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**GRAND CHAPTER OF CALIFORNIA,  
ORDER OF THE EASTERN STAR  
AND  
ENDOWMENT FUND OF THE  
GRAND CHAPTER OF CALIFORNIA,  
ORDER OF THE EASTERN STAR**

**COMBINED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

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## INDEPENDENT AUDITORS' REPORT

To The Finance Committee  
Grand Chapter of California, Order of the Eastern Star and  
Endowment Fund of the Grand Chapter of California, Order of the Eastern Star  
Yorba Linda, California

We have audited the accompanying 2018 and 2017 combined financial statements of *Grand Chapter of California, Order of the Eastern Star and Endowment Fund of the Grand Chapter of California, Order of the Eastern Star* which comprise the combined statements of financial position as of September 30, 2018 and 2017, and the related combined 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 Combined Financial Statements**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of *Grand Chapter of California, Order of the Eastern Star and Endowment Fund of the Grand Chapter of California, Order of the Eastern Star* as of September 30, 2018 and 2017, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Mueller Prost LC*

March 22, 2019  
St. Louis, Missouri

Certified Public Accountants

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**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
AND ENDOWMENT FUND OF THE GRAND CHAPTER OF CALIFORNIA,  
ORDER OF THE EASTERN STAR  
COMBINED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2018 AND 2017**

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 1,582,379	\$ 1,115,610
Accounts receivable	891,384	176,433
Investments	28,884,133	29,631,485
Prepaid expenses and supplies	121,389	143,568
Due from affiliated organizations: SLC	15,874	-
Total Current Assets	<u>31,495,159</u>	<u>31,067,096</u>
Property and Equipment, Net	<u>9,535</u>	<u>14,843</u>
Other Long-Term Assets		
Beneficial interest in perpetual trusts	<u>1,670,354</u>	<u>804,582</u>
Total Other Long-Term Assets	<u>1,670,354</u>	<u>804,582</u>
 Total Assets	 <b><u>\$ 33,175,048</u></b>	 <b><u>\$ 31,886,521</u></b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 117,007	\$ 113,013
Accrued expenses	25,086	17,347
Deferred revenue	<u>13,778</u>	<u>33,997</u>
Total Liabilities	<u>155,871</u>	<u>164,357</u>
Net Assets		
Unrestricted	874,985	832,010
Temporarily restricted	17,704,476	17,402,208
Permanently restricted	<u>14,439,716</u>	<u>13,487,946</u>
Total Net Assets	<u>33,019,177</u>	<u>31,722,164</u>
 Total Liabilities and Net Assets	 <b><u>\$ 33,175,048</u></b>	 <b><u>\$ 31,886,521</u></b>

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

**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
AND ENDOWMENT FUND OF THE GRAND CHAPTER OF CALIFORNIA,  
ORDER OF THE EASTERN STAR  
COMBINED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions				
Bequests	\$ -	\$ 205,967	\$ 937,268	\$ 1,143,235
Donations	10,891	2,363	5,192	18,446
Life sponsors	-	-	9,310	9,310
Residents' assets	-	874,135	-	874,135
Members' dues	326,284	46,817	-	373,101
Convention revenue	64,665	-	-	64,665
Investment income	8,505	1,594,332	-	1,602,837
Sales of supplies	52,615	-	-	52,615
Administration fees	114,565	-	-	114,565
Miscellaneous	1,829	-	-	1,829
Subtotal - Support and Revenue	<u>579,354</u>	<u>2,723,614</u>	<u>951,770</u>	<u>4,254,738</u>
Net Assets Released from Restrictions for				
Programs	61,346	(61,346)	-	-
Support of Eastern Star Homes of California	<u>2,360,000</u>	<u>(2,360,000)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,000,700</u>	<u>302,268</u>	<u>951,770</u>	<u>4,254,738</u>
Expenses				
Program services				
Member services	391,615	-	-	391,615
Support of Eastern Star Homes of California	2,360,000	-	-	2,360,000
Support services				
Management and general	206,110	-	-	206,110
Fundraising	-	-	-	-
Total Expenses	<u>2,957,725</u>	<u>-</u>	<u>-</u>	<u>2,957,725</u>
Change in Net Assets	42,975	302,268	951,770	1,297,013
Net Assets, Beginning of Year	<u>832,010</u>	<u>17,402,208</u>	<u>13,487,946</u>	<u>31,722,164</u>
Net Assets, End of Year	<u><b>\$ 874,985</b></u>	<u><b>\$ 17,704,476</b></u>	<u><b>\$ 14,439,716</b></u>	<u><b>\$ 33,019,177</b></u>

**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
AND ENDOWMENT FUND OF THE GRAND CHAPTER OF CALIFORNIA,  
ORDER OF THE EASTERN STAR  
COMBINED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions				
Bequests	\$ -	\$ 4,052,991	\$ 89,319	\$ 4,142,310
Donations	47,551	2,001	5,330	54,882
Life sponsors	-	-	8,772	8,772
Residents' assets	-	221,160	-	221,160
Members' dues	336,182	45,952	-	382,134
Convention revenue	49,019	-	-	49,019
Investment income	12,390	2,365,467	-	2,377,857
Sales of supplies	57,262	-	-	57,262
Administration fees	136,281	-	-	136,281
Miscellaneous	61,967	-	-	61,967
Subtotal - Support and Revenue	<u>700,652</u>	<u>6,687,571</u>	<u>103,421</u>	<u>7,491,644</u>
Net Assets Released from Restrictions for				
Programs	62,642	(62,642)	-	-
Support of Eastern Star Homes of California	<u>2,540,000</u>	<u>(2,540,000)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,303,294</u>	<u>4,084,929</u>	<u>103,421</u>	<u>7,491,644</u>
Expenses:				
Program services				
Member services	407,177	-	-	407,177
Support of Eastern Star Homes of California	2,540,000	-	-	2,540,000
Support services				
Management and general	216,041	-	-	216,041
Fundraising	-	-	-	-
Total Expenses	<u>3,163,218</u>	<u>-</u>	<u>-</u>	<u>3,163,218</u>
Change in Net Assets	140,076	4,084,929	103,421	4,328,426
Net Assets, Beginning of Year, as Originally Stated	691,934	13,317,279	12,613,817	26,623,030
Prior Period Adjustment	-	-	770,708	770,708
Net Assets, Beginning of Year, as Restated	<u>691,934</u>	<u>13,317,279</u>	<u>13,384,525</u>	<u>27,393,738</u>
Net Assets, End of Year	<u>\$ 832,010</u>	<u>\$ 17,402,208</u>	<u>\$ 13,487,946</u>	<u>\$ 31,722,164</u>

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

**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR AND ENDOWMENT FUND OF THE  
GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Program Services</u>			<u>Support Services</u>			<u>Total</u>
	<u>Member Services</u>	<u>Support of Eastern Star Homes of California</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services and Fundraising</u>	
Support of Eastern Star Homes of California	\$ -	\$ 2,360,000	\$ 2,360,000	\$ -	\$ -	\$ -	\$ 2,360,000
Cost of sales	30,928	-	30,928	-	-	-	30,928
Allowances	-	-	-	44,020	-	44,020	44,020
Committee	-	-	-	-	-	-	-
Schools and training	136	-	136	-	-	-	136
Convention	61,997	-	61,997	-	-	-	61,997
Depreciation and amortization	6,024	-	6,024	1,699	-	1,699	7,723
Insurance	62,493	-	62,493	17,626	-	17,626	80,119
Equipment rental and maintenance	15,429	-	15,429	4,352	-	4,352	19,781
Office supplies	5,565	-	5,565	1,569	-	1,569	7,134
Rent	12,426	-	12,426	3,505	-	3,505	15,931
Other office expenses	1,089	-	1,089	307	-	307	1,396
Telephone	2,080	-	2,080	587	-	587	2,667
Utilities	1,369	-	1,369	386	-	386	1,755
Contract services	11,407	-	11,407	3,217	-	3,217	14,624
Licenses and other taxes	3,048	-	3,048	860	-	860	3,908
Salaries and wages	136,761	-	136,761	38,574	-	38,574	175,335
Payroll taxes	11,652	-	11,652	3,287	-	3,287	14,939
Employee benefits	17,442	-	17,442	4,919	-	4,919	22,361
Other employee related expenses	11,769	-	11,769	3,319	-	3,319	15,088
Professional fees	-	-	-	77,883	-	77,883	77,883
Total Expenses	<u>\$ 391,615</u>	<u>\$ 2,360,000</u>	<u>\$ 2,751,615</u>	<u>\$ 206,110</u>	<u>\$ -</u>	<u>\$ 206,110</u>	<u>\$ 2,957,725</u>

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

**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR AND ENDOWMENT FUND OF THE  
GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Program Services			Support Services		Fundraising	Total Support Services and Fundraising	Total
	Member Services	Support of Eastern Star Homes of California	Total Program Services	Management and General				
Support of Eastern Star Homes of California	\$ -	\$ 2,540,000	\$ 2,540,000	\$ -	\$ -	\$ -	\$ -	\$ 2,540,000
Cost of sales	44,986	-	44,986	-	-	-	-	44,986
Allowances	-	-	-	44,050	-	-	44,050	44,050
Committee	-	-	-	695	-	-	695	695
Schools and training	353	-	353	-	-	-	-	353
Convention	54,812	-	54,812	-	-	-	-	54,812
Depreciation and amortization	6,093	-	6,093	1,718	-	-	1,718	7,811
Insurance	76,272	-	76,272	21,513	-	-	21,513	97,785
Equipment rental and maintenance	14,530	-	14,530	4,098	-	-	4,098	18,628
Office supplies	3,884	-	3,884	1,095	-	-	1,095	4,979
Rent	14,356	-	14,356	4,049	-	-	4,049	18,405
Other office expenses	6,013	-	6,013	1,696	-	-	1,696	7,709
Telephone	1,721	-	1,721	485	-	-	485	2,206
Utilities	26	-	26	7	-	-	7	33
Contract services	7,266	-	7,266	2,049	-	-	2,049	9,315
Licenses and other taxes	3,305	-	3,305	932	-	-	932	4,237
Salaries and wages	139,629	-	139,629	39,382	-	-	39,382	179,011
Payroll taxes	11,873	-	11,873	3,349	-	-	3,349	15,222
Employee benefits	14,850	-	14,850	4,189	-	-	4,189	19,039
Other employee related expenses	7,208	-	7,208	2,033	-	-	2,033	9,241
Professional fees	-	-	-	84,701	-	-	84,701	84,701
Total Expenses	<u>\$ 407,177</u>	<u>\$ 2,540,000</u>	<u>\$ 2,947,177</u>	<u>\$ 216,041</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,041</u>	<u>\$ 3,163,218</u>

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



**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR AND  
 ENDOWMENT FUND OF THE GRAND CHAPTER OF CALIFORNIA,  
 ORDER OF THE EASTERN STAR  
 COMBINED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,297,013	\$ 4,328,426
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities		
Depreciation and amortization	7,723	7,811
Change in value of beneficial interest in perpetual trusts	(865,772)	(33,874)
Contributions restricted for endowment fund	(85,998)	(69,547)
Realized and unrealized losses (gains) on investments	(939,605)	(1,805,636)
Changes in operating assets and liabilities		
Prepaid expenses and supplies	22,179	3,190
Accounts receivable	(714,951)	(144,497)
Accounts payable and accrued expenses	11,733	(21,672)
Deferred revenue	(20,219)	13,122
Due from / to affiliated organizations	(15,874)	14,581
Net Cash Provided (Used) in Operating Activities	<u>(1,303,771)</u>	<u>2,291,904</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,415)	(2,598)
Proceeds from sale of investments	3,462,664	3,326,688
Purchase of investments, including reinvested dividends	(1,775,707)	(5,369,862)
Net Cash Provided (Used) in Investing Activities	<u>1,684,542</u>	<u>(2,045,772)</u>
Cash Flows from Financing Activities		
Contributions restricted for endowment fund	85,998	69,547
Net Cash Provided in Financing Activities	<u>85,998</u>	<u>69,547</u>
Net Change in Cash and Cash Equivalents	<u>466,769</u>	<u>315,679</u>
Cash and Cash Equivalents, Beginning of year	<u>1,115,610</u>	<u>799,931</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,582,379</u>	<u>\$ 1,115,610</u>

**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
AND ENDOWMENT FUND OF THE GRAND CHAPTER OF CALIFORNIA  
ORDER OF THE EASTERN STAR  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE 1    NATURE OF OPERATIONS**

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*Grand Chapter of California, Order of the Eastern Star* ("GC" or the "Grand Chapter") is a California not-for-profit unincorporated association which promotes and practices charity and fraternalism. *Endowment Fund of the Grand Chapter of California, Order of the Eastern Star* (the "Endowment Fund") is a separate IRS Section 501(c)(3) organization of the Grand Chapter used to support Eastern Star Homes of California (the "Homes") a related not-for-profit organization founded by the Grand Chapter.

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**Principles of Combination**

The accompanying combined financial statements include the accounts of Grand Chapter of California, Order of the Eastern Star and the Endowment Fund (collectively, the "Grand Chapter"), which are under common control. All significant inter-company balances and transactions have been eliminated in combination.

The combined financial statements do not include the financial position or results of activities of the Eastern Star Homes of California or local chapters throughout the State of California, or the California Eastern Star Foundation, related not-for-profit organizations. Management has evaluated the structure and relationships of these related organizations in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-810 and determined that consolidation would not be required or appropriate as the Grand Chapter does not have a controlling financial and/or economic interest in these organizations.

**Basis of Accounting**

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

**Combined Financial Statement Presentation**

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

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

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

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

**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
AND ENDOWMENT FUND OF THE GRAND CHAPTER OF CALIFORNIA  
ORDER OF THE EASTERN STAR  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Concentrations**

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

The Grand Chapter'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 Grand Chapter'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 combined 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.

**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, other than certificates of deposit, are reported at their fair value in the combined statements of financial position. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Certificates of deposit held for investment are classified as investments and are reported at amortized cost. 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.

**Property and Equipment**

Property and equipment is carried at cost, net of accumulated depreciation and amortization.

Cost of normal maintenance and repairs and minor replacements are charged to expense when incurred. Major replacements or betterments of properties are capitalized.

**Depreciation and Amortization**

Depreciation of property and equipment is provided using the straight-line method over the assets' estimated useful lives of three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or lease term.

**GRAND CHAPTER OF CALIFORNIA, ORDER OF THE EASTERN STAR  
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NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Impairment of Long-Lived Assets**

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

**Revenue Recognition**

**Contributions**

Contributions received, including unconditional promises to give, are recorded as revenue in the period received at their fair value. Bequests are recorded based on the liquidated value upon legal determination of the Grand Chapter's rights to the assets.

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

Unconditional promises to give, with payments due in future periods, are reported as restricted support. Gifts of land, buildings and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Grand Chapter 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.

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NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Revenue Recognition (Continued)**

**Residents' Assets**

Revenue from residents' assets represents contributions to the Endowment Fund by residents upon admission into the Homes. The recognition of this revenue is considered to be a contribution, which is restricted for the costs of services rendered by the Homes. The services to be rendered are consistent with the Homes' mission of providing housing to members of the Order of the Eastern Star and the purpose of the Grand Chapter's endowment fund is to support the Homes. Upon completion of a 90 day right-of-return period, residents' assets are recognized as temporarily restricted contributions on the 91st day after a resident has been admitted to the Homes under a Life Care Contract. Revenue is recorded based on the estimated liquidated value of the contributed assets.

**Other Revenue**

All non-contribution revenue is recognized when earned, except for investments recorded as temporarily restricted based on donor restrictions, and a portion of membership dues considered to be contributions to the endowment, as outlined in the Organization Constitution and Laws.

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

**Functional Allocation of Expenses**

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

**Income Taxes**

Grand Chapter of California, Order of the Eastern Star is a not-for-profit organization exempt from income taxes under Section 501(c)(8) of the Internal Revenue Code ("IRC") and Section 23701(b) of the Revenue Taxation Code of California. The Grand Chapter obtained a group filing exemption covering the local chapters throughout the State of California during the 1940's, and has included those chapters' funds in its annual exempt organization returns.

The Endowment Fund is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the IRS 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.

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Income Taxes (Continued)**

Each entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. We have determined that each entity is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The Grand Chapter and the Endowment Fund have no unrecognized tax benefits recorded or unrecorded at September 30, 2018 and 2017.

**Use of Estimates**

The preparation of the combined 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 combined financial statements and accompanying notes. Actual results could differ from those estimates.

**Recent Accounting Pronouncements**

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

In May 2014, the FASB issued Accounting Standards Update 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 Grand Chapter’s combined financial statements.

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. Management is currently evaluating the impact of adopting ASU 2016-01 on the Grand Chapter’s combined financial statements.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Recent Accounting Pronouncements (Continued)**

In February 2016, the FASB issued ASU 2016-02, Leases: Amendments to the FASB Accounting Standards Codification, which amends the existing guidance on accounting for leases, and is effective for fiscal years beginning after December 15, 2019 for entities other than public business entities. This ASU requires the recognition of lease assets and liabilities on the combined balance sheets 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 combined financial statements. Management is currently evaluating the impact of adopting ASU 2016-02 on the Grand Chapter's combined financial statements.

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

On June 21, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard is intended to address questions stemming from FASB ASU No. 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, and interim periods within annual periods beginning after December 15, 2019. 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.

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**NOTE 3 PROPERTY AND EQUIPMENT**

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

	<u>2018</u>	<u>2017</u>
Furniture, fixtures and equipment	\$ 51,637	51,637
Computer equipment and software	<u>63,630</u>	<u>61,214</u>
	115,267	112,851
Less: accumulated depreciation and amortization	<u>(105,732)</u>	<u>(98,008)</u>
	<b><u>\$ 9,535</u></b>	<b><u>\$ 14,843</u></b>

Depreciation expense for the years ended September 30, 2018 and 2017 was \$7,723 and \$7,811, respectively.

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**NOTE 4 INVESTMENTS**

At September 30, investments consist of the following:

	<u>2018</u>	<u>2017</u>
Mutual funds		
Bank loan	\$ 1,837,167	\$1,753,324
Money market fund	663,767	-
Exchange traded funds	26,231,790	26,308,963
Certificates of deposit	102,825	102,697
Deposit accounts	48,584	1,466,501
Beneficial interest in perpetual trusts	1,670,354	804,582
	<u><b>\$ 30,554,487</b></u>	<u><b>\$ 30,436,067</b></u>

Investment income for the years ended September 30, is as follows:

Interest and dividends	\$ 663,361	\$ 572,221
Realized and unrealized gains (losses)	939,476	1,805,636
Investment fees	(38,139)	(33,746)
	<u><b>\$ 1,564,698</b></u>	<u><b>\$ 2,344,111</b></u>

The Grand Chapter's Finance Committee has the sole discretion as to the investment and reinvestment of the Organization's assets (other than beneficial interests in trusts, which are invested according to the respective trustees). The Committee must invest the Grand Chapter'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:
  - a. 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;
  - b. Tier 2 (Fixed Income): The balance of the 20% investment minimum under this paragraph A may be invested in:
    - i. Cash or cash equivalents,
    - ii. Money market funds or accounts,



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**NOTE 4 INVESTMENTS (CONTINUED)**

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- 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:
- a. 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;
  - b. Preferred stocks;
  - c. Master Limited Partnerships;
  - d. Convertible Notes and Bonds;
  - e. Convertible Preferred Stocks;
  - f. ADRs (American Depositary Receipts) of non-U.S. companies;
  - g. Publicly traded REITs (Real Estate Investment Trusts);
  - h. Investment companies or investment trusts that invest in the above referenced financial instruments; or
  - i. 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.

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**NOTE 5 FAIR VALUE MEASUREMENTS**

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The Grand Chapter values its financial assets and liabilities based on 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 asset or liabilities. The fair value hierarchy gives the highest priority to Level I inputs.

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**NOTE 5 FAIR VALUE MEASUREMENTS**

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.

Investments measured at fair value 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>
Mutual funds	\$ 1,837,167	\$ -	\$ -	\$ 1,837,167
Money market Funds	663,767	-	-	663,767
Exchange traded funds	26,231,790	-	-	26,231,790
Deposit accounts	48,584	-	-	48,584
Certificates of deposit	102,825	-	-	102,825
Beneficial interests in perpetual trusts	-	-	1,670,354	1,670,354
Totals	<b>\$ <u>28,884,133</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>1,670,354</u></b>	<b>\$ <u>30,554,487</u></b>

Investments measured at fair value on a recurring basis at September 30, 2017 are as follows:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Mutual funds	\$ 1,753,324	\$ -	\$ -	\$ 1,753,324
Exchange traded funds	26,308,963	-	-	26,308,963
Deposit accounts	1,466,501	-	-	1,466,501
Certificates of deposit	102,697	-	-	102,697
Beneficial interests in perpetual trusts	-	-	804,582	804,582
Totals	<b>\$ <u>29,631,485</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>804,582</u></b>	<b>\$ <u>30,436,067</u></b>

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**NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)**

Valuations of mutual funds and exchange traded funds are based on quoted prices for transactions in active exchange markets involving identical assets. For the years ended September 30, 2018 and 2017, there have been no changes in the valuation methodologies.

Fair value for the contributions receivable from beneficial interests in perpetual trusts are measured using the Endowment's interest in the fair value of the assets held in the trusts as reported by the trustees as of September 30, 2018 and 2017. The Endowment considers the measurement of its beneficial interests in the trusts to be Level III measurements within the fair value hierarchy because even though the measurement is based on the unadjusted fair values of the trusts' assets reported by the trustee, the Endowment will never have the ability to direct the trustees to redeem them.

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 Grand Chapter 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.

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level III) for the years ended September 30, 2018 and 2017.

Fair Value Measurements at Report Date  
Using Significant Unobservable Inputs (Level III)

Beneficial Interests in Perpetual Trusts

Year ended September 30, 2018

Balance at September 30, 2017	\$	804,582
Purchases/contributions of investments		853,024
Investment return, net		80,105
Distributions		<u>(67,357)</u>
Balance at September 30, 2018	<b>\$</b>	<b><u>1,670,354</u></b>

Year ended at September 30, 2017

Balance at September 30, 2016	\$	770,708
Purchases/contributions of investments		-
Investment return, net		68,793
Distributions		<u>(34,919)</u>
Balance at September 30, 2017	<b>\$</b>	<b><u>804,582</u></b>

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**NOTE 6 BENEFICIAL INTEREST IN TRUSTS**

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**Split Interest**

Endowment is a twenty-five percent income beneficiary of the perpetual Simona Bruml Trust. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals \$624,171 and \$612,897 at September 30, 2018 and 2017, respectively.

Endowment is a two percent income beneficiary of the perpetual Fred and Lucille Hirsch Foundation, an irrevocable charitable trust. Thirteen income beneficiaries are to be distributed a percentage share of the net income of the trust annually. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals \$49,693 and \$49,267 at September 30, 2018 and 2017, respectively.

Endowment is a fifty percent income beneficiary of the perpetual Cecilia E. Murphey Fund. Two income beneficiaries are to be distributed a proportionate share of the net income of the trust annually. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals \$853,024 at September 30, 2018.

Endowment is a thirty-three percent income beneficiary of the perpetual Alfred Joseph Strei Trust. Three income beneficiaries are to be distributed a proportionate share of the net income of the trust annually. A noncurrent asset for the beneficial interest in the trust has been recognized at fair value, based on quoted market prices, which totals \$143,466 and \$142,418 at September 30, 2018 and 2017, respectively.

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**NOTE 7 RELATED PARTY TRANSACTIONS**

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**Administrative Services**

During the years ended September 30, 2018 and 2017, the Grand Chapter provided administrative services to its affiliates, from which it earned revenue as follows:

	<u>2018</u>	<u>2017</u>
Eastern Star Homes of California	\$ 84,667	\$ 96,483
California Eastern Star Foundation	21,847	28,972
	<u>\$ 106,514</u>	<u>\$ 125,455</u>

Included in accounts payable and accrued expenses on the combined statements of financial position, is \$52,879 and \$61,244 due to Homes At September 30, 2018 and 2017, respectively, and \$6,169 and \$8,568 due to the Foundation, respectively.

**Operating Leases**

The Grand Chapter leases office spaces from the Homes (Note 10). For the years ended September 30, 2018 and 2017, the Grand Chapter incurred \$15,931 and \$18,405, respectively, of rent expense on the leases.

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**NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)**

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**Other Transactions**

The Grand Chapter acts as an agent and collects certain dues from members of the Grand Chapter which are remitted to the Homes and California Eastern Star Foundation (the "Foundation").

The Grand Chapter had an existing business relationship with an insurance company owned by a former officer of the Grand Chapter. For the years ended September 30, 2018 and 2017 the Grand Chapter paid \$80,119 and \$97,785, respectively, to the insurance company. For the years ended September 30, 2018 and 2017, there were no amounts due to the insurance company.

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**NOTE 8 NET ASSETS**

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Unrestricted	\$ 874,985	\$ -	\$ -	\$ 874,985
Endowment Fund – Support of the Homes	-	17,703,306	-	17,703,306
Other	-	1,170	-	1,170
Endowment Fund	-	-	14,439,716	14,439,716
Totals	<b><u>\$ 874,985</u></b>	<b><u>\$ 17,704,476</u></b>	<b><u>\$14,439,716</u></b>	<b><u>\$ 33,019,177</u></b>

Net assets are comprised of the following at September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Unrestricted	\$ 832,010	\$ -	\$ -	\$ 832,010
Endowment Fund – support of the Homes	-	17,401,038	-	17,401,038
Other	-	1,170	-	1,170
Endowment Fund	-	-	13,487,946	13,487,946
Totals	<b><u>\$ 832,010</u></b>	<b><u>\$ 17,402,208</u></b>	<b><u>\$13,487,946</u></b>	<b><u>\$ 31,722,164</u></b>

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**NOTE 9 ENDOWMENT FUND**

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The Grand Chapter's endowment includes donor-restricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

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**NOTE 9    ENDOWMENT FUND (CONTINUED)**

The Grand Chapter 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 Grand Chapter classifies as permanently restricted net assets: (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 to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Grand Chapter 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 Grand Chapter’s investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The Grand Chapter’s Finance Committee has 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 Grand Chapter 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 Grand Chapter considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

Endowment net asset composition by type of fund as of September 30, 2018:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted Endowment funds	<b><u>\$ 17,703,306</u></b>	<b><u>\$ 14,439,716</u></b>	<b><u>\$32,143,022</u></b>

Endowment net asset composition by type of fund as of September 30, 2017:

Donor-restricted Endowment funds	<b><u>\$ 17,401,038</u></b>	<b><u>\$ 13,487,946</u></b>	<b><u>\$ 30,888,984</u></b>
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**NOTE 9    ENDOWMENT FUND (CONTINUED)**

*Designations of net assets.* Under the Constitution and Laws of the Grand Chapter, there is a more restrictive designation of assets than provided under UPMIFA. All assets are restricted except for the income on those assets. Endowment net asset composition under the Constitution and Laws by type of fund as of September 30, 2018 is as follows:

	Temporarily Restricted under <u>UPMIFA</u>	Permanently Restricted under <u>UPMIFA</u>	Unrestricted under <u>Constitution and Laws</u>	Restricted under <u>Constitution and Laws</u>	<u>Totals</u>
Per UPMIFA	\$ 17,703,306	\$14,439,716	\$ -	\$ -	\$32,143,022
Undistributed Net Investment Income	(466,127)	-	466,127	-	-
Member Application Fees/Contributions	(893,537)	-	-	893,537	-
Resident Asset Assignments/Contributions	(16,343,642)	-	-	16,343,642	-
Reclassification	-	<u>(14,439,716)</u>	-	<u>14,439,716</u>	-
Per Constitution and Laws	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 466,127</u>	<u>\$31,676,895</u>	<u>\$32,143,022</u>

Endowment net asset composition under the Constitution and Laws by type of fund as of September 30, 2017 is as follows:

	Temporarily Restricted under <u>UPMIFA</u>	Permanently Restricted under <u>UPMIFA</u>	Unrestricted under <u>Constitution and Laws</u>	Restricted under <u>Constitution and Laws</u>	<u>Totals</u>
Per UPMIFA	\$ 17,401,038	\$13,487,946	\$ -	\$ -	\$30,888,984
Undistributed Net Investment Income	(1,084,811)	-	1,084,811	-	-
Member Application Fees/Contributions	(846,720)	-	-	846,720	-
Resident Asset Assignments/Contributions	(15,469,507)	-	-	15,469,507	-
Reclassification	-	<u>(13,487,946)</u>	-	<u>13,487,946</u>	-
Per Constitution and Laws	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,084,811</u>	<u>\$29,804,173</u>	<u>\$ 30,888,984</u>

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**NOTE 9    ENDOWMENT FUND (CONTINUED)**

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$17,401,038	\$ 13,487,946	\$30,888,984
Contributions	1,129,282	951,770	2,081,052
Investment income/(loss)	1,594,332	-	1,594,332
Releases for support of Eastern Star Homes of California	(2,360,000)	-	(2,360,000)
Releases for other program expenditures	<u>(61,346)</u>	<u>-</u>	<u>(61,346)</u>
Endowment net assets, end of year	<b><u>\$17,703,306</u></b>	<b><u>\$ 14,439,716</u></b>	<b><u>\$32,143,022</u></b>

The following table summarizes the activity affecting endowment net assets for the year ended September 30, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$13,316,109	\$ 13,384,525	\$26,700,634
Contributions	4,322,104	103,421	4,425,525
Investment income/(loss)	2,365,467	-	2,365,467
Releases for support of Eastern Star Homes of California	(2,540,000)	-	(2,540,000)
Releases for other program expenditures	<u>(62,642)</u>	<u>-</u>	<u>(62,642)</u>
Endowment net assets, end of year	<b><u>\$17,401,038</u></b>	<b><u>\$ 13,487,946</u></b>	<b><u>\$30,888,984</u></b>



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**NOTE 10 COMMITMENTS AND CONTINGENCIES**

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**Operating Leases**

The Grand Chapter leases office space under operating leases from the Homes expiring on November 30, 2022. Future minimum payments under the non-cancelable operating leases are as follows:

Year ending September 30,	
2019	\$ 15,188
2020	15,415
2021	15,647
2022	15,881
2023	<u>2,653</u>
	<b><u>\$ 64,784</u></b>

**Contingencies**

Certain claims have been filed against the Grand Chapter in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Grand Chapter's financial position or results of operations.

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**NOTE 11 EMPLOYEE BENEFIT PLAN**

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The Grand Chapter maintains a Savings Incentive Match Plan for Employees Individual Retirement Account ("SIMPLE IRA") plan covering substantially all employees. The Grand Chapter contributes 2% of employees' salaries, up to allowable limits, and for the years ended September 30, 2018 and 2017, contributions totaled \$203 and \$915, respectively. The plan was terminated in December 2017.

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**NOTE 12 CALIFORNIA CHAPTERS**

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At September 30, 2018 and 2017, the Grand Chapter had 143 and 147 active California chapters, respectively, which have their own boards and are responsible for their own fundraising, revenue and expenses. As of September 30, 2018 and 2017, the unaudited cash and investments, revenue and expenses of these chapters consisted of the following:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Cash and investments	\$ 22,519,119	\$ 22,437,157
Revenue	\$ 1,540,544	\$ 2,110,565
Expenses	\$ (1,458,575)	\$ (1,487,724)

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**NOTE 13 PRIOR PERIOD ADJUSTMENTS**

During the year ended September 30, 2018, the Grand Chapter determined that \$162,166 should have been recorded as accounts receivable for September 30, 2017. As stated in Note 2, revenue from residents' assets are contributions to the Endowment Fund by residents upon admission into the Homes. The revenue is recorded based on the estimated liquidated value of the contributed assets. This amount was received and transferred into the Endowment Fund in the year ended September 30, 2018.

During the year ended September 30, 2018, the Grand Chapter determined that \$770,708 and \$804,582 should have been recorded as beneficial interests in perpetual trusts as of the years ended September 30, 2016 and September 30, 2017, respectively. As stated in Note 6, the Grand Chapter is required to reflect its beneficial interest in perpetual trusts by recording its proportional share in the fair value of the underlying investments of each trust as of the combined statement of financial position date.

These prior period adjustments increased permanently restricted net assets by \$770,708 and \$804,582 at September 30, 2016 and 2017, respectively, and increased temporarily restricted net assets by \$162,166 as of the year ended September 30, 2017.

The effect of the restatement on the change in temporarily restricted net assets and financial position as of and for the years ended September 30, 2017 and 2016, are as follows:

	2017	
	As previously reported	Restated
Temporarily restricted support and revenue, contributions, residents' assets	\$ 58,994	\$ 221,160
Permanently restricted bequests	-	33,874
Change in temporarily restricted net assets	3,922,763	4,084,929
Change in permanently restricted net assets	69,547	103,421
Accounts receivable	14,267	176,433
Beneficial interests in perpetual trusts	-	804,582
Temporarily restricted net assets	17,240,042	17,402,208
Permanently restricted net assets	12,683,364	13,487,946
	2016	
	As previously reported	Restated
Permanently restricted bequests	\$ -	\$ 770,708
Change in permanently restricted net assets	231,212	1,001,920
Beneficial interests in perpetual trusts	-	770,708
Permanently restricted net assets	12,613,817	13,384,525

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**NOTE 14 RECLASSIFICATIONS**

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

**NOTE 15 SUBSEQUENT EVENTS**

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Subsequent events have been evaluated by the Grand Chapter through the date of the auditors' report, which is the date the combined financial statements were available to be issued.