | 1,070 |
| Total Expenses | \$ 147,833 | \$ 69,137 | \$ 216,970 | \$ 31,650 | \$ 951 | \$ 249,571 |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | Program Services | | | Support Services | | |
|------------------------------|-------------------|-------------------------|------------------------|------------------------|---------------|-------------------|
| | Member Assistance | Humanitarian Assistance | Total Program Services | Management and General | Fundraising | Total |
| Administration fees | \$ 4,151 | \$ 218 | \$ 4,369 | \$ 17,478 | \$ - | \$ 21,847 |
| Assistance to members | 104,047 | 2,131 | 106,178 | - | - | 106,178 |
| Fundraising Committee | 725 | - | 725 | - | 576 | 725 |
| Professional and consulting | - | - | - | 13,110 | - | 13,110 |
| Grants, awards and donations | 66,700 | 42,848 | 109,548 | - | - | 109,548 |
| Office expenses | - | - | - | 910 | - | 910 |
| Miscellaneous expenses | - | - | - | 698 | - | 698 |
| Total Expenses | \$ 175,623 | \$ 45,197 | \$ 220,820 | \$ 32,196 | \$ 576 | \$ 253,592 |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 392,630 | \$ 324,557 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Realized and unrealized gains on investments | (189,818) | (297,045) |
| Changes in operating assets and liabilities | | |
| Prepaid expenses | 107 | (107) |
| Due from/to affiliate | 6,416 | 1,780 |
| Accounts payable | (1,621) | 1,621 |
| Grants payable | (4,723) | (76,457) |
| Net Cash Provided (Used) by Operating Activities | <u>202,991</u> | <u>(45,651)</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | 956,416 | 689,975 |
| Purchase of investments | <u>(1,135,725)</u> | <u>(610,542)</u> |
| Net Cash Provided (Used) by Investing Activities | <u>(179,309)</u> | <u>79,433</u> |
| Net Change in Cash | 23,682 | 33,782 |
| Cash, Beginning of Year | <u>103,495</u> | <u>69,713</u> |
| Cash, End of Year | \$ <u>127,177</u> | \$ <u>103,495</u> |

The notes are an integral part of these financial statements.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF OPERATIONS

California Eastern Star Foundation (the "Foundation") is a California not-for-profit corporation organized to receive gifts, bequests and contributions for the furtherance of educational, charitable and scientific purposes. The Foundation was organized in 1996 at the direction of the members of the Grand Chapter of California, Order of the Eastern Star (the "Grand Chapter") and operated in accordance with the Grand Chapter constitution and laws.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation of Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. Restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. See Note 8 for disclosures of donor restrictions that are perpetual in nature.

Concentrations

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

The Foundation's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Foundation's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Investments

Investments are reported at their fair value in the statements of financial position. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest and dividend earnings, changes in fair value and any gains or losses realized upon liquidation, maturity or sale of investments, net of any investment fees.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded at the ex-dividend date.

Revenue Recognition

Contributions

Contributions received, including unconditional promises to give, are recorded as revenue in the period received at their fair value.

For financial reporting purposes, the Foundation distinguishes between contributions with donor restrictions and without donor restrictions. Contributions for which donors have imposed restrictions limiting the use of the donated assets are reported as support and revenue with donor restrictions on the statements of activities. When such donor-imposed restrictions are met, net assets with donor restrictions are transferred to net assets without donor restrictions and reported as net assets released from restrictions on the statements of activities. Contributions of assets which donors have stipulated must be maintained in perpetuity, with only the income earned thereon available for current use, are also classified as net assets with donor restrictions. See Note 8 for disclosures regarding the endowment. Contributions for which donors have not stipulated restrictions are reported as net assets without donor restrictions.

Unconditional promises to give, with payments due in future periods, are reported as support and revenue with donor restrictions on the statements of activities. 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 Foundation 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, are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Foundation receives a significant amount of donated services from unpaid volunteers who assist with the different functions of the Foundation. No donated services have been recognized in the statements of activities because the criteria for recognition was not satisfied.

Functional Allocation of Expenses

Expenses are charged to program and support services on the basis of actual use or estimated use, if actual use is not readily determinable. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

The Foundation has two funds for program services which are designated for assisting either members or other humanitarian efforts. The costs of providing program and support services (management and general, and fundraising) have been summarized on a functional basis. Accordingly, certain costs have been allocated among program services and support services benefited. The Foundation's Board of Trustees ("Board") approves the expense allocation methodology which was based primarily on the invested balances of each fund during the years ended September 30, 2019 and 2018, respectively.

The expenses that are allocated include:

- Assistance to members; fundraising expenses; committee expenses; professional and consulting expenses; grants, awards and donations; office expenses; and miscellaneous expenses are allocated based upon benefit received or provided; and
- Administration fees are allocated using a methodology approved by the Board which allocates 20% of the expense to program services and the other 80% to management and general within support services, since the bulk of these fees are related to bookkeeping, budgeting, and other financial and business-related activities.

Income Taxes

The Foundation is a not-for-profit Foundation 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 Foundation as described in Section 509(a) of the IRC.

The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. Management has determined that the Foundation is not subject to unrelated business income tax and, therefore, has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the Internal Revenue Service. The Foundation has no unrecognized tax liabilities or benefits recorded or unrecorded at September 30, 2019 and 2018.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant Expenditures

Grant expenditures are recognized in the period the grant is made, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at present value of expected future payments.

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.

Adoption of Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) is the sole source of authoritative non-governmental U.S. GAAP.

In August 2016, the FASB issued Accounting Standards Update (“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 Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. Note 3 – Liquidity and Availability has been presented for the year ended September 30, 2019 and the statement of functional expenses has been presented for the years ended September 30, 2019 and 2018.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 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 Foundation’s financial statements.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments, in addition to certain disclosure requirements. This guidance is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Foundation is currently evaluating the impact that this guidance will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to address questions stemming from ASU 2014-09, *Revenue from Contracts with Customers*, regarding its implications on the grants and contracts of not-for-profit organizations. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. For nonreciprocal transactions (contributions), the next point to consider for both parties is whether conditions have been placed on the resources provided. The presence of conditions affects the timing of revenue and expense recognition by the resource recipient and resource provider, respectively. The Foundation is currently evaluating the impact that this guidance will have on its financial statements.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, as well as reductions for donor restrictions and Board-approved expenditures, within one year of the statement of financial position as of September 30, 2019, comprise the following:

| | |
|---|-------------------------|
| Cash and Cash Equivalents | \$ 127,177 |
| Investments | <u>9,622,716</u> |
| Total Financial Assets | 9,749,893 |
| Less: Purpose Restricted Net Assets | (8,642,259) |
| Less: Perpetually Restricted Net Assets | <u>(1,052,254)</u> |
| Total Net Assets with Donor Restrictions | (9,694,513) |
| Financial Assets Available to Meet General Expenditures Over the Next Twelve Months | <u>\$ 55,380</u> |

The Foundation, as part of its liquidity plan, puts its excess cash into the money market and utilizes a bank sweep program that automatically transfers amounts that exceed, or fall short of, a certain level into a higher interest-earning investment option at the close of each business day. The Foundation's operating revenue covers its ongoing, operating expenditures and it is expected to be available to meet cash needs.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS

At September 30, 2019 and 2018, investments consist of the following:

| | <u>2019</u> | <u>2018</u> |
|-----------------------|----------------------------|----------------------------|
| Deposit accounts | \$ 60,897 | \$ 132,956 |
| Money market funds | 185,622 | 201,569 |
| Mutual funds | 299,427 | 563,577 |
| Exchange traded funds | <u>9,076,770</u> | <u>8,355,487</u> |
| Total | <u>\$ 9,622,716</u> | <u>\$ 9,253,589</u> |

Investment income for the years ended September 30, 2019 and 2018 was as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|--------------------------|--------------------------|
| Interest and dividends | \$ 264,502 | \$ 207,424 |
| Realized and unrealized gains | 189,817 | 297,044 |
| Investment fees | <u>(11,944)</u> | <u>(11,856)</u> |
| Total | <u>\$ 442,375</u> | <u>\$ 492,612</u> |

The Foundation's Board of Trustees and the Grand Chapter's Finance Committee have the sole discretion as to the investment and reinvestment of the Foundation's assets (other than beneficial interests in trusts, which are invested according to the respective trustees). The Committee must invest the Foundation's assets, exclusive of tangible property and revolving funds, as provided in guidelines established by the Grand Chapter's Constitution and Laws. The referenced guidelines are as follows:

- A. Not less than 20% of the assets subject to investment under these guidelines, as valued at the time of deposit or purchase (and disregarding any automatic reinvestments of income or gains), must be invested in Tier 1 and Tier 2 investments.

Tier 1 (Cash Reserves): The lesser of 8% of the assets subject to investment under these guidelines or two times the average annual expenditures over the prior three full calendar years must be invested in:

- i. Cash or cash equivalents,
- ii. Money market funds or accounts,
- iii. Checking accounts or savings accounts of depository institutions to the extent fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund,
- iv. Certificates of Deposit with maturities of less than two years to the extent fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund,
- v. Obligations of the United States Government or obligations whose payment is pledged by the full faith and credit of the United States Government with maturities of less than three years, or
- vi. Investment companies or investment trusts that invest in the above referenced financial instruments;

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS (CONTINUED)

Tier 2 (Fixed Income): The balance of the 20% investment minimum under paragraph A may be invested in:

- i. Cash or cash equivalents,
- ii. Money market funds or accounts,
- iii. Checking accounts or savings accounts of depository institutions to the extent fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund,
- iv. Certificates of Deposit without regard to maturities to the extent fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund,
- v. Obligations of the United States Government or obligations whose payment is pledged by the full faith and credit of the United States Government without regard to maturities,
- vi. Corporate notes and bonds that are at least investment grade and are fully registered with the Securities and Exchange Commission and whose issuers have a market capitalization of at least \$500 million,
- vii. Mortgage-Backed Securities,
- viii. Commercial Paper that is at least investment grade,
- ix. Banker's Acceptances,
- x. Investment companies or investment trusts that invest in the above referenced financial instruments, or
- xi. Such other prudent and appropriate investments as may be approved from time to time by the Worthy Grand Matron after consultation with the Finance Committee.

B. Tier 3 (Growth Assets): No more than 80% of the assets subject to investment under these guidelines, as valued at the time of deposit or purchase (and disregarding any automatic reinvestments of income or gains), may be invested in:

- i. Common stocks which must be fully registered with the Securities and Exchange Commission and whose issuers have a market capitalization of at least \$500 million;
- ii. Preferred stocks;
- iii. Master Limited Partnerships;
- iv. Convertible Notes and Bonds;
- v. Convertible Preferred Stocks;
- vi. ADRs (American Depositary Receipts) of non-U.S. companies;
- vii. Publicly traded REITs (Real Estate Investment Trusts);
- viii. Investment companies or investment trusts that invest in the above referenced financial instruments; or
- ix. Such other prudent and appropriate investments as may be approved from time to time by the Worthy Grand Matron after consultation with the Finance Committee.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 5 FAIR VALUE MEASUREMENTS

The Foundation values its financial assets and liabilities at the fair market value defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below.

Level I: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level I inputs.

Level II: Observable inputs other than Level I prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level III: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level III inputs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Fair values of investments measured on a recurring basis at September 30, 2019, are as follows:

| | <u>Level I</u> | <u>Level II</u> | <u>Level III</u> | <u>Total</u> |
|---------------------------|---------------------------|--------------------|--------------------|----------------------------|
| Deposit accounts | \$ 60,897 | \$ - | \$ - | \$ 60,897 |
| Money market mutual funds | 185,622 | - | - | 185,622 |
| Mutual funds | 299,427 | - | - | 299,427 |
| Exchange traded funds | <u>9,076,770</u> | <u>-</u> | <u>-</u> | <u>9,076,770</u> |
| Total | <u>\$9,622,716</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,622,716</u> |

Fair values of investments measured on a recurring basis at September 30, 2018, are as follows:

| | <u>Level I</u> | <u>Level II</u> | <u>Level III</u> | <u>Total</u> |
|---------------------------|---------------------------|--------------------|--------------------|----------------------------|
| Deposit accounts | \$ 132,956 | \$ - | \$ - | \$ 132,956 |
| Money market mutual funds | 201,569 | - | - | 201,569 |
| Mutual funds | 563,577 | - | - | 563,577 |
| Exchange traded funds | <u>8,355,487</u> | <u>-</u> | <u>-</u> | <u>8,355,487</u> |
| Total | <u>\$9,253,589</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,253,589</u> |

Valuations of mutual funds and exchange traded funds are obtained from real-time quotes for transactions in active exchange markets involving identical assets. For the years ended September 30, 2019 and 2018, there have been no changes in the valuation methodologies.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 6 RELATED PARTY TRANSACTIONS

The Foundation incurred expenses for administrative services of \$17,243 and \$21,847 from the Grand Chapter for the years ended September 30, 2019 and 2018, respectively. At September 30, 2019 and 2018, \$14 was due to and \$6,402 was due from the Grand Chapter, respectively.

NOTE 7 NET ASSETS

Net assets with are comprised of the following at September 30, 2019:

| | <u>With Donor Restrictions</u> | | | <u>Total</u> |
|--|---------------------------------------|--|-----------------------------------|---------------------|
| | <u>Without Donor Restrictions</u> | <u>Restricted for Specific Purpose</u> | <u>Perpetually Restricted</u> | |
| Unrestricted | \$ 23,707 | \$ - | \$ - | \$ 23,707 |
| Benevolent fund | - | 556,951 | - | 556,951 |
| J. Clifford Lee Memorial Cancer fund | - | 6,137,464 | - | 6,137,464 |
| Marquerite Rennie Memorial fund * | - | 861,965 | 615,274 | 1,477,239 |
| Scholarship fund * | - | 545,608 | 270,980 | 816,588 |
| Eastern Star Patient Comfort Program fund | - | 314,264 | - | 314,264 |
| Gerald P. Cashion fund * | - | 48,263 | 166,000 | 214,263 |
| Disaster fund | - | 84,436 | - | 84,436 |
| Nirk fund | - | 93,308 | - | 93,308 |
| Total | <u>\$ 23,707</u> | <u>\$ 8,642,259</u> | <u>\$ 1,052,254</u> | <u>\$ 9,718,220</u> |

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 NET ASSETS (CONTINUED)

Net assets are comprised of the following at September 30, 2018:

| | With Donor Restrictions | | | Total |
|--|-------------------------------|------------------------------------|---------------------------|---------------------|
| | Without Donor Restrictions | Restricted for Specific Purpose | Perpetually Restricted | |
| Unrestricted | \$ 24,221 | \$ - | \$ - | \$ 24,221 |
| Benevolent fund | - | 531,886 | - | 531,886 |
| J. Clifford Lee Memorial Cancer fund | - | 5,888,906 | - | 5,888,906 |
| Marquerite Rennie Memorial fund * | - | 822,184 | 615,274 | 1,437,458 |
| Scholarship fund * | - | 519,512 | 270,980 | 790,492 |
| Eastern Star Patient Comfort Program fund | - | 300,619 | - | 300,619 |
| Gerald P. Cashion fund * | - | 41,027 | 166,000 | 207,027 |
| Disaster fund | - | 53,406 | - | 53,406 |
| Nirk fund | - | 91,575 | - | 91,575 |
| Total | \$ 24,221 | \$ 8,249,115 | \$1,052,254 | \$ 9,325,590 |

*See Note 8 for endowment disclosures.

NOTE 8 ENDOWMENTS

The Foundation's Endowments include funds that are donor-restricted in perpetuity. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Foundation has interpreted the State of California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies these assets as perpetually restricted within net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment fund that is not classified as perpetually restricted is classified as restricted for a specific purpose within net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Grand Chapter considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds, (2) the purposes of the Grand Chapter and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Grand Chapter and (7) the Foundation's investment policies.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 8 ENDOWMENTS (CONTINUED)

Investment Return Objectives, Risk Parameters and Strategies. The Foundation's Board of Directors and the Grand Chapter's Finance Committee have the sole discretion as to the investment and reinvestment of the assets of the fund based on the guidelines described in Note 4.

The primary investment objective of these accounts is capital preservation. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Foundation has a policy of appropriating for distribution each year up to 7% of its endowment fund's average fair value of the prior three years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets; the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions; and the possible effects of inflation.

Endowment net assets with donor restrictions broken out by type of restriction as of September 30, 2019, were as follows:

| | <u>Restricted for Specific Purpose</u> | <u>Perpetually Restricted</u> | <u>Total</u> |
|-----------------|--|-----------------------------------|---------------------------|
| Endowment funds | <u>\$1,455,836</u> | <u>\$1,052,254</u> | <u>\$2,508,090</u> |

Endowment net assets with donor restrictions broken out by type of restriction as of September 30, 2018, were as follows:

| | <u>Restricted for Specific Purpose</u> | <u>Perpetually Restricted</u> | <u>Total</u> |
|-----------------|--|-----------------------------------|---------------------------|
| Endowment funds | <u>\$1,382,723</u> | <u>\$1,052,254</u> | <u>\$2,434,977</u> |

The following table summarizes the activity affecting endowment net assets with donor restrictions for the year ended September 30, 2019:

| | <u>Restricted for Specific Purpose</u> | <u>Perpetually Restricted</u> | <u>Total</u> |
|--|--|-----------------------------------|---------------------------|
| Endowment net assets, beginning of year | \$ 1,382,723 | \$ 1,052,254 | \$ 2,434,977 |
| Contributions | 59,873 | - | 59,873 |
| Investment income, net | 65,435 | - | 65,435 |
| Net appreciation | 47,159 | - | 47,159 |
| Amounts appropriated for expenditure | <u>(99,354)</u> | <u>-</u> | <u>(99,354)</u> |
| Endowment net assets, end of year | <u>\$1,455,836</u> | <u>\$ 1,052,254</u> | <u>\$2,508,090</u> |

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 8 ENDOWMENTS (CONTINUED)

The following table summarizes the activity affecting endowment net assets with donor restrictions for the year ended September 30, 2018:

| | Restricted for <u>Specific Purpose</u> | Perpetually <u>Restricted</u> | <u>Total</u> |
|--|---|----------------------------------|---------------------------|
| Endowment net assets, beginning of year | \$ 1,349,570 | \$ 1,052,254 | \$ 2,401,824 |
| Contributions | 9,293 | - | 9,293 |
| Investment income | 54,702 | - | 54,702 |
| Net appreciation | 78,977 | - | 78,977 |
| Amounts appropriated for expenditure | <u>(109,819)</u> | <u>-</u> | <u>(109,819)</u> |
| Endowment Net Assets, End of Year | <u>\$1,382,723</u> | <u>\$ 1,052,254</u> | <u>\$2,434,977</u> |

NOTE 9 RECLASSIFICATIONS

Certain reclassifications of net assets with donor restrictions have been made to the prior year financial statements to conform with the current year presentation as part of the implementation of ASU 2016-14. Total assets, total liabilities, and total changes in net assets were not affected.

NOTE 10 SUBSEQUENT EVENTS

Subsequent events have been evaluated by the Foundation through the date of the auditors' report, which was the date the financial statements were available to be issued.