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

**COMBINED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2015**

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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 2015 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, 2015, and the related combined 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 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, 2015, and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Opinion on 2014 Financial Statements**

The 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* as of September 30, 2014 and for the year then ended, were audited by other auditors whose report dated January 27, 2015, expressed a qualified opinion on these combined financial statements for failure to include the financial information of Eastern Star Homes of California, a related not-for-profit organization. As described in Note 1, Management has evaluated the requirements for reporting combined financial statements and determined that the financial information of Eastern Star Homes of California are properly excluded from the combined financial statements. Our opinion on the 2015 combined financial statements is not modified with respect to this matter.

*Mueller Prost LC*

September 26, 2016  
Irvine, California

Certified Public Accountants

**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**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 503,947	\$ 3,915,967
Accounts receivable	2,239	1,681
Due from affiliated organizations:		
California Eastern Star Foundation	10,752	2,221
Eastern Star Homes of California	-	16,629
Investments	26,349,134	26,648,649
Prepaid expenses and supplies	<u>273,258</u>	<u>260,933</u>
Total Current Assets	<u>27,139,330</u>	<u>30,846,080</u>
Property and equipment, net	<u>24,527</u>	<u>30,246</u>
Total Assets	<b>\$ <u>27,163,857</u></b>	<b>\$ <u>30,876,326</u></b>
 <u>LIABILITIES AND NET ASSETS</u>  		
Current Liabilities		
Accounts payable and accrued expenses	\$ 59,660	\$ 37,125
Accrued expenses	53,033	59,844
Deferred revenue	<u>34,982</u>	<u>38,630</u>
Total Liabilities	<u>147,675</u>	<u>135,599</u>
Net assets:		
Unrestricted	643,294	705,637
Temporarily restricted	13,990,283	17,896,996
Permanently restricted	<u>12,382,605</u>	<u>12,138,094</u>
Total Net Assets	<u>27,016,182</u>	<u>30,740,727</u>
Total Liabilities and Net Assets	<b>\$ <u>27,163,857</u></b>	<b>\$ <u>30,876,326</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, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Contributions:				
Bequests	\$ -	\$ -	\$ 211,694	\$ 211,694
Donations	4,683	-	27,067	31,750
Life Sponsors	-	-	5,750	5,750
Residents' assets	-	44,572	-	44,572
Members' dues	266,176	41,835	-	308,011
Convention revenue	63,894	-	-	63,894
Investment income	125,036	(1,483,120)	-	(1,358,084)
Sales of supplies	60,681	-	-	60,681
Administration fees	337,735	-	-	337,735
Miscellaneous	5,568	-	-	5,568
	<u>863,773</u>	<u>(1,396,713)</u>	<u>244,511</u>	<u>(288,429)</u>
Subtotal - support and revenue				
Net Assets Released from Restrictions for:				
Programs	-	-	-	-
Support of Eastern Star Homes of California	<u>2,510,000</u>	<u>(2,510,000)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,373,773</u>	<u>(3,906,713)</u>	<u>244,511</u>	<u>(288,429)</u>
Expenses:				
Program services:				
Member services	831,975	-	-	831,975
Support of Eastern Star Homes of California	2,510,000	-	-	2,510,000
Support services:				
Management and general	94,141	-	-	94,141
Fundraising	-	-	-	-
	<u>3,436,116</u>	<u>-</u>	<u>-</u>	<u>3,436,116</u>
Total Expenses				
Change in Net Assets	(62,343)	(3,906,713)	244,511	(3,724,545)
Net assets, beginning of year	<u>705,637</u>	<u>17,896,996</u>	<u>12,138,094</u>	<u>30,740,727</u>
Net assets, end of year	<u>\$ 643,294</u>	<u>\$ 13,990,283</u>	<u>\$ 12,382,605</u>	<u>\$ 27,016,182</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, 2014**

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Contributions:				
Bequests	-	-	147,009	147,009
Donations	54	28,122	-	28,176
Life Sponsors	-	-	8,160	8,160
Residents' assets	-	-	18,225	18,225
Members' dues	325,264	-	-	325,264
Convention revenue	56,558	-	-	56,558
Investment income	2,412	1,190,750	-	1,193,162
Sales of supplies	62,180	-	-	62,180
Administration fees	359,109	-	-	359,109
Miscellaneous	856	-	-	856
	<u>806,433</u>	<u>1,218,872</u>	<u>173,394</u>	<u>2,198,699</u>
Subtotal - support and revenue				
	<u>806,433</u>	<u>1,218,872</u>	<u>173,394</u>	<u>2,198,699</u>
Net assets released from restrictions for:				
Programs	81,222	(81,222)	-	-
Support of Eastern Star Homes of California	<u>3,115,000</u>	<u>(3,115,000)</u>	<u>-</u>	<u>-</u>
	<u>4,002,655</u>	<u>(1,977,350)</u>	<u>173,394</u>	<u>2,198,699</u>
Total Support and Revenue				
	<u>4,002,655</u>	<u>(1,977,350)</u>	<u>173,394</u>	<u>2,198,699</u>
Expenses:				
Program services:				
Member services	806,167	-	-	806,167
Support of Eastern Star Homes of California	3,115,000	-	-	3,115,000
Support services:				
Management and general	148,904	-	-	148,904
Fundraising	-	-	-	-
	<u>4,070,071</u>	<u>-</u>	<u>-</u>	<u>4,070,071</u>
Total Expenses				
	<u>4,070,071</u>	<u>-</u>	<u>-</u>	<u>4,070,071</u>
Change in Net Assets	(67,416)	(1,977,350)	173,394	(1,871,372)
Net Assets, Beginning of Year	<u>773,053</u>	<u>19,874,346</u>	<u>11,964,700</u>	<u>32,612,099</u>
Net Assets, End of Year	<u>\$ 705,637</u>	<u>\$ 17,896,996</u>	<u>\$ 12,138,094</u>	<u>\$ 30,740,727</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 FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED SEPTEMBER 30, 2015**

	<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</u>	
Support of Eastern Star Homes of California	\$ -	\$ 2,510,000	\$ 2,510,000	\$ -	\$ -	\$ -	2,510,000
Cost of Sales	58,741	-	58,741	-	-	-	58,741
Allowances and jewels Committee	-	-	-	44,050	-	44,050	44,050
	-	-	-	4,161	-	4,161	4,161
Deputy Grand Matron official visits	43,480	-	43,480	-	-	-	43,480
Convention	69,931	-	69,931	-	-	-	69,931
Depreciation and amortization	9,781	-	9,781	-	-	-	9,781
Insurance	102,766	-	102,766	-	-	-	102,766
Equipment rental and maintenance	23,122	-	23,122	-	-	-	23,122
Office Supplies	13,187	-	13,187	-	-	-	13,187
Rent	50,999	-	50,999	-	-	-	50,999
Other office expenses	15,248	-	15,248	-	-	-	15,248
Telephone	5,167	-	5,167	-	-	-	5,167
Utilities	5,039	-	5,039	-	-	-	5,039
Contract services	-	-	-	10,064	-	10,064	10,064
Licenses and other taxes	9,436	-	9,436	-	-	-	9,436
Salaries and wages	334,030	-	334,030	-	-	-	334,030
Payroll taxes	28,261	-	28,261	-	-	-	28,261
Employee benefits	52,083	-	52,083	-	-	-	52,083
Other employee related expenses	10,704	-	10,704	-	-	-	10,704
Professional fees	-	-	-	35,866	-	35,866	35,866
Total Expenses	<u>\$ 831,975</u>	<u>\$ 2,510,000</u>	<u>\$ 3,341,975</u>	<u>\$ 94,141</u>	<u>\$ -</u>	<u>\$ 94,141</u>	<u>\$ 3,436,116</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 YEARS ENDED SEPTEMBER 30, 2014**

	<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</u>	
Support of Eastern Star Homes of California	\$ -	3,115,000	3,115,000	-	-	-	3,115,000
Cost of Sales	76,791	-	76,791	-	-	-	76,791
Allowances and jewels Committee	-	-	-	44,050	-	44,050	44,050
	-	-	-	7,094	-	7,094	7,094
Deputy Grand Matron official visits	44,531	-	44,531	-	-	-	44,531
Convention	66,181	-	66,181	-	-	-	66,181
Depreciation and amortization	8,311	-	8,311	-	-	-	8,311
Insurance	92,304	-	92,304	-	-	-	92,304
Equipment rental and maintenance	26,618	-	26,618	-	-	-	26,618
Office Supplies	14,452	-	14,452	-	-	-	14,452
Rent	39,881	-	39,881	-	-	-	39,881
Other office expenses	5,172	-	5,172	-	-	-	5,172
Telephone	4,887	-	4,887	-	-	-	4,887
Utilities	5,424	-	5,424	-	-	-	5,424
Contract services	-	-	-	36,516	-	36,516	36,516
Licenses and other taxes	3,026	-	3,026	-	-	-	3,026
Salaries and wages	315,133	-	315,133	-	-	-	315,133
Payroll taxes	26,129	-	26,129	-	-	-	26,129
Employee benefits	43,875	-	43,875	-	-	-	43,875
Other employee related expenses	33,452	-	33,452	-	-	-	33,452
Professional fees	-	-	-	61,244	-	61,244	61,244
<b>Total Expenses</b>	<b>\$ <u>806,167</u></b>	<b>\$ <u>3,115,000</u></b>	<b>\$ <u>3,921,167</u></b>	<b>\$ <u>148,904</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>148,904</u></b>	<b>\$ <u>4,070,071</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 CASH FLOWS  
 FOR THE YEARS ENDED SEPTEMBER 30**

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (3,724,545)	\$ (1,871,372)
Adjustments to reconcile decrease in net assets to net cash used by operating activities		
Depreciation and amortization	9,781	8,311
Contributions restricted for endowment fund	(244,511)	(30,181)
Realized and unrealized losses (gains) on investments	1,915,923	(759,750)
Changes in operating assets and liabilities		
Prepaid expenses and supplies	(12,325)	(97,892)
Accounts receivable	(558)	-
Other assets	-	15,860
Accounts payable and accrued expenses	15,724	16,148
Deferred revenue	(3,648)	12,770
Due from / to affiliated organizations:	8,098	(38,585)
Net cash used in operating activities	<u>(2,036,061)</u>	<u>(2,744,691)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(4,062)	(4,522)
Proceeds from sale of investments	-	11,573,675
Purchase of investments, including reinvested dividends	<u>(1,616,332)</u>	<u>(7,056,450)</u>
Net cash used in investing activities	<u>(1,620,394)</u>	<u>4,512,703</u>
Cash Flows from Financing Activities		
Contributions restricted for endowment fund	<u>244,511</u>	<u>30,181</u>
Net Change in Cash and Cash Equivalents	<u>(3,411,944)</u>	<u>1,798,193</u>
Cash and Cash Equivalents, Beginning of year	<u>3,915,967</u>	<u>2,117,774</u>
Cash and Cash Equivalents, End of Year	<u>\$ 504,023</u>	<u>\$ 3,915,967</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 501(c)(3) fund 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, a related not-for-profit organization. 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 an economic interest in these related 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.

**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 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 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  
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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**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, 2015 and 2014.

**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.

**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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**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, as the value of assets contributed on the date of admission is not sufficient to cover the costs of services rendered by the Home over the life of the residents. The services to be rendered are consistent with the Home's 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 Home. Upon completion of a 90 day cooling off period, residents' assets are recognized as temporarily restricted contributions on the 91<sup>st</sup> day after a resident has been admitted to the Home under a Life Care Contract. Revenue is recorded based on the estimated liquidated value of the contributed assets.

**Other Revenue**

All non-contribution revenues are recognized when earned.

**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 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**

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)**

The Grand Chapter and the Endowment Fund have no unrecognized tax benefits recorded or unrecorded at September 30, 2015. The Grand Chapter's and Endowment Fund's federal information tax returns are subject to examination by the Internal Revenue Service generally 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.

If applicable, the Grand Chapter and the Endowment Fund recognize interest and penalties associated with tax matters as part of income tax expense, and includes accrued interest and penalties with accrued expenses in the statements of financial position.

**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.

**Reclassifications**

Certain amounts reported in the prior period financial information have been reclassified to conform to current year presentation.

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**NOTE 3    PROPERTY AND EQUIPMENT**

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At September 30, 2015 and 2014, property and equipment consists of the following:

	<b><u>2015</u></b>	<b><u>2014</u></b>
Furniture, fixtures and equipment	\$ 58,091	\$ 58,091
Computer equipment and software	48,447	44,661
Leasehold improvements	<u>5,218</u>	<u>5,218</u>
	<b>\$111,756</b>	<b>\$107,970</b>
 Less accumulated depreciation and amortization	 <u>(87,229)</u>	 <u>(77,724)</u>
	<b><u>\$ 24,527</u></b>	<b><u>\$ 30,246</u></b>

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**NOTE 4 INVESTMENTS**

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

	<u>2015</u>	<u>2014</u>
Mutual funds:		
World allocation	\$ 11,182,394	\$ 11,874,195
Intermediate-term bonds	6,405,920	3,200,000
Tactical allocation	3,263,440	3,680,668
Commodities	739,564	1,070,880
Short-term government bonds	27,318	1,008,741
Inflation-protected bonds	40,670	967,873
Money market	13,922	-
Exchange traded funds:		
Dividend-paying equities	3,398,272	3,465,978
Gold trust	1,175,246	1,278,078
Certificates of deposit	<u>102,388</u>	<u>102,236</u>
	<b><u>\$ 26,349,134</u></b>	<b><u>\$ 26,648,649</u></b>

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

Interest and dividends	\$ 674,099	\$ 557,911
Realized and unrealized gains (losses)	(1,915,999)	759,750
Investment fees	<u>(116,184)</u>	<u>(124,499)</u>
	<b><u>\$ (1,358,084)</u></b>	<b><u>\$ 1,193,162</u></b>

The Grand Chapter's Finance Committee has the 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.
  - 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.



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**NOTE 4 INVESTMENTS (CONTINUED)**

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- 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.

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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 1: 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 1 inputs.

Level 2: Observable inputs other than Level 1 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 hierarchy 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.

Investments measured at fair value 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	\$21,673,228	\$ -	\$ -	\$21,673,228
Exchange traded funds	4,573,518	-	-	4,573,518
Certificates of deposit	<u>102,388</u>	<u>-</u>	<u>-</u>	<u>102,388</u>
Totals	<u><b>\$26,349,134</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$26,349,134</b></u>

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

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Investments measured at fair value 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	\$21,802,357	\$ -	\$ -	\$21,802,357
Exchange traded funds	4,744,056	-	-	4,744,056
Certificates of deposit	<u>102,236</u>	<u>-</u>	<u>-</u>	<u>102,236</u>
Totals	<b><u>\$26,648,649</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$26,648,649</u></b>

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, 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 Organization 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.

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**NOTE 6 RELATED PARTY TRANSACTIONS**

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**Administrative Services**

During the years ended September 30, 2015 and 2014, the Grand Chapter provided administrative services to its affiliates, from which it earned revenues as follows:

	<u>2015</u>	<u>2014</u>
Eastern Star Homes of California	\$ 202,968	\$ 232,798
California Eastern Star Foundation	134,767	126,311
	<b><u>\$ 337,735</u></b>	<b><u>\$ 359,109</u></b>

At September 30, 2015 and 2014, \$- and \$16,629 is due from the Home, respectively. At September 30, 2015 and 2014, \$10,762 and \$2,221 is due from the Foundation, respectively.

**Operating Lease**

The Grand Chapter leases office space from the Home (Note 9). For the years ended September 30, 2015 and 2014, the Grand Chapter incurred \$50,999 and \$39,881, respectively, of rent expense on the lease.

**Other Transactions**

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

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**NOTE 7 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 Endowment Fund – support of the Home Endowment Fund	\$ 643,294 - -	\$ - 13,990,283 -	\$ - - <u>12,382,605</u>	\$ 643,294 13,990,283 <u>12,382,605</u>
<b>Totals</b>	<b><u>\$ 643,294</u></b>	<b><u>\$ 13,990,283</u></b>	<b><u>\$12,382,605</u></b>	<b><u>\$ 27,016,182</u></b>

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 Endowment Fund – support Of the Home Endowment Fund	\$ 705,637 - -	\$ - 17,896,996 -	\$ - - <u>12,138,094</u>	\$ 705,637 17,896,996 <u>12,138,094</u>
<b>Totals</b>	<b><u>\$ 705,637</u></b>	<b><u>\$ 17,896,996</u></b>	<b><u>\$12,138,094</u></b>	<b><u>\$ 30,740,727</u></b>

**NOTE 8 ENDOWMENT FUND**

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.

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

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**NOTE 8    ENDOWMENT FUND (CONTINUED)**

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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, many 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, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted Endowment funds	<b><u>\$13,990,283</u></b>	<b><u>\$ 12,382,605</u></b>	<b><u>\$26,372,888</u></b>

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

Donor-restricted Endowment funds	<b><u>\$17,896,996</u></b>	<b><u>\$ 12,138,094</u></b>	<b><u>\$30,035,090</u></b>
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*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, 2015 is as follows:

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**NOTE 8    ENDOWMENT FUND (CONTINUED)**

	Temporarily Restricted under <u>UPMIFA</u>	Permanently Restricted under <u>UPMIFA</u>	Unrestricted under Constitution and Laws	Restricted under Constitution and Laws	<u>Totals</u>
Per UPMIFA	\$ 13,990,283	\$12,382,605	\$ -	\$ -	\$26,372,888
Undistributed Net Investment Income	1,975,050	-	(1,975,050)	-	-
Member Application Fees	(756,464)	-	-	756,464	-
Resident Asset Assignments	(15,208,869)	-	-	15,208,869	-
Reclassification	<u>-</u>	<u>12,382,605</u>	<u>-</u>	<u>12,382,605</u>	<u>-</u>
Per Constitution and Laws	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,975,050)</u>	<u>\$28,347,938</u>	<u>\$26,372,888</u>

Endowment net asset composition under the Constitution and Laws by type of fund as of September 30, 2014 is as follows:

	Temporarily Restricted under <u>UPMIFA</u>	Permanently Restricted under <u>UPMIFA</u>	Unrestricted under Constitution and Laws	Restricted under Constitution and Laws	<u>Totals</u>
Per UPMIFA	\$ 17,896,996	\$12,138,094	\$ -	\$ -	\$30,035,090
Undistributed Net Investment Income	(2,018,069)	-	2,018,069	-	-
Member Application Fees	(714,629)	-	-	714,629	-
Resident Asset Assignments	(15,164,298)	-	-	15,164,298	-
Reclassification	<u>-</u>	<u>(12,138,094)</u>	<u>-</u>	<u>12,138,094</u>	<u>-</u>
Per Constitution and Laws	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,018,069</u>	<u>\$28,017,021</u>	<u>\$30,035,090</u>

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**NOTE 8    ENDOWMENT FUND (CONTINUED)**

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$17,896,996	\$ 12,138,094	\$30,035,090
Contributions	86,407	244,511	330,918
Investment income/(loss)	(1,483,120)	-	(1,483,120)
Appropriated for support Of Eastern Star Homes Of California	(2,510,000)	-	(2,510,000)
Amounts appropriated for expenditure	-	-	-
Endowment net assets, end of year	<b><u>\$13,990,283</u></b>	<b><u>\$ 12,382,605</u></b>	<b><u>\$26,372,888</u></b>

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$19,874,346	\$ 11,964,700	\$31,839,046
Contributions	28,122	173,394	201,516
Investment income	1,190,750	-	1,190,750
Appropriated for support Of Eastern Star Homes Of California	(3,115,000)	-	(3,115,000)
Other amounts Appropriated for Expenditure	(81,222)	-	(81,222)
Endowment net assets, end of year	<b><u>\$17,896,996</u></b>	<b><u>\$ 12,138,094</u></b>	<b><u>\$30,035,090</u></b>

As of September 30, 2015 and 2014, there were no deficiencies of donor-restricted endowment funds.

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**NOTE 9 COMMITMENTS AND CONTINGENCIES**

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**Operating Lease**

The Grand Chapter leases office space under an operating lease from the Home expiring in June 2024. Future minimum payments under the non-cancelable operating lease are as follows:

Year ending September 30,	
2016	\$ 26,198
2017	18,540
2018	19,096
2019	19,670
2020	<u>20,259</u>
	<b><u>\$103,763</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 10 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, 2015 and 2014, contributions totaled \$6,757 and \$6,538, respectively.

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**NOTE 11 CALIFORNIA CHAPTERS**

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At September 30, 2015 and 2014, the Grand Chapter had 154 and 167 active California chapters, respectively, which are responsible for their own fundraising, revenues and expenses. Each individual California chapter's financial statements are not consolidated into the Grand Chapter's financial statements. As of September 30, 2015 and 2014, the unaudited cash and investments, revenues and expenses of these chapters consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash and investments	\$ 20,538,651	\$ 21,784,612
Revenue	\$ 1,071,420	\$ 2,176,491
Expenses	\$ (1,610,871)	\$ (1,260,679)

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**NOTE 13 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.