
EASTERN STAR HOMES OF CALIFORNIA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018



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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of *Eastern Star Homes of California* (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 auditors' 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, 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.

January 29, 2020
St. Louis, Missouri

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Certified Public Accountants

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

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 318,733	\$ 236,818
Receivables	48,671	108,952
Due from affiliate	11	67,245
Prepaid expenses	<u>74,852</u>	<u>78,558</u>
Total Current Assets	442,267	491,573
Property and Equipment, Net	5,979,070	6,305,887
Deferred Rental Income	25,143	-
Other Assets	<u>15,065</u>	<u>19,622</u>
Total Assets	\$ <u>6,461,545</u>	\$ <u>6,817,082</u>
 <u>LIABILITIES AND NET DEFICIT</u> 		
Current Liabilities		
Accounts payable	35,717	78,561
Accrued expenses	<u>114,001</u>	<u>90,697</u>
Total Current Liabilities	149,718	169,258
Long-Term Liabilities		
Security deposits	25,355	21,471
Obligation to provide future services	<u>10,862,599</u>	<u>14,535,388</u>
Total Long-Term Liabilities	<u>10,887,954</u>	<u>14,556,859</u>
Total Liabilities	11,037,672	14,726,117
Net Deficit		
Deficit without donor restrictions	<u>(4,576,127)</u>	<u>(7,909,035)</u>
Total Liabilities and Net Deficit	\$ <u>6,461,545</u>	\$ <u>6,817,082</u>

The notes are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Support, Revenue and Gains		
Contributions		
Per capita - members of Grand Chapter of California, Order of the Eastern Star	\$ 63,045	\$ 67,245
Resident revenue	679,975	693,192
Donations	39,655	42,998
Grant from Endowment Fund of the Grand Chapter of California, Order of the Eastern Star	1,863,000	2,360,000
Rental income	796,191	476,185
Other miscellaneous revenue	<u>10,529</u>	<u>9,124</u>
Total Support, Revenue and Gains	3,452,395	3,648,744
Expenses		
Program Services		
Elderly care	3,230,616	3,335,515
Support Services		
Management and general	427,152	410,256
Rental property	107,320	111,231
Fundraising	<u>27,188</u>	<u>31,807</u>
Total Expenses	<u>3,792,276</u>	<u>3,888,809</u>
Change in Net Assets Before Obligation to Provide Future Services	(339,881)	(240,065)
Increase (Decrease) in Net Assets from Change in Obligation to Provide Future Services	<u>3,672,789</u>	<u>(323,951)</u>
Change in Net Assets	3,332,908	(564,016)
Net Deficit Without Donor Restrictions, Beginning of Year	<u>(7,909,035)</u>	<u>(7,345,019)</u>
Net Deficit Without Donor Restrictions, End of Year	\$ <u>(4,576,127)</u>	\$ <u>(7,909,035)</u>

The notes are an integral part of these financial statements.

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

	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	\$ 1,322,194	\$	118,849	\$ 29,712	\$ 14,856	\$ 163,417	\$ 1,485,611
Employee benefits	202,522		18,204	4,551	2,276	25,031	227,553
Payroll taxes	98,239		8,831	2,208	1,104	12,143	110,382
Other employee expenses	37,417		3,363	841	420	4,624	42,041
Professional and consultant fees	-		39,840	-	-	39,840	39,840
Administration fee	7,319		65,871	4,555	-	70,426	77,745
Insurance							
Property and liability	101,243		9,101	2,275	1,138	12,514	113,757
Workers' compensation	128,629		11,562	2,891	1,445	15,898	144,527
Occupancy							
Electricity	143,978		15,997	1,239	-	17,236	161,214
Gas	42,799		4,756	-	-	4,756	47,555
Water and sewer	49,045		5,450	-	-	5,450	54,495
Depreciation and amortization	290,276		46,019	17,700	-	63,719	353,995
Minor equipment and other supplies	85,237		23,037	6,911	-	29,948	115,185
Equipment rental and maintenance	5,082		457	114	57	628	5,710
Telephone	14,723		1,323	331	165	1,819	16,542
Licenses and taxes	23,248		5,886	20,329	-	26,215	49,463
Resident activities	30,256		-	-	-	-	30,256
Resident allowances	52,304		-	-	-	-	52,304
Resident admission expenses	5,487		-	-	-	-	5,487
Holiday gifts - residents	337		-	-	-	-	337
Contract labor	129,771		42,639	12,977	-	55,616	185,387
Board member expenses	335		1,341	-	-	1,341	1,676
Hospitalization / medical supplies	188,346		-	-	-	-	188,346
Dues and subscriptions	6,355		130	-	-	130	6,485
Office expense	30,516		2,743	686	343	3,772	34,288
Food services	215,017		-	-	-	-	215,017
Other resident services	14,557		-	-	-	-	14,557
Publications	-		1,204	-	-	1,204	1,204
Events	5,384		549	-	5,384	5,933	11,317
Total Expenses	\$ <u>3,230,616</u>	\$	<u>427,152</u>	\$ <u>107,320</u>	\$ <u>27,188</u>	\$ <u>561,660</u>	\$ <u>3,792,276</u>

The notes are an integral part of these financial statements.

EASTERN STAR HOMES OF CALIFORNIA
STATEMENT 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	7,980		71,824	5,145	-	76,969	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	146,697		16,300	1,796	-	18,096	164,793
Gas	38,102		4,234	-	-	4,234	42,336
Water and sewer	51,466		5,718	-	-	5,718	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
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>3,335,515</u>	\$	<u>410,256</u>	\$ <u>111,231</u>	\$ <u>31,807</u>	\$ <u>553,294</u>	\$ <u>3,888,809</u>

The notes are an integral part of these financial statements.

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

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Grants received from Grand Chapter of California		
Order of the Eastern Star Endowment Fund	\$ 1,863,000	\$ 2,360,000
Per capita received	63,045	67,245
Resident revenue	679,975	693,192
Contributions received	39,655	42,998
Rental income	796,191	476,185
Miscellaneous income	10,529	5,184
Cash payments for salaries and wages, benefits, payroll taxes, and other employment expenses	(2,010,114)	(1,961,773)
Cash payments to vendors	<u>(1,337,745)</u>	<u>(1,617,510)</u>
Net cash provided by operating activities	104,536	65,521
Cash Flows from Investing Activities		
Purchases of property and equipment	(22,621)	(8,782)
Proceeds from sale of property and equipment	-	3,940
Net cash used by investing activities	<u>(22,621)</u>	<u>(4,842)</u>
Net Change in Cash	81,915	60,679
Cash, Beginning of Year	<u>236,818</u>	<u>176,139</u>
Cash, End of Year	\$ <u>318,733</u>	\$ <u>236,818</u>
Reconciliation of Change in Net Deficit to Net Cash Provided by Operating Activities		
Change in net assets	\$ 3,332,908	\$ (564,016)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation and amortization	353,995	362,701
Gain on disposal of asset	-	(3,940)
Increase (decrease) in obligation to provide future services	(3,672,789)	323,951
Changes in operating assets and liabilities:		
Receivables	60,281	(94,049)
Due from affiliate	67,234	(5,795)
Prepaid expenses	3,706	18,399
Other assets	-	(22,786)
Deferred rental income	(25,143)	-
Accounts payable	(42,844)	51,753
Accrued expenses	23,304	(3,581)
Security deposits	<u>3,884</u>	<u>2,884</u>
Net cash provided by operating activities	\$ <u>104,536</u>	\$ <u>65,521</u>

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"). 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 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 of America ("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, 2019 and 2018.

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 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. 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, 2019 and 2018.

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, 2019 and 2018.

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 5.

Revenue Recognition

Contributions

Contributions received, including unconditional promises to give, are recorded as revenue in the period received, or promised, 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 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. 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 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, 2019 and 2018, was \$1,863,000 and \$2,360,000, respectively. At September 30, 2019 and 2018, the Endowment Fund has net assets with donor restrictions (restricted by specific purpose) of \$17,311,973 and \$17,703,306 (as restated), respectively, and net assets with donor restriction (perpetually restricted) of \$14,113,847 and \$14,149,688 (as restated), 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, 2019 and 2018, 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

- 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.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

- 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 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 80% to program services and 20% to management and general.

- Contract labor and minor equipment was 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

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, 2019 and 2018.

Adoption of Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative non-governmental 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 Home 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.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the FASB issued 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.

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, 2020 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.

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 Home 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 within one year of the statement of financial position as of September 30, 2019, comprise the following:

Cash	\$ 318,733
Receivables	<u>48,671</u>
Total Financial Assets	367,404
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 367,404</u>

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 3 LIQUIDITY AND AVAILABILITY (CONTINUED)

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, 2019 and 2018, property and equipment consists of the following:

	2019	2018
Land	\$ 2,738,904	\$ 2,738,904
Buildings	8,422,881	8,422,881
Building improvements	1,616,305	1,598,586
Furniture and equipment	401,809	396,907
Fixtures and improvements	133,336	133,336
Automobiles	168,443	168,443
Computer equipment and software	64,261	64,261
	13,545,939	13,523,318
Less accumulated depreciation	(7,566,869)	(7,217,431)
	<u>\$ 5,979,070</u>	<u>\$ 6,305,887</u>

Depreciation expense on property and equipment totaled \$353,995 and \$362,701 for the years ended September 30, 2019 and 2018, 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.

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 2.28% and 2.15% annually (representing inflation) as of September 30, 2019 and 2018, respectively, and is based on actual historical expenses and revenue related to the resident care facility. The resulting liability has been discounted by 4% and 5% as of September 30, 2019 and 2018, respectively, to reflect net present value. This liability reflected in the accompanying statements of financial position amounted to \$10,862,599 and \$14,535,388 at September 30, 2019 and 2018, respectively.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 5 OBLIGATION TO PROVIDE FUTURE SERVICES (CONTINUED)

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 \$10,670,112 to \$13,275,402 at September 30, 2019 based on actual reported expenses at such replacement facilities over estimated revenues increasing at 2.28% 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, 2019 and 2018, the Home had a total of 41 and 42 residents, respectively, of which 31 and 37 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, 2019 and 2018, the Home had operating cash balances of \$318,733 and \$236,818, respectively. As of December 31, 2019, the Home reduced its operating cash balance below \$250,000 in accordance with this limitation.

NOTE 7 RELATED PARTY TRANSACTIONS

The Home incurred \$77,745 and \$84,949 in administrative expense charges during the years ended September 30, 2019 and 2018, 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, 2019 and 2018, the Home earned \$15,188 and \$15,931, respectively, of rental income from the Grand Chapter. At September 30, 2019 and 2018, \$633 was due to and \$60,671 was due from the Grand Chapter, respectively. At September 30, 2019 and 2018, \$0 and \$8,151, respectively, was due to the Endowment Fund, respectively.

During the year ended September 30, 2019 and 2018 the Home had a business relationship with an insurance company owned by an officer of the organization. For the year ended September 30, 2019 and 2018 the Home paid \$60,229 and \$21,366, respectively, to the insurance company. For the years ended September 30, 2019 and 2018, there were no amounts due to 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, 2019 and 2018 was \$608,253 and \$682,733, respectively. The Home reported a surplus of qualifying assets over the required reserve amount of \$17,022,453 and \$17,249,993 at September 30, 2019 and 2018 respectively, which includes net assets with donor restrictions held in the Endowment Fund of the Grand Chapter for the benefit of the Home.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 9 RENTAL INCOME

The Home leases various medical offices to non-related parties under operating leases expiring through July 2025. At September 30, 2019 and 2018, property and equipment held for leasing consisted of the following:

	2019	2018
Buildings	\$ 458,187	\$ 458,187
Building improvements	310,160	303,779
Furniture, fixtures and equipment	13,232	13,232
	781,579	775,198
Less accumulated depreciation	(554,698)	(526,532)
	<u>\$ 226,881</u>	<u>\$ 248,666</u>

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

	<u>Related Party</u>	<u>Non-related Parties</u>	<u>Total</u>
<u>Year Ending September 30,</u>			
2020	15,415	253,658	269,073
2021	15,647	203,954	219,601
2022	15,881	133,866	149,747
2023	2,653	58,012	60,665
2024	-	33,997	33,997
Thereafter	-	28,802	28,802
	<u>\$ 49,596</u>	<u>\$ 712,289</u>	<u>\$ 761,885</u>

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.

EASTERN STAR HOMES OF CALIFORNIA
NOTES TO FINANCIAL STATEMENTS

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 \$144,527 and 138,415 for the years ended September 30, 2019 and 2018, 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 11 RECLASSIFICATIONS

Certain reclassifications of liabilities have been made to the prior year statement of financial position and statement of cash flows, and certain reclassifications of income and expense have been made to the cash flows from operating activities on the prior year statement of cash flows in order to conform with the current year presentation. Certain reclassifications of functional expenses for administration fee expense, occupancy expense have been made on the prior year statement of functional expenses in order to conform with the current year presentation. Total assets, total liabilities, and total changes in net assets were not affected.

NOTE 12 SUBSEQUENT EVENTS

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