
EASTERN STAR HOMES OF CALIFORNIA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021 AND 2020

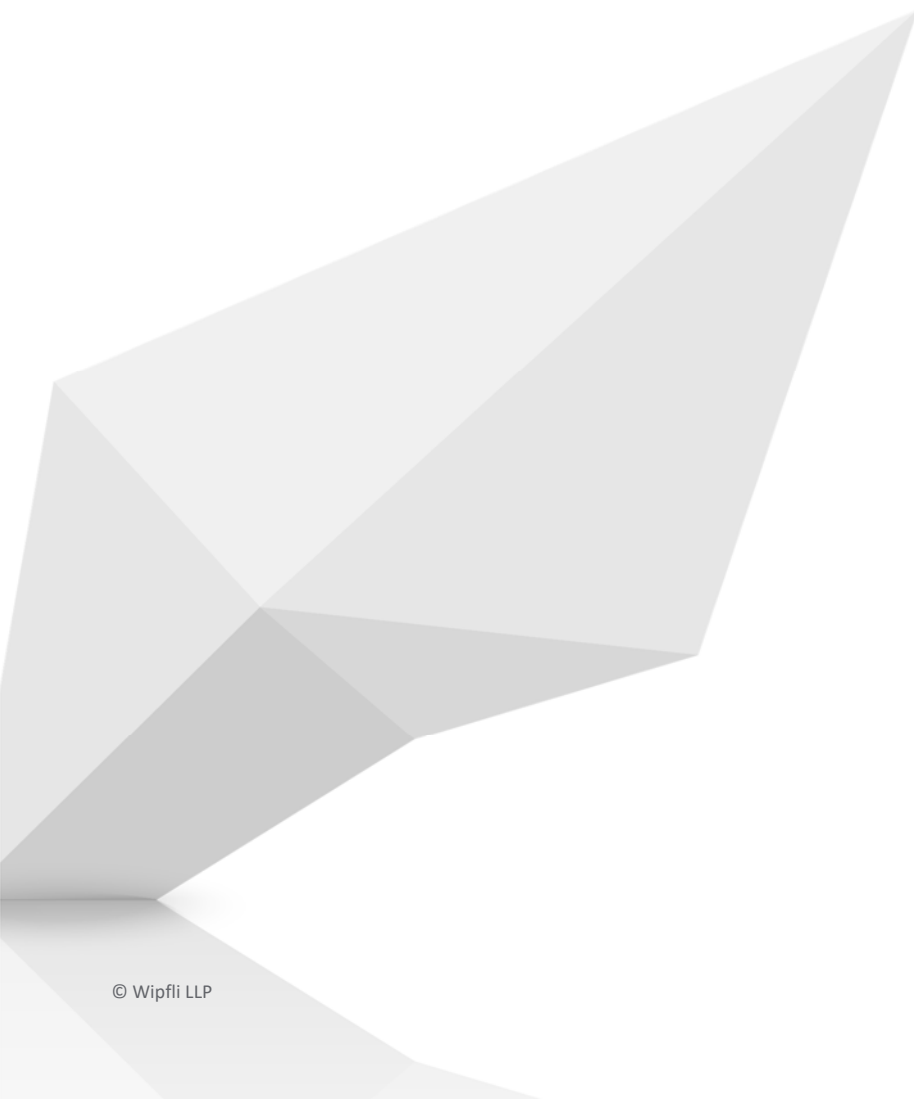


TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF FUNCTIONAL EXPENSES	4-5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-18

To the Audit Committee and 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* (a nonprofit organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Prior Period Financial Statements

The financial statements of *Eastern Star Homes of California* as of September 30, 2020, were audited by Mueller Prost LC, which combined practices with Wipfli LLP as of June 1, 2021, and whose report dated January 28, 2021, expressed an unmodified opinion on those financial statements.



Wipfli LLP

February 7, 2022
Irvine, California

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 194,456	\$ 209,634
Receivables	13,737	47,619
Due from affiliate	55,650	-
Prepaid expenses	<u>63,857</u>	<u>71,968</u>
Total Current Assets	327,700	329,221
Property and Equipment, Net	5,547,170	5,814,184
Deferred Rental Income	28,360	30,921
Other Assets	<u>5,951</u>	<u>10,508</u>
Total Assets	\$ <u>5,909,181</u>	\$ <u>6,184,834</u>
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
Current Liabilities		
Accounts payable	\$ 33,658	\$ 59,218
Accrued expenses	<u>99,750</u>	<u>77,578</u>
Total Current Liabilities	133,408	136,796
Long-Term Liabilities		
Security deposits	25,355	25,355
Obligation to provide future services	<u>5,503,712</u>	<u>8,458,118</u>
Total Long-Term Liabilities	<u>5,529,067</u>	<u>8,483,473</u>
Total Liabilities	5,662,475	8,620,269
Net Assets (Deficit)		
Without donor restrictions	<u>246,706</u>	<u>(2,435,435)</u>
Total Liabilities and Net Assets (Deficit)	\$ <u>5,909,181</u>	\$ <u>6,184,834</u>

The notes are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
Support, Revenue and Gains		
Contributions:		
Per capita - members of Grand Chapter of California, Order of the Eastern Star	\$ 55,650	\$ 58,790
Donations	35,497	51,465
Grant from Endowment Fund of the Grand Chapter of California, Order of the Eastern Star	1,605,000	1,475,000
Resident Revenue:		
Asset transfer resident revenue	580,508	653,782
Fee for service revenue	994,721	705,238
Rental income	302,168	309,705
Paycheck Protection Program loan income	-	300,000
HHS Provider Relief Funds	23,196	-
Other miscellaneous revenue	23,732	10,941
Total Support, Revenue and Gains	3,620,472	3,564,921
Expenses		
Program Services:		
Elderly care	3,244,904	3,237,312
Support Services:		
Management and general	497,542	467,849
Rental property	126,319	95,942
Fundraising	23,972	27,607
Total Expenses	3,892,737	3,828,710
Change in Net Assets Before Obligation to Provide Future Services	(272,265)	(263,789)
Change in Obligation to Provide Future Services	2,954,406	2,404,481
Increase in Net Assets	2,682,141	2,140,692
Net Deficit Without Donor Restrictions, Beginning of Year	(2,435,435)	(4,576,127)
Net Assets (Deficit) Without Donor Restrictions, End of Year	\$ 246,706	\$ (2,435,435)

The notes are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2021

	<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	\$ 1,379,904	\$	124,036	\$	31,009	\$	15,505	\$ 1,550,454	
Employee benefits	190,248		17,101		4,275		2,138	213,762	
Payroll taxes	101,503		9,124		2,281		1,140	114,048	
Other employee expenses	47,613		4,280		1,070		535	53,498	
Professional and consultant fees	-		70,268		-		-	70,268	
Administration fee	8,406		83,376		5,962		-	89,338	
Insurance:									
Property and liability	174,933		15,724		3,931		1,966	21,621	
Workers' compensation	122,347		10,997		2,749		1,375	15,121	
Occupancy:									
Electricity	180,775		15,892		1,987		-	17,879	
Gas	53,233		5,915		-		-	5,915	
Water and sewer	42,000		4,667		11,667		-	16,334	
Depreciation and amortization	292,368		46,351		17,827		-	64,178	
Minor equipment and other supplies	135,961		36,746		11,024		-	47,770	
Equipment rental and maintenance	4,287		385		96		48	529	
Telephone	15,791		1,419		355		177	1,951	
Licenses and taxes	23,225		5,880		20,310		-	26,190	
Resident activities	14,771		-		-		-	-	
Resident allowances	36,438		-		-		-	-	
Resident admission	298		-		-		-	-	
Holiday gifts - residents	385		-		-		-	-	
Contract labor	112,089		36,829		11,209		-	48,038	
Board members	30		120		-		-	120	
Hospitalization / medical supplies	75,406		-		-		-	-	
Dues and subscriptions	4,838		99		-		-	99	
Office expense	25,238		2,269		567		284	3,120	
Food services	194,350		-		-		-	-	
Other resident services	7,662		-		-		-	-	
Publications	-		5,982		-		-	-	
Events	805		82		-		804	886	
Total Expenses	\$ <u>3,244,904</u>	\$	<u>497,542</u>	\$	<u>126,319</u>	\$	<u>23,972</u>	\$ <u>647,833</u>	\$ <u>3,892,737</u>

The notes are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2020

	<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	\$ 1,417,613	\$	124,471	\$ 22,762	\$ 16,695	\$ 163,928	\$ 1,581,541
Employee benefits	192,812		16,930	3,096	2,271	22,297	215,109
Payroll taxes	108,857		9,558	1,748	1,282	12,588	121,445
Other employee expenses	29,605		2,599	475	349	3,423	33,028
Professional and consultant fees	-		57,868	-	-	57,868	57,868
Administration fee	7,611		68,495	4,155	-	72,650	80,261
Insurance:							
Property and liability	141,554		12,429	2,273	1,667	16,369	157,923
Workers' compensation	138,105		12,126	2,218	1,626	15,970	154,075
Occupancy:							
Electricity	159,162		13,992	1,749	-	15,741	174,903
Gas	40,962		4,551	-	-	4,551	45,513
Water and sewer	34,213		3,801	9,503	-	13,304	47,517
Depreciation and amortization	290,837		47,389	15,279	-	62,668	353,505
Minor equipment and other supplies	93,252		25,682	7,033	-	32,715	125,967
Equipment rental and maintenance	5,052		444	81	60	585	5,637
Telephone	15,522		1,363	249	183	1,795	17,317
Licenses and taxes	23,726		6,007	20,748	-	26,755	50,481
Resident activities	19,325		-	-	-	-	19,325
Resident allowances	48,977		-	-	-	-	48,977
Resident admission expenses	4,876		-	-	-	-	4,876
Bad debt	-		18,672	-	-	18,672	18,672
Holiday gifts - residents	1,011		-	-	-	-	1,011
Contract labor	105,637		37,418	4,155	-	41,573	147,210
Board member expenses	16		63	-	-	63	79
Hospitalization / medical supplies	125,391		-	-	-	-	125,391
Dues and subscriptions	6,792		139	-	-	139	6,931
Office expense	26,010		2,284	418	306	3,008	29,018
Food services	185,966		-	-	-	-	185,966
Other resident services	11,259		-	-	-	-	11,259
Publications	-		1,245	-	-	1,245	1,245
Events	3,169		323	-	3,168	3,491	6,660
Total Expenses	\$ <u>3,237,312</u>	\$	<u>467,849</u>	\$ <u>95,942</u>	\$ <u>27,607</u>	\$ <u>591,398</u>	\$ <u>3,828,710</u>

The notes are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities		
Grants received from Grand Chapter of California		
Order of the Eastern Star Endowment Fund	\$ 1,605,000	\$ 1,475,000
Per capita contributions	55,650	58,790
Contributions received	35,497	51,465
Resident revenue	1,609,111	1,360,072
Rental income	304,729	303,927
Miscellaneous income	23,732	10,941
Cash payments for salaries and wages, benefits, payroll taxes, and other employment expenses	(2,091,402)	(2,068,625)
Cash payments to vendors	(1,515,325)	(1,416,607)
Net cash from operating activities	26,992	(225,037)
Cash Flows from Investing Activities		
Purchases of property and equipment	(84,975)	(192,520)
Proceeds from disposal of property and equipment	19,609	8,458
Net cash from investing activities	(65,366)	(184,062)
Cash Flows from Financing Activities		
Paycheck Protection Program loan proceeds	-	300,000
HHS Provider Relief Funds proceeds	23,196	-
Net cash from financing activities	23,196	300,000
Net Change in Cash and Cash Equivalents	(15,178)	(109,099)
Cash and Cash Equivalents, Beginning of Year	209,634	318,733
Cash and Cash Equivalents, End of Year	\$ 194,456	\$ 209,634
Reconciliation of Change in Net Assets (Deficit) to Net Cash from Operating Activities		
Increase in net assets	\$ 2,682,141	\$ 2,140,692
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	356,546	353,505
Gain on disposal of asset	(19,609)	-
Provision for bad debt	-	18,672
Change in obligation to provide future services	(2,954,406)	(2,404,481)
Paycheck Protection Program loan forgiveness	-	(300,000)
HHS Provider Relief Funds grant	(23,196)	-
Changes in operating assets and liabilities:		
Receivables	33,882	(17,620)
Due from affiliate	(55,650)	11
Prepaid expenses	8,111	2,884
Deferred rental income	2,561	(5,778)
Accounts payable	(25,560)	23,501
Accrued expenses	22,172	(36,423)
Security deposits	-	-
Net cash from operating activities	\$ 26,992	\$ (225,037)
Non-Cash Financing Activities:		
Forgiveness of Paycheck Protection Program loan	\$ -	\$ 300,000

The notes are an integral part of these financial statements.

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"), which are related parties. 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 also transferred from 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 65 years of age, as described in the Constitution and Laws. Upon admission to the Home, residents contribute their assets to the Endowment Fund. 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 ("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 or grantor 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 (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) 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.

The Home does not have any net assets with donor restrictions as of September 30, 2021 and 2020.

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 U.S. GAAP 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 of Credit Risk

Financial instruments, which potentially subject the Home to concentrations of credit risk, consist primarily of demand deposit and money market accounts at financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. 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. U.S. GAAP requires 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 recorded \$18,672 of bad debt expense for the year ended September 30, 2020. No bad debt expense was recorded for the year ended September 30, 2021.

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, 2021 and 2020.

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 5.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Topic 606 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. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*. Prior to ASU 2020-05, Topic 606 was effective for fiscal years beginning after December 15, 2018, for entities other than public business entities. ASU 2020-05 defers the effective date of Topic 606 for entities that have not previously published financial statements to periods beginning after December 15, 2019. Effective October 1, 2020, the Home adopted ASU 2014-09 using the modified retrospective method, and there was no cumulative adjustment to net assets, as the nature and timing of revenue recognition was determined to remain consistent between the new standard and the previous standard. The Home also reviewed the disclosure requirements under the new standard and has compiled information needed for the expanded disclosures which are included herein.

Resident Revenue

Resident service revenue includes room and board and assisted living services and is reported at the amount that reflects the consideration to which the Home expects to be entitled in exchange for providing these resident services. These amounts are due from asset transfer residents (see Note 5), fee for service residents, and a third-party payor (Medi-Cal government program). Revenues from asset transfer residents include monthly social security payments, pension, and retirement payments. Revenues from fee for service comes from private pay residents, their families, or their trust, paying monthly rent for their suites and for other assisted living services. Generally, the Home bills in advance and residents pay their monthly fee in the first ten days of the given month. Revenue is recognized over time as performance obligations are satisfied.

The Home has a few residents that receive an Assisted Living Waiver (ALW) from Medi-Cal. Medi-Cal began paying a portion for assisted living care for qualified aged and disabled residents to enable low-income, Medi-Cal eligible seniors and persons with disabilities, who would otherwise require nursing facility services, to remain in or relocate to a community setting in a residential care facility for the elderly or public subsidized housing. The most recent five-year waiver renewal is effective March 1, 2019 through February 29, 2024. The daily rates received for ALW residents for assisted living services were \$93 and \$85 for the years ended September 30, 2021 and 2020, respectively.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Resident Revenue (Continued)

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 are satisfied over time related to residents in the Home receiving lodging and assisted living services. The Home measures the performance obligation from the effective date on the residence agreement contract to the point when it is no longer required to provide services to that resident, which is generally at the time the resident elects to move from the facility or passes away.

The Home has applied the practical expedient provided by FASB ASC 340-40-25-4, and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Home otherwise would recognize is one year or less in duration.

The composition of resident revenue by primary payors, for services provided over time, for the years ended September 30, 2021 and 2020 were as follows:

	2021	2020
Resident revenue		
Asset transfer residents	\$ 580,508	\$ 653,782
Fee for service residents	936,171	667,336
ALW reimbursement by Medi-Cal	58,550	37,902
Total resident revenue	\$ 1,575,229	\$ 1,359,020

Contribution and Grants Revenue

The Organization recognizes contribution and grants under FASB 2018-08, Not-for-Profit Entities (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

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

Unconditional promises to give, with payments due in future periods, are reported at the net realizable value 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.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (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. The Home receives a significant amount of donated services from unpaid volunteers who assist with the different functions of the Home. 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. For the years ended September 30, 2021 and 2020, the fair value of donated services of \$19,488 and \$13,755, respectively, were included as donations in the statements of activities and as professional and consultant fees on the statements of functional expenses.

Endowment Fund

Support from the Endowment Fund for the years ended September 30, 2021 and 2020, was \$1,605,000 and \$1,475,000, respectively. At September 30, 2021 and 2020, the Endowment Fund has net assets with donor restrictions (restricted for specific purpose) of \$21,515,168 and \$17,217,997, respectively, and net assets with donor restrictions (perpetually restricted) of \$14,362,844 and \$14,143,766, respectively.

Functional Allocation of Expenses

The Eastern Star Homes of California functional expense methodology was developed to accurately assign each category based on several factors. Expenses are charged to program services, support services, and fundraising 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 Home.

The Home has one fund for program services which is designated for elderly care. The costs of providing program services, support services (management and general and rental property), and fundraising have been summarized on a functional basis. Accordingly, certain costs have been allocated among program services, support services, and fundraising. The Home's Board of Trustees ("Board") approved the expense allocation methodology for the years ended September 30, 2021 and 2020, as follows:

- The following expenses are, by definition, 100% allocated to elderly care program services:
 - Member assistance
 - Resident activities
 - Resident allowances
 - Resident admission expenses
 - Holiday gifts for residents
 - Hospitalization/medical supplies
 - Food services
 - Other resident services

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

- Each employee job group was evaluated for an estimate of the total time spent on the classifications. Using salaries, wages, overtime and bonuses for each job group, an overall allocation was derived from the totals. This allocation method was assigned to the following categories
 - All compensation subcategories
 - Insurance subcategories
 - Equipment rental and maintenance
 - Telephone
 - Office expenses

- Professional and consultant fees were deemed all management and general expenses.

- Depreciation was allocated based on each fixed asset being evaluated for purpose, with the assumption that an estimated 10% of the Home facility is not used directly by the residents or in direct support of the residents.

- Administration fees are kept separate for the rental property and the Home portion was distributed 10% to program services and 90% to management and general.

- The expenses for the following categories are kept separate for the rental property and the Home portion was distributed approximately 90% to program services and 10% to management and general:
 - Electricity
 - Gas
 - Water

- The License and Tax expenses are kept separate for the Rental Property and the Home portion was distributed 50% to program services and 50% to management, general and rental.

- Contract labor and minor equipment and other supplies were allocated based on each account evaluated for purpose and an overall allocation was derived from these totals.

- The following categories are determined by actual expenditures by function:
 - Board member expenses
 - Dues and subscriptions
 - Publications
 - Events

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 Home 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 Home has no unrecognized tax liabilities or benefits recorded or unrecorded at September 30, 2021 and 2020.

Recent Accounting Pronouncements – Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases: Amendments to the FASB Accounting Standards Codification (Topic 842)*, which amends the existing guidance on accounting for leases. 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 financial statements. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*. Prior to ASU 2020-05, the amendments to Topic 842 would be effective for periods beginning after December 15, 2020 for entities other than public business entities. ASU 2020-05 defers the effective date of the amendments to Topic 842 to periods beginning after December 15, 2021 for entities other than public business entities. Management has adopted the provisions of ASU 2020-05 and will defer implementation according to the amendments in Topic 842. Management is currently evaluating the impact of adopting ASU 2016-02 on the Home's financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard was delayed in 2019 and will be effective for fiscal years beginning after December 15, 2022. Management is currently evaluating the impact of adopting ASU 2016-13 on the Home's financial statements and related disclosures.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Services*. This ASU requires contributed nonfinancial assets to be presented on a separate line in the statements of activities, apart from contributions of cash and other financial assets. It also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets. This standard will be effective for annual periods beginning after June 15, 2021. Management is currently evaluating the impact of adopting ASU 2020-07 on the Home's financial statements and related disclosures.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the statement of financial position as of September 30, 2021 and 2020, comprised the following:

	2021	2020
Cash	\$194,456	\$209,634
Receivables	<u>69,387</u>	<u>47,619</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$263,843</u>	<u>\$257,253</u>

As disclosed in Note 1 and Note 2, the Home receives income from the Endowment Fund which, in addition to the financial assets listed above, covers operating expenditures and is expected to be available to meet cash needs.

NOTE 4 PROPERTY AND EQUIPMENT

At September 30, 2021 and 2020, property and equipment consists of the following:

	2021	2020
Land	\$ 2,738,904	\$ 2,738,904
Buildings	8,422,881	8,422,881
Building improvements	1,799,617	1,714,642
Furniture and equipment	401,809	401,809
Fixtures and improvements	177,550	177,550
Automobiles	66,604	192,198
Computer equipment and software	<u>82,491</u>	<u>82,491</u>
	13,689,856	13,730,475
Accumulated depreciation	<u>(8,142,686)</u>	<u>(7,916,291)</u>
	<u>\$ 5,547,170</u>	<u>\$ 5,814,184</u>

Depreciation expense on property and equipment totaled \$356,546 and \$353,505 for the years ended September 30, 2021 and 2020, respectively.

The Home's property also includes office facilities that are leased to the Grand Chapter and various other medical offices as disclosed in Note 9.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 5 OBLIGATION TO PROVIDE FUTURE SERVICES

Certain applicants for admission to the Home are required to transfer ownership of their personal assets to the Endowment Fund of the Grand Chapter. These residents are categorized as asset transfers. In exchange for this transfer, the Home agrees to care for the residents for the remainder of their lives. This agreement does not apply to residents under a fee for service arrangement. As a result of this agreement, the Home has recorded a liability for its obligation to provide care for the asset transfer 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, estimated using mortality tables obtained from the Social Security Administration, 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 3.00% and 2.37% annually (representing inflation) as of September 30, 2021 and 2020, respectively, and is based on actual historical expenses and revenue related to the resident care facility. The resulting liability has been discounted by 4.00% as of September 30, 2021 and 2020, to reflect net present value. This liability reflected in the accompanying statements of financial position amounted to \$5,503,712 and \$8,458,118 at September 30, 2021 and 2020, 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 in the local area, included in the cost estimates above, to range from \$3,116,367 to \$5,668,762 at September 30, 2021 based on actual reported expenses at such replacement facilities over estimated revenues increasing at 3.00% annually for inflation and discounted by 4% to reflect net present value.

The Home is licensed to operate a seventy-six bed continuing care home, and at September 30, 2021 and 2020, the Home had a total of 35 and 39 residents, respectively, of which 20 and 25 were asset transfer residents, respectively. Any shortfall in future operating cash flow is obligated to be met by the Endowment Fund of the Grand Chapter as disclosed in Note 2.

NOTE 6 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 within 90 days of its fiscal year end. Excess amounts are to be transferred to the Endowment Fund without donor restriction 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, 2021 and 2020, the Home had operating cash balances of \$194,456 and \$209,634, respectively.

NOTE 7 RELATED PARTY TRANSACTIONS

The Home incurred \$97,744 and \$80,261 in administrative expense charges during the years ended September 30, 2021 and 2020, respectively, for services provided by the Grand Chapter. The Home also leases office space to the Grand Chapter as disclosed in Note 9. For the years ended September 30, 2021 and 2020, the Home earned \$15,647 and \$15,415, respectively, of rental income from the Grand Chapter. At September 30, 2021, \$55,650 was due from the Grand Chapter to the Home. At September 30, 2020, there were no amounts due to or from affiliates.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

During the year ended September 30, 2021 and 2020 the Home had a business relationship with an insurance company owned by an officer of the organization. For the year ended September 30, 2021 and 2020 the Home paid \$136,169 and \$104,025, respectively, to the insurance company. For the years ended September 30, 2021 and 2020, there were no amounts due to or from the insurance company.

NOTE 8 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, 2021 and 2020 was \$518,775 and \$569,625, respectively. The Home reported a surplus of qualifying assets over the required reserve amount of \$21,190,849 and \$16,858,006 at September 30, 2021 and 2020 respectively, which includes net assets with donor restrictions held in the Endowment Fund of the Grand Chapter for the benefit of the Home.

NOTE 9 RENTAL INCOME

The Home leases various medical offices to non-related parties under operating leases expiring through June 2026. At September 30, 2021 and 2020, property and equipment held for leasing consisted of the following:

	2021	2020
Buildings	\$ 458,187	\$ 458,187
Building improvements	310,160	310,160
Furniture, fixtures and equipment	13,232	13,232
	781,579	781,579
Accumulated depreciation	(608,126)	(582,481)
	<u>\$ 173,453</u>	<u>\$ 199,098</u>

The future minimum lease payments to be received under the non-cancelable leases noted above and certain office spaces are as follows:

	<u>Related Party</u>	<u>Non-related Parties</u>	<u>Total</u>
<u>Year Ending September 30,</u>			
2022	15,881	276,406	292,287
2023	-	204,669	204,669
2024	-	179,226	179,226
2025	-	142,053	142,053
2026	-	50,963	50,963
	<u>\$ 15,881</u>	<u>\$ 853,317</u>	<u>\$ 869,198</u>

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 10 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.

Risk Management

The Home has obtained workers' compensation insurance through a private insurer. Worker's Compensation expense through coverage by this entity was \$137,468 and 154,075 for the years ended September 30, 2021 and 2020, respectively.

NOTE 11 RISK AND UNCERTAINTIES

On March 11, 2020, the World Health Organization (WHO) recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the healthcare industry. The extent of the impact of COVID-19 on the Home's financial condition will depend on certain developments, including the duration and spread of the outbreak, impact on the Home's residents, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Home's financial condition is uncertain.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 12 CARES ACT

On May 1, 2020, the Home received loan proceeds in the amount of \$300,000 from Pacific Western Bank, pursuant to the Paycheck Protection Program (“PPP”) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The CARES Act provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business.

On April 14, 2021, the Home received notification from Pacific Western Bank that the entire PPP loan was forgiven by the Small Business Administration.

On October 27, 2020, the Home received \$23,196 from the U.S. Department of Health & Human Services (“HHS”) as part of the CARES Act Provider Relief Fund. Amounts are to be used for increased healthcare related expenses or lost revenue attributable to COVID-19. All recipients must attest to certain terms and conditions, which require the submission of documentation to substantiate that these funds were used for increased healthcare related expense or lost revenue attributable to COVID-19. The HHS requires unused funds or inappropriately used funds to be returned. The entire amount of the fund was used to cover payroll expenses.

NOTE 13 RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation. Total assets, total liabilities, total net assets, and the total change in net assets were not affected.

NOTE 14 SUBSEQUENT EVENTS

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