
CALIFORNIA EASTERN STAR FOUNDATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014



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TABLE OF CONTENTS

| | <u>PAGE</u> |
|-----------------------------------|--------------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF FINANCIAL POSITION | 2 |
| STATEMENTS OF ACTIVITIES | 3-4 |
| STATEMENTS OF FUNCTIONAL EXPENSES | 5-6 |
| STATEMENTS OF CASH FLOWS | 7 |
| NOTES TO FINANCIAL STATEMENTS | 8-16 |

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
California Eastern Star Foundation
Yorba Linda, California

We have audited the accompanying 2015 financial statements of *California Eastern Star Foundation* which comprise the statement of financial position as of September 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Combined 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 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 the 2015 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of California Eastern Star Foundation as of September 30, 2015, and the changes in its combined net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of California Eastern Star Foundation as of September 30, 2014 and for the year then ended, were audited by other auditors whose report dated January 27, 2015, expressed an unqualified opinion on these financial statements.

Mueller Prost LC

September 27, 2016
Irvine, California

Certified Public Accountants

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CALIFORNIA EASTERN STAR FOUNDATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2015 AND 2014

| <u>ASSETS</u> | <u>2015</u> | <u>2014</u> |
|--------------------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 17,495 | \$ 1,087,966 |
| Prepaid expenses and other | 999 | - |
| Investments | <u>7,278,804</u> | <u>6,593,788</u> |
| Total Assets | <u>\$ 7,297,298</u> | <u>\$ 7,681,754</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Accounts payable and accrued expenses | \$ 6,458 | \$ 1,450 |
| Grants payable | 4,034 | 2,550 |
| Due to affiliated organizations: | | |
| Grand Chapter of California, Order of the Eastern Star | 2,118 | 2,221 |
| Eastern Star Homes of California | <u>38,810</u> | <u>21,574</u> |
| Total Liabilities | <u>51,420</u> | <u>27,795</u> |
| Net assets: | | |
| Unrestricted | 18,983 | 19,608 |
| Temporarily restricted | 6,174,641 | 6,582,097 |
| Permanently restricted | <u>1,052,254</u> | <u>1,052,254</u> |
| Total Net Assets | <u>7,245,878</u> | <u>7,653,959</u> |
| Total Liabilities and Net Assets | <u>\$ 7,297,298</u> | <u>\$ 7,681,754</u> |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Support and Revenue | | | | |
| Contributions: | | | | |
| Donations | \$ - | \$ 151,439 | \$ - | \$ 151,439 |
| Bequests | - | 85,276 | - | 85,276 |
| Residents' assets | 120 | - | - | 120 |
| Investment income (loss) | | (299,456) | | (299,456) |
| Members' dues | - | 9,098 | - | 9,098 |
| Subtotal - support and revenue | <u>120</u> | <u>(53,643)</u> | <u>-</u> | <u>(53,523)</u> |
| Net assets released from restrictions | <u>353,813</u> | <u>(353,813)</u> | <u>-</u> | <u>-</u> |
| Total Support and Revenue | <u>353,933</u> | <u>(407,456)</u> | <u>-</u> | <u>(53,523)</u> |
| Expenses | | | | |
| Program services: | | | | |
| Member assistance | 119,827 | - | - | 119,827 |
| Humanitarian assistance | 45,653 | - | - | 45,653 |
| Support services: | | | | |
| Management and general | 119,071 | - | - | 119,071 |
| Fund raising | <u>70,007</u> | <u>-</u> | <u>-</u> | <u>70,007</u> |
| Total Expenses | <u>354,558</u> | <u>-</u> | <u>-</u> | <u>354,558</u> |
| Change in net assets | (625) | (407,456) | - | (408,081) |
| Net assets, beginning of year | <u>19,608</u> | <u>6,582,097</u> | <u>1,052,254</u> | <u>7,653,959</u> |
| Net assets, end of year | <u>\$ 18,983</u> | <u>\$ 6,174,641</u> | <u>\$ 1,052,254</u> | <u>\$ 7,245,878</u> |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|-------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Support and Revenue | | | | |
| Contributions: | | | | |
| Donations | \$ 1,336 | \$ 326,445 | \$ - | \$ 327,781 |
| Members' dues | - | 9,797 | - | 9,797 |
| Investment income | 25,518 | 272,561 | - | 298,079 |
| Subtotal - support and revenue | <u>26,854</u> | <u>608,803</u> | <u>-</u> | <u>635,657</u> |
| Net assets released from restrictions | <u>298,466</u> | <u>(298,466)</u> | <u>-</u> | <u>-</u> |
| Total Support and Revenue | <u>325,320</u> | <u>310,337</u> | <u>-</u> | <u>635,657</u> |
| Expenses | | | | |
| Program services: | | | | |
| Member assistance | 87,714 | - | - | 87,714 |
| Humanitarian assistance | 49,854 | - | - | 49,854 |
| Support services: | | | | |
| Management and general | 113,666 | - | - | 113,666 |
| Fund raising | 45,401 | - | - | 45,401 |
| Total Expenses | <u>296,635</u> | <u>-</u> | <u>-</u> | <u>296,635</u> |
| Change in net assets | 28,685 | 310,337 | - | 339,022 |
| Net assets, beginning of year | <u>(9,077)</u> | <u>6,271,760</u> | <u>1,052,254</u> | <u>7,314,937</u> |
| Net assets, end of year | <u><u>\$ 19,608</u></u> | <u><u>\$ 6,582,097</u></u> | <u><u>\$ 1,052,254</u></u> | <u><u>\$ 7,653,959</u></u> |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | <u>Program Services</u> | | | <u>Support Services</u> | | |
|------------------------------|--------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------|--------------------------|
| | <u>Member Assistance</u> | <u>Humanitarian Assistance</u> | <u>Total Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
| Administration fees | \$ 13,454 | \$ 13,454 | \$ 26,908 | \$ 107,627.00 | \$ - | \$ 134,535 |
| Assistance to members | 106,373 | - | 106,373 | - | - | 106,373 |
| Payroll and payroll expenses | - | - | - | - | 70,007 | 70,007 |
| Committee | - | 72 | 72 | - | - | 72 |
| Professional and consulting | - | - | - | 10,497 | - | 10,497 |
| Grants, awards and donations | - | 32,127 | 32,127 | - | - | 32,127 |
| Office expenses | - | - | - | 947 | - | 947 |
| Total Expenses | \$ <u>119,827</u> | \$ <u>45,653</u> | \$ <u>165,480</u> | \$ <u>119,071</u> | \$ <u>70,007</u> | \$ <u>354,558</u> |

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

| | <u>Program Services</u> | | | <u>Support Services</u> | | |
|------------------------------|--------------------------|--------------------------------|-------------------------------|-------------------------------|--------------------|-------------------------------|
| | <u>Member Assistance</u> | <u>Humanitarian Assistance</u> | <u>Total Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Support Services</u> |
| Administration fees | \$ 12,631 | \$ 12,631 | \$ 25,262 | \$ 101,049 | \$ - | \$ 126,311 |
| Assistance to members | 75,083 | - | 75,083 | - | - | 75,083 |
| Payroll and payroll expenses | - | - | - | - | 45,401 | 45,401 |
| Committee | - | 205 | 205 | - | - | 205 |
| Professional and consulting | - | - | - | 10,501 | - | 10,501 |
| Grants, awards and donations | - | 37,018 | 37,018 | - | - | 37,018 |
| Office expenses | - | - | - | 2,116 | - | 2,116 |
| Total Expenses | <u>\$ 87,714</u> | <u>\$ 49,854</u> | <u>\$ 137,568</u> | <u>\$ 113,666</u> | <u>\$ 45,401</u> | <u>\$ 296,635</u> |

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

CALIFORNIA EASTERN STAR FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|------------------------------------------------------------------------------------------|--------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ (408,081) | \$ 339,022 |
| Adjustments to reconcile decrease in net assets to net cash used by operating activities | | |
| Realized and unrealized losses (gains) on investments | 440,122 | (195,345) |
| Changes in operating assets and liabilities | | |
| Prepaid expenses and supplies | (999) | 241 |
| Accounts payable and accrued expenses | 5,008 | (16,897) |
| Grants payable | 1,484 | (27,328) |
| Due from / to affiliated organizations: | | |
| Grand Chapter of California, Order of Eastern Star | (103) | 2,721 |
| Eastern Star Homes of California | 17,236 | 21,574 |
| Net cash provided by operating activities | <u>54,667</u> | <u>123,988</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | 2,910,373 | 1,766,996 |
| Purchase of investments | (4,035,511) | (901,680) |
| Net cash (used in) provided by investing activities | <u>(1,125,138)</u> | <u>865,316</u> |
| Net Change in Cash and Cash Equivalents | (1,070,471) | 989,304 |
| Cash and Cash Equivalents, beginning of year | 1,087,966 | 98,662 |
| Cash and Cash Equivalents - End of Year | <u>\$ 17,495</u> | <u>\$ 1,087,966</u> |

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF OPERATIONS

California Eastern Star Foundation (the "Foundation") is a California not-for-profit corporation organized to receive gifts, bequests and contributions for the furtherance of educational, charitable and scientific purposes. The Foundation was organized in 1997 at the direction of the members of the Grand Chapter of California, Order of the Eastern Star (the "Grand Chapter"), and operated in accordance with Grand Chapter of California, Order of the Eastern Star (the "Grand Chapter") and operated in accordance with the Grand Chapter constitution and laws.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Financial Statement Presentation

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

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

Temporarily restricted – Net assets whose use by the Foundation is subject to either explicit donor-imposed stipulations, or by operation of law that can be fulfilled by actions of the Foundation 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 Foundation and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law.

Concentrations

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

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

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Investments

Investments, other than certificates of deposit, are reported at their fair value in the statements of financial position. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. 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.

Revenue Recognition

Contributions

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

For financial reporting purposes, the Foundation distinguishes between contributions 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 Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods, Facilities and Services

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

The Foundation 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 Foundation has no unrecognized tax benefits at September 30, 2015 and 2014. The Foundations federal income tax returns are subject to examination by the Internal Revenue Service for a period of three years from the filing of a federal return. California income tax returns are subject to examination by the Franchise Tax Board for a period of four years from the filing of a return.

Grant Expenditures

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

Use of Estimates

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

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2014 information presented have been reclassified to conform to current year presentation.

NOTE 3 INVESTMENTS

At September 30, 2015 and 2014, investments consist of the following:

| | 2015 | 2014 |
|-----------------------------|----------------------------|----------------------------|
| Mutual funds: | | |
| World allocation | \$ 2,370,828 | \$ 2,517,370 |
| Intermediate-term bonds | 1,957,787 | 951,400 |
| Tactical allocation | 696,711 | 785,785 |
| Inflation-protected bonds | 531,057 | 449,952 |
| Commodities | 173,663 | 251,462 |
| Short-term government bonds | 163,546 | 249,389 |
| Money Market | 43,375 | - |
| Exchange traded funds: | | |
| Dividend-paying equities | 1,047,972 | 1,068,852 |
| Gold trust | 293,865 | 319,578 |
| | <u>\$ 7,278,804</u> | <u>\$ 6,593,788</u> |

Investment income for the years ended September 30, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|----------------------------------------|----------------------------|--------------------------|
| Interest and dividends | \$ 170,795 | \$ 132,603 |
| Realized and unrealized gains (losses) | (440,122) | 195,345 |
| Investment fees | (30,129) | (29,869) |
| | <u>\$ (299,456)</u> | <u>\$ 298,079</u> |

The Foundation's Board of Directors and the Grand Chapter's Finance Committee sole discretion as to the investment and reinvestment of assets based on the following guidelines established by the Grand Chapter's Constitution and Laws.

- At least fifteen percent (15%) of the funds available must be in:
 - Cash and/or bank accounts.
 - Obligations of the United States or those for the payment of which the faith of the United States is pledged.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 INVESTMENTS (CONTINUED)

- Obligations of the State of California and its political subdivisions.
 - Such evidence of corporate indebtedness as is rated “A” or better by Standard and Poor’s Corporation or Moody’s Investors Service. Qualified investment funds limited to short-term United States Government Securities, bank certificates of deposit, banker’s acceptances commercial paper, repurchase agreements and comparable securities.
 - Savings accounts in investment certificates issued by Federal Chartered Banks insured by the Federal Deposit Insurance Corporation.
- Up to ten percent (10%) may be invested in:
 - Other evidence of indebtedness, which are or will be fully listed and registered on an exchange registered with the Securities and Exchange Commission as a National Securities Exchange.
 - Preferred stocks, which are or will be fully listed and registered on an exchange registered with the Securities and Exchange Commission as a National Securities Exchange.
 - Up to seventy-five percent (75%) may be invested in:
 - Common stocks, which must be fully listed and registered on an exchange registered with the Securities and Exchange Commission as a National Securities Exchange.
 - Shares of investment trusts.
 - Mutual funds.

NOTE 4 FAIR VALUE MEASUREMENTS

The Foundation 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 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level I inputs.

Level 2: 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 3: Unobservable inputs are used when little or no market data is available. The fair value hierarch gives the lowest priority to Level 3 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.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of investments measured on a recurring basis at September 30, 2015 are as follows:

| | <u>Level I</u> | <u>Level II</u> | <u>Level III</u> | <u>Total</u> |
|-----------------------|---------------------------|--------------------|--------------------|----------------------------|
| Mutual funds | \$ 5,936,967 | \$ - | \$ - | \$ 5,936,967 |
| Exchange traded funds | <u>1,341,837</u> | <u>-</u> | <u>-</u> | <u>1,341,837</u> |
| Totals | <u>\$7,278,804</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,278,804</u> |

Fair values of investments measured on a recurring basis at September 30, 2014 are as follows:

| | <u>Level I</u> | <u>Level II</u> | <u>Level III</u> | <u>Total</u> |
|-----------------------|---------------------------|--------------------|--------------------|----------------------------|
| Mutual funds | \$ 5,205,358 | \$ - | \$ - | \$ 5,205,358 |
| Exchange traded funds | <u>1,388,430</u> | <u>-</u> | <u>-</u> | <u>1,388,430</u> |
| Totals | <u>\$6,593,788</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,593,788</u> |

Valuations of mutual funds and exchange traded funds are obtained from real-time quotes for transactions in active exchange markets involving identical assets. For the years ended September 30, 2015 and 2014, there have been no changes in the valuation methodologies.

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

NOTE 5 RELATED PARTY TRANSACTIONS

The Foundation incurred expenses for administrative services of \$134,535 and \$126,311 from the Grand Chapter for the years ended September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, \$2,118 and \$2,221 is due to the Grand Chapter, respectively.

For the years ended September 30, 2015 and 2014, the Foundation reimbursed Eastern Star Homes of California (the "Home") \$70,007 and \$45,401 under an employee-sharing agreement. At September 30, 2015 and 2014, \$38,810 and \$21,574 was due to the Home, respectively.

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 NET ASSETS

Net assets are comprised of the following at September 30, 2015:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> |
|----------------------------------------------|-------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Unrestricted | \$ 18,981 | \$ - | \$ - | \$ 18,981 |
| Benevolent fund | - | 437,712 | - | 437,712 |
| J. Clifford Lee Memorial Cancer fund | - | 4,051,199 | - | 4,051,199 |
| Marquerite Rennie Memorial fund | - | 659,090 | 615,274 | 1,274,364 |
| Scholarship fund | - | 536,070 | 270,980 | 807,050 |
| Eastern Star Patient Comfort Program fund | - | 247,549 | - | 247,549 |
| Gerald P. Cashion fund | - | 13,275 | 166,000 | 179,275 |
| Disaster fund | - | 22,890 | - | 22,890 |
| Cancer research | - | 61,480 | - | 61,480 |
| Medical research | - | 1,763 | - | 1,763 |
| Heart research | - | 64,309 | - | 64,309 |
| NIRK | - | 79,306 | - | 79,306 |
| Totals | <u>\$ 18,981</u> | <u>\$ 6,174,643</u> | <u>\$1,052,254</u> | <u>\$ 7,245,878</u> |

Net assets are comprised of the following at September 30, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> |
|----------------------------------------------|-------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Unrestricted | \$ 19,608 | \$ - | \$ - | \$ 19,608 |
| Benevolent fund | - | 474,024 | - | 474,024 |
| J. Clifford Lee Memorial Cancer fund | - | 4,486,341 | - | 4,486,341 |
| Marquerite Rennie Memorial fund | - | 682,882 | 615,274 | 1,298,156 |
| Scholarship fund | - | 537,710 | 270,980 | 808,690 |
| Eastern Star Patient Comfort Program fund | - | 271,773 | - | 271,773 |
| Gerald P. Cashion fund | - | 26,316 | 166,000 | 192,316 |
| Disaster fund | - | 21,507 | - | 21,507 |
| Cancer research | - | 59,432 | - | 59,432 |
| Medical research | - | 1,306 | - | 1,306 |
| Heart research | - | 20,806 | - | 20,806 |
| NIRK | - | - | - | - |
| Totals | <u>\$ 19,608</u> | <u>\$ 6,582,097</u> | <u>\$1,052,254</u> | <u>\$ 7,653,959</u> |

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 ENDOWMENTS

The Foundation's Endowments include 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.

The Foundation has interpreted the State of California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Grand Chapter considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds, (2) the purposes of the Grand Chapter and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Grand Chapter and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation's Board of Directors and the Grand Chapter's Finance Committee have the sole discretion as to the investment and reinvestment of the assets of the fund based on the guidelines described in Note 3.

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

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

CALIFORNIA EASTERN STAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of September 30, 2015:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> |
|------------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted funds | \$ <u>1,208,435</u> | \$ <u>1,052,254</u> | \$ <u>2,260,689</u> |

Endowment net asset composition by type of fund as of September 30, 2014 is as follows:

| | | | |
|-------------------------------------|---------------------|---------------------|---------------------|
| Donor-restricted Endowment funds | \$ <u>1,246,908</u> | \$ <u>1,052,254</u> | \$ <u>2,299,162</u> |
|-------------------------------------|---------------------|---------------------|---------------------|

The following table summarizes the activity affecting endowment net assets for the year ended September 30, 2015:

| | | | |
|-----------------------------------------------|---------------------|---------------------|---------------------|
| Endowment net assets, beginning of year | \$ 1,246,908 | \$ 1,052,254 | \$ 2,299,162 |
| Contributions | 61,463 | - | 61,463 |
| Investment income | 55,944 | - | 55,944 |
| Net depreciation | (47,222) | - | (47,222) |
| Amounts appropriated for expenditure | <u>(108,658)</u> | <u>-</u> | <u>(108,658)</u> |
| Endowment net assets, end of year | <u>\$ 1,208,435</u> | <u>\$ 1,052,254</u> | <u>\$ 2,260,689</u> |

The following table summarizes the activity affecting endowment net assets for the year ended September 30, 2014:

| | | | |
|-----------------------------------------------|---------------------|---------------------|---------------------|
| Endowment net assets, beginning of year | \$ 1,013,943 | \$ 1,052,254 | \$ 2,066,197 |
| Contributions | 240,093 | - | 240,093 |
| Investment income | 37,103 | - | 37,103 |
| Net appreciation | 24,343 | - | 24,343 |
| Amounts appropriated for expenditure | <u>(68,574)</u> | <u>-</u> | <u>(68,574)</u> |
| Endowment net assets, end of year | <u>\$ 1,246,908</u> | <u>\$ 1,052,254</u> | <u>\$ 2,299,162</u> |

NOTE 8 SUBSEQUENT EVENTS

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