

# Eastern Star Homes of California

Financial Statements

Years Ended September 30, 2022 and 2021



# Eastern Star Homes of California

Years Ended September 30, 2022 and 2021

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## Table of Contents

Independent Auditor’s Report.....	1-2
Financial Statements	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	5-6
Statements of Cash Flows .....	7
Notes to Financial Statements.....	8-19

## **Independent Auditor's Report**

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

### ***Opinion***

We have audited the accompanying financial statements of Eastern Star Homes of California (a nonprofit organization), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Eastern Star Homes of California as of September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States (GAAP).

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Eastern Star Homes of California and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Eastern Star Homes of California's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Eastern Star Homes of California's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Eastern Star Homes of California's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Wipfli LLP*

Wipfli LLP

Irvine, California

March 7, 2023

# Eastern Star Homes of California

## Statements of Financial Position

<i>As of September 30, 2022 and 2021</i>	2022	2021
<b><u>Assets</u></b>		
Current assets		
Cash	\$ 133,825	\$ 194,456
Receivables	22,652	13,737
Due from affiliate	53,020	55,650
Prepaid expenses	56,616	63,857
Total current assets	266,113	327,700
Property and equipment, net	5,350,564	5,547,170
Deferred rental income	22,769	28,360
Other assets	1,394	5,951
Total assets	\$ 5,640,840	\$ 5,909,181
<b><u>Liabilities and Net Assets (Deficit)</u></b>		
Current liabilities		
Accounts payable	\$ 30,680	\$ 33,658
Accrued expenses	87,014	99,750
Total current liabilities	117,694	133,408
Long-term liabilities		
Security deposits	25,958	25,355
Obligation to provide future services	5,789,125	5,503,712
Total long-term liabilities	5,815,083	5,529,067
Total liabilities	5,932,777	5,662,475
Net assets (deficit)		
Without donor restrictions	(291,937)	246,706
Total liabilities and net assets (deficit)	\$ 5,640,840	\$ 5,909,181

See accompanying notes to financial statements.

# Eastern Star Homes of California

## Statements of Activities

<i>Years Ended September 30, 2022 and 2021</i>	2022	2021
Support, revenue, and gains		
Contributions:		
Per capita - members of Grand Chapter of California, Order of the Eastern Star	\$ 53,020	\$ 55,650
Donations	37,379	16,009
Contributed nonfinancial assets	5,471	19,488
Grant from Endowment Fund of the Grand Chapter of California, Order of the Eastern Star	2,007,000	1,605,000
Resident revenue:		
Asset transfer resident revenue	591,055	580,508
Fee for service revenue	913,799	994,721
Rental income	314,570	302,168
HHS Provider Relief Funds	-	23,196
Other miscellaneous revenue	12,233	23,732
Total support, revenue, and gains	3,934,527	3,620,472
Expenses		
Program services:		
Elderly care	3,488,988	3,244,904
Support services:		
Management and general	534,793	497,542
Rental property	136,417	126,319
Fundraising	27,559	23,972
Total expenses	4,187,757	3,892,737
Change in net assets before obligation to provide future services	(253,230)	(272,265)
Change in obligation to provide future services	(285,413)	2,954,406
Change in net assets (deficit)	(538,643)	2,682,141
Net assets (deficit) without donor restrictions, beginning of year	246,706	(2,435,435)
Net assets (deficit) without donor restrictions, end of year	\$ (291,937)	\$ 246,706

See accompanying notes to financial statements.

# Eastern Star Homes of California

## Statement of Functional Expenses

	Program Services		Support Services		Fundraising		Total	
	Elderly Care	Management and General	Rental Property	Fundraising	Fundraising	Total Support Services and Fundraising	Total	
<i>Year Ended September 30, 2022</i>								
Compensation and related expenses:								
Salaries and wages	\$ 1,593,900	\$ 143,272	\$ 35,818	\$ 17,909	\$ 196,999	\$ 1,790,899		
Employee benefits	191,052	17,173	4,293	2,147	23,613	214,665		
Payroll taxes	120,603	10,841	2,710	1,355	14,906	135,509		
Other employee expenses	52,140	4,687	1,172	586	6,445	58,585		
Professional and consultant fees	-	60,776	-	-	60,776	60,776		
Administration fee	7,289	72,299	5,170	-	77,469	84,758		
Insurance:								
Property and liability	165,584	14,884	3,721	1,860	20,465	186,049		
Workers' compensation	87,134	7,832	1,958	979	10,769	97,903		
Occupancy:								
Electricity	201,416	17,707	2,213	-	19,920	221,336		
Gas	70,858	7,873	-	-	7,873	78,731		
Water and sewer	39,802	4,422	11,056	-	15,478	55,280		
Depreciation and amortization	298,201	47,276	18,183	-	65,459	363,660		
Minor equipment and other supplies	170,108	55,893	17,011	-	72,904	243,012		
Equipment rental and maintenance	4,727	425	106	53	584	5,311		
Telephone	16,034	1,441	360	180	1,981	18,015		
Licenses and taxes	24,060	6,092	21,040	-	27,132	51,192		
Resident activities	23,079	-	-	-	-	23,079		
Resident allowances	30,181	-	-	-	-	30,181		
Resident admission	3,819	-	-	-	-	3,819		
Holiday gifts - residents	408	-	-	-	-	408		
Contract labor	95,984	57,455	11,126	16	68,597	164,581		
Hospitalization/medical supplies	42,681	-	-	-	-	42,681		
Dues and subscriptions	6,540	133	-	-	133	6,673		
Office expense	21,353	1,919	480	240	2,639	23,992		
Food services	213,592	-	-	-	-	213,592		
Other resident services	6,209	-	-	-	-	6,209		
Publications	-	2,165	-	-	2,165	2,165		
Events	2,234	228	-	2,234	2,462	4,696		
<b>Total expenses</b>	<b>\$ 3,488,988</b>	<b>\$ 534,793</b>	<b>\$ 136,417</b>	<b>\$ 27,559</b>	<b>\$ 698,769</b>	<b>\$ 4,187,757</b>		

# Eastern Star Homes of California

## Statement of Functional Expenses

	Program Services		Support Services		Fundraising		Total	
	Elderly Care	Management and General	Rental Property	Fundraising	Fundraising	Total Support Services and Fundraising	Total	
<i>Year Ended September 30, 2021</i>								
Compensation and related expenses:								
Salaries and wages	\$ 1,379,904	\$ 124,036	\$ 31,009	\$ 15,505	\$ 170,550	\$ 1,550,454		
Employee benefits	190,248	17,101	4,275	2,138	23,514	213,762		
Payroll taxes	101,503	9,124	2,281	1,140	12,545	114,048		
Other employee expenses	47,613	4,280	1,070	535	5,885	53,498		
Professional and consultant fees	-	70,268	-	-	70,268	70,268		
Administration fee	8,406	83,376	5,962	-	89,338	97,744		
Insurance:								
Property and liability	174,933	15,724	3,931	1,966	21,621	196,554		
Workers' compensation	122,347	10,997	2,749	1,375	15,121	137,468		
Occupancy:								
Electricity	180,775	15,892	1,987	-	17,879	198,654		
Gas	53,233	5,915	-	-	5,915	59,148		
Water and sewer	42,000	4,667	11,667	-	16,334	58,334		
Depreciation and amortization	292,368	46,351	17,827	-	64,178	356,546		
Minor equipment and other supplies	135,961	36,746	11,024	-	47,770	183,731		
Equipment rental and maintenance	4,287	385	96	48	529	4,816		
Telephone	15,791	1,419	355	177	1,951	17,742		
Licenses and taxes	23,225	5,880	20,310	-	26,190	49,415		
Resident activities	14,771	-	-	-	-	14,771		
Resident allowances	36,438	-	-	-	-	36,438		
Resident admission	298	-	-	-	-	298		
Holiday gifts - residents	385	-	-	-	-	385		
Contract labor	112,089	36,829	11,209	-	48,038	160,127		
Board member expenses	30	120	-	-	120	150		
Hospitalization/medical supplies	75,406	-	-	-	-	75,406		
Dues and subscriptions	4,838	99	-	-	99	4,937		
Office expense	25,238	2,269	567	284	3,120	28,358		
Food services	194,350	-	-	-	-	194,350		
Other resident services	7,662	-	-	-	-	7,662		
Publications	-	5,982	-	-	5,982	5,982		
Events	805	82	-	804	886	1,691		
<b>Total expenses</b>	<b>\$ 3,244,904</b>	<b>\$ 497,542</b>	<b>\$ 126,319</b>	<b>\$ 23,972</b>	<b>\$ 647,833</b>	<b>\$ 3,892,737</b>		



# Eastern Star Homes of California

## Statements of Cash Flows

<i>Years Ended September 30, 2022 and 2021</i>	2022	2021
<b>Cash flows from operating activities</b>		
Grants received from Grand Chapter of California		
Order of the Eastern Star Endowment Fund	\$ 2,007,000	\$ 1,605,000
Per capita contributions	53,020	55,650
Contributions received	37,379	16,009
Contributed nonfinancial assets	5,471	19,488
Resident revenue	1,495,939	1,609,111
Rental income	320,161	304,729
Miscellaneous income	12,233	23,732
Cash payments for salaries and wages, benefits, payroll taxes, and other employment expenses	(2,284,825)	(2,091,402)
Cash payments to vendors	(1,544,512)	(1,515,325)
<b>Net cash from operating activities</b>	<b>101,866</b>	<b>26,992</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(162,497)	(84,975)
Proceeds from disposal of property and equipment	-	19,609
<b>Net cash from investing activities</b>	<b>(162,497)</b>	<b>(65,366)</b>
<b>Cash flows from financing activities</b>		
HHS Provider Relief Funds proceeds	-	23,196
<b>Net cash from financing activities</b>	<b>-</b>	<b>23,196</b>
<b>Net change in cash</b>	<b>(60,631)</b>	<b>(15,178)</b>
<b>Cash, beginning of year</b>	<b>194,456</b>	<b>209,634</b>
<b>Cash, end of year</b>	<b>\$ 133,825</b>	<b>\$ 194,456</b>
<b>Reconciliation of change in net assets (deficit) to net cash from operating activities</b>		
Change in net assets (deficit)	\$ (538,643)	\$ 2,682,141
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
Depreciation and amortization	363,660	356,546
Gain on disposal of asset	-	(19,609)
Provision for bad debt	-	-
Change in obligation to provide future services	285,413	(2,954,406)
HHS Provider Relief Funds grant	-	(23,196)
Changes in operating assets and liabilities:		
Receivables	(8,915)	33,882
Due from affiliate	2,630	(55,650)
Prepaid expenses	7,241	8,111
Deferred rental income	5,591	2,561
Accounts payable	(2,978)	(25,560)
Accrued expenses	(12,736)	22,172
Security deposits	603	-
<b>Net cash from operating activities</b>	<b>\$ 101,866</b>	<b>\$ 26,992</b>

See accompanying notes to financial statements.

# Eastern Star Homes of California

## Notes to Financial Statements

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### Note 1: Description of Operations

Eastern Star Homes of California (the "Home") is a California not-for-profit corporation organized in 1930 for the purpose of operating a home, under the name of "Senior Living Community," for the care of aged members of the Order of the Eastern Star and community. The Home also operates a medical office rental facility under the name "Eastern Star Professional Plaza."

The Home is the income beneficiary of the Endowment Fund ("the Endowment Fund") of the Grand Chapter of California Order of the Eastern Star (the "Grand Chapter"), which are related parties. Net investment income is transferred to the Home to the extent that funds are needed for operations. Additional funds as necessary for the maintenance and operation of the Home are also transferred from the Endowment Fund.

Residents, other than those under fee for service arrangements, are affiliated members of the Grand Chapter, in good standing for at least five years, who are at least 65 years of age, as described in the Constitution and Laws. Upon admission to the Home, residents contribute their assets to the Endowment Fund. Fee for service arrangements are also available for members and nonaffiliated applicants. The Home is committed to maintain their residents, to the extent it is possible and according to its policies, even if they subsequently become unable to pay their monthly charges.

### Note 2: Summary of Significant Accounting Policies

#### Basis of Accounting

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

#### Financial Statement Presentation of Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. All other donor restricted contributions are reported as increases in net assets with donor restrictions. Restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Home does not have any net assets with donor restrictions as of September 30, 2022 and 2021.

# Eastern Star Homes of California

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies** (Continued)

#### **Use of Estimates**

The preparation of accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from these estimates.

#### **Cash and Cash Equivalents**

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

#### **Concentrations of Credit Risk**

Financial instruments, which potentially subject the Home to concentrations of credit risk, consist primarily of demand deposit at financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, such amounts may exceed federally insured limits.

#### **Receivables**

Receivables are stated at net realizable amounts. Management has elected to record bad debts using the direct write-off method. U.S. GAAP requires that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. No bad debt expense was recorded for the year ended September 30, 2022 and 2021. Receivables totaled \$47,619 as of October 1, 2020.

#### **Property and Equipment**

Acquisitions of property and equipment are recorded at cost. Donated property is recorded at its estimated fair value at the date of receipt. Currently, there are no donor or legal restrictions on the proceeds from the disposition of donated property. The cost of normal maintenance and repairs and minor replacements are charged to expense when incurred. Major replacements or betterments of properties are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, generally from two to thirty years.

#### **Impairment of Long-Lived Assets**

When facts and circumstances indicate that the carrying values of long-lived assets may be impaired, the Home performs an evaluation of recoverability by comparing the carrying values of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. No impairment charges were recorded for the years ended September 30, 2022 and 2021.

# Eastern Star Homes of California

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies** (Continued)

#### **Estimated Obligation to Provide Future Services**

The Home expects to provide services and the use of facilities to residents, other than those under fee for service arrangements, over their remaining lives. The Home annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents as described in Note 5.

#### **Revenue Recognition**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Topic 606 supersedes most current revenue recognition guidance, including industry-specific guidance, and outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and reward. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time, and ensuring the time value of money is considered in the transaction price.

#### *Resident Revenue*

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

The Home has a few residents that receive an Assisted Living Waiver (ALW) from Medi-Cal. Medi-Cal began paying a portion for assisted living care for qualified aged and disabled residents to enable low-income, Medi-Cal eligible seniors and persons with disabilities, who would otherwise require nursing facility services, to remain in or relocate to a community setting in a residential care facility for the elderly or public subsidized housing. The most recent five-year waiver renewal is effective March 1, 2019 through February 29, 2024. The daily rates received for ALW residents for assisted living services were \$101 and \$93 for the years ended September 30, 2022 and 2021, respectively.

Performance obligations are determined based on the nature of the services provided by the Home. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Home believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations are satisfied over time related to residents in the Home receiving lodging and assisted living services. The Home measures the performance obligation from the effective date on the residence agreement contract to the point when it is no longer required to provide services to that resident, which is generally at the time the resident elects to move from the facility or passes away.

# Eastern Star Homes of California

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies** (Continued)

#### **Revenue Recognition** (Continued)

##### *Resident Revenue* (Continued)

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

##### *Contribution and Grants Revenue*

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

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

Unconditional promises to give, with payments due in future periods, are reported at the net realizable value as restricted support. Gifts of land, buildings and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Home reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

##### *Donated Goods, Facilities, and Services*

Donated non-cash assets, such as use of facilities and goods, are recorded at their fair values in the period received. The Home receives a significant amount of donated services from unpaid volunteers who assist with the different functions of the Home. For the years ended September 30, 2022 and 2021, no donated services from volunteers have been recognized in the statements of activities because the criteria for recognition was not satisfied.

Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills (which include accounting and legal services), are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received. For the years ended September 30, 2022 and 2021, the fair value of donated services of \$5,471 and \$19,488, respectively, were presented as contributed nonfinancial assets in the statements of activities and as professional and consultant fees on the statements of functional expenses.

All donated services and assets were utilized by the Home's support services. There were no donor-imposed restrictions associated with the donated services. Donated services are valued at the standard hourly rates charged for those services.

# Eastern Star Homes of California

## Notes to Financial Statements

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### Note 2: Summary of Significant Accounting Policies (Continued)

#### Endowment Fund

Support from the Endowment Fund for the years ended September 30, 2022 and 2021, was \$2,007,000 and \$1,605,000, respectively. At September 30, 2022 and 2021, the Endowment Fund has net assets with donor restrictions (restricted for specific purpose) of \$14,915,423 and \$21,515,168, respectively, and net assets with donor restrictions (perpetually restricted) of \$14,847,711 and \$14,362,844, respectively.

#### Functional Allocation of Expenses

The Eastern Star Homes of California functional expense methodology was developed to accurately assign each category based on several factors. Expenses are charged to program services, support services, and fundraising on the basis of actual use or estimated use, if actual use is not readily determinable. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Home.

The Home has one fund for program services which is designated for elderly care. The costs of providing program services, support services (management and general and rental property), and fundraising have been summarized on a functional basis. Accordingly, certain costs have been allocated among program services, support services, and fundraising. The Home's Board of Trustees ("Board") approved the expense allocation methodology for the years ended September 30, 2022 and 2021, as follows:

- The following expenses are, by definition, 100% allocated to elderly care program services:
  - Member assistance
  - Resident activities
  - Resident allowances
  - Resident admission expenses
  - Holiday gifts for residents
  - Hospitalization/medical supplies
  - Food services
  - Other resident services
- Each employee job group was evaluated for an estimate of the total time spent on the classifications. Using salaries, wages, overtime and bonuses for each job group, an overall allocation was derived from the totals. This allocation method was assigned to the following categories:
  - All compensation subcategories
  - Insurance subcategories
  - Equipment rental and maintenance
  - Telephone
  - Office expenses
- Professional and consultant fees were deemed all management and general expenses.

# Eastern Star Homes of California

## Notes to Financial Statements

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### Note 2: Summary of Significant Accounting Policies (Continued)

#### Functional Allocation of Expenses (Continued)

- Depreciation was allocated based on each fixed asset being evaluated for purpose, with the assumption that an estimated 10% of the Home facility is not used directly by the residents or in direct support of the residents.
- Administration fees are kept separate for the rental property and the Home portion was distributed 10% to program services and 90% to management and general.
- The expenses for the following categories are kept separate for the rental property and the Home portion was distributed approximately 90% to program services and 10% to management and general:
  - Electricity
  - Gas
  - Water
- The License and Tax expenses are kept separate for the Rental Property and the Home portion was distributed 50% to program services and 50% to management, general and rental.
- Contract labor and minor equipment and other supplies were allocated based on each account evaluated for purpose and an overall allocation was derived from these totals.
- The following categories are determined by actual expenditures by function:
  - Board member expenses
  - Dues and subscriptions
  - Publications
  - Events

#### Income Taxes

The Home is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the Revenue Taxation Code of California and is a publicly supported organization as described in Section 509(a) of the IRC.

The Home is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. Management has determined that the Home is not subject to unrelated business income tax and, therefore, has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the Internal Revenue Service. The Home has no unrecognized tax liabilities or benefits recorded or unrecorded at September 30, 2022 and 2021.

# Eastern Star Homes of California

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies (Continued)**

#### **Recent Accounting Pronouncements – Not Yet Adopted**

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases: Amendments to the FASB Accounting Standards Codification (Topic 842)*, which amends the existing guidance on accounting for leases. This ASU requires the recognition of lease assets and liabilities on the statement of financial position and the disclosure of key information about leasing arrangements. Early adoption is permitted and modified retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*. Prior to ASU 2020-05, the amendments to Topic 842 would be effective for periods beginning after December 15, 2020 for entities other than public business entities. ASU 2020-05 defers the effective date of the amendments to Topic 842 to periods beginning after December 15, 2021 for entities other than public business entities. Management has adopted the provisions of ASU 2020-05 and will defer implementation according to the amendments in Topic 842. Management is currently evaluating the impact of adopting ASU 2016-02 on the Home's financial statements and related disclosures.

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

#### **Adoption of Accounting Pronouncement**

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit-Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The amendments in this update will require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, expand disclosures on the various contributed nonfinancial assets recognized, including disaggregated category types, the valuation techniques and inputs used to arrive at fair value, and the policy for either monetizing or utilizing contributed nonfinancial assets. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after June 15, 2021, applied on a retrospective basis. Early adoption is permitted. The guidance in this ASU was adopted and applied on a retrospective basis by the Home for the year ended September 30, 2022. The \$19,488 previously reported on the statement of activities as donations is now called contributed nonfinancial assets. There was no change to reported net assets, or change in net assets for either period presented.

#### **Subsequent Events**

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



# Eastern Star Homes of California

## Notes to Financial Statements

### Note 3: Liquidity and Availability

Financial assets available for general expenditure within one year of the statement of financial position as of September 30, 2022 and 2021, comprised the following:

	2022	2021
Cash	\$ 133,825	\$ 194,456
Receivables	22,652	13,737
Due from affiliate	53,020	55,650
Financial assets available to meet general expenditures over the next 12 months	\$ 209,497	\$ 263,843

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

### Note 4: Property & Equipment

At September 30, 2022 and 2021, property and equipment consists of the following:

	2022	2021
Land	\$ 2,738,904	\$ 2,738,904
Buildings	8,422,881	8,422,881
Building improvements	1,927,748	1,799,617
Furniture and equipment	435,176	401,809
Fixtures and improvements	177,550	177,550
Automobiles	67,604	66,604
Computer equipment and software	82,491	82,491
Total property and equipment	13,852,354	13,689,856
Accumulated depreciation	(8,501,790)	(8,142,686)
Property and equipment, net	\$ 5,350,564	\$ 5,547,170

Depreciation expense on property and equipment totaled \$359,103 and \$351,989 for the years ended September 30, 2022 and 2021, respectively.

The Home's property also includes office facilities that are leased to the Grand Chapter and various other medical offices as disclosed in Note 10.

# Eastern Star Homes of California

## Notes to Financial Statements

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### Note 5: Obligation to Provide Future Services

Certain applicants for admission to the Home are required to transfer ownership of their personal assets to the Endowment Fund of the Grand Chapter. These residents are categorized as asset transfers. In exchange for this transfer, the Home agrees to care for the residents for the remainder of their lives. This agreement does not apply to residents under a fee for service arrangement. As a result of this agreement, the Home has recorded a liability for its obligation to provide care for the asset transfer residents for the remainder of their lives.

The obligation is calculated by estimating the cost of providing care and the use of the facilities over the remaining lives of the residents, estimated using mortality tables obtained from the Social Security Administration, less estimated cash revenue before any realized gains from the Endowment Fund or proceeds on future property sales. The excess of projected expenses over revenue has been estimated to increase at 4% and 3% annually (representing inflation) as of September 30, 2022 and 2021, respectively, and is based on actual historical expenses and revenue related to the resident care facility. The resulting liability has been discounted by 4% as of September 30, 2022 and 2021, to reflect net present value. This liability reflected in the accompanying statements of financial position amounted to \$5,789,125 and \$5,503,712 at September 30, 2022 and 2021, respectively.

The change in obligation from year to year is shown on the statements of activities. Management estimates that the cost to provide future care for existing residents at a replacement facility in the local area, included in the cost estimates above, to range from \$6,126,680 to \$6,683,662 at September 30, 2022, based on actual reported expenses at such replacement facilities over estimated revenues increasing at 4% annually for inflation and discounted by 4% to reflect net present value.

The Home is licensed to operate a seventy-six bed continuing care home, and both at September 30, 2022 and 2021, the Home had a total of 35 residents, of which 20 were asset transfer residents. Any shortfall in future operating cash flow is obligated to be met by the Endowment Fund of the Grand Chapter as disclosed in Note 2.

### Note 6: Composition of Revenue

The composition of resident revenue by primary payors, for services provided over time, for the years ended September 30, 2022 and 2021, were as follows:

	2022	2021
Resident revenue		
Asset transfer residents	\$ 591,055	\$ 580,508
Fee for service residents	836,573	936,171
ALW reimbursement by Medi-Cal	77,226	58,550
Total resident revenue	\$ 1,504,854	\$ 1,575,229

# Eastern Star Homes of California

## Notes to Financial Statements

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### Note 7: Cash Reserves

The Grand Chapter's Constitution and Laws require that the operating cash balance of the Home is to be limited to \$250,000 within 90 days of its fiscal year end. Excess amounts are to be transferred to the Endowment Fund without donor restriction for the future use of the Home, to be maintained by the Grand Chapter. Any shortfall in future operating cash flow is obligated to be met by the Endowment Fund. At September 30, 2022 and 2021, the Home had operating cash balances of \$133,825 and \$194,456, respectively.

### Note 8: Related-Party Transactions

The Home incurred \$84,758 and \$97,744 in administrative expense charges during the years ended September 30, 2022 and 2021, respectively, for services provided by the Grand Chapter. The Home also leases office space to the Grand Chapter as disclosed in Note 10. For the years ended September 30, 2022 and 2021, the Home earned \$15,881 and \$15,647, respectively, of rental income from the Grand Chapter. At September 30, 2022, and 2021, respectively, \$53,020 and \$55,650 was due from the Grand Chapter to the Home. During the year ended September 30, 2022 and 2021 the Home had a business relationship with an insurance company owned by an officer of the organization. For the years ended September 30, 2022 and 2021, the Home paid \$124,198 and \$136,169, respectively, to the insurance company. For the years ended September 30, 2022 and 2021, there were no amounts due to or from the insurance company.

### Note 9: Continuing Care Reserve Requirements

The State of California Health and Safety Code requires continuing care retirement communities to report on the adequacy of certain reserve requirements. The Home's required statutory reserve at September 30, 2022 and 2021 was \$597,975 and \$518,775, respectively. The Home reported a surplus of qualifying assets over the required reserve amount of \$14,451,273 and \$21,190,849 at September 30, 2022 and 2021, respectively, which includes net assets with donor restrictions held in the Endowment Fund of the Grand Chapter for the benefit of the Home.

### Note 10: Rental Income

The Home leases various offices to non-related parties under operating leases expiring through November 2032. At September 30, 2022 and 2021, property and equipment held for leasing consisted of the following:

	2022	2021
Buildings	\$ 458,187	\$ 458,187
Building improvements	325,938	310,160
Furniture, fixtures and equipment	13,232	13,232
Total property and equipment	797,357	781,579
Accumulated depreciation	(630,566)	(608,126)
Property and equipment, net	\$ 166,791	\$ 173,453

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

# Eastern Star Homes of California

## Notes to Financial Statements

### Note 10: Rental Income (Continued)

<i>Year Ending September 30,</i>	Related Party	Non-related Parties	Total
2023	\$ 16,120	\$ 248,136	\$ 264,256
2024	16,361	235,650	252,011
2025	16,607	200,139	216,746
2026	16,856	115,712	132,568
2027	17,109	58,878	75,987
Thereafter	92,550	13,034	105,584
<b>Totals</b>	<b>\$ 175,603</b>	<b>\$ 871,549</b>	<b>\$ 1,047,152</b>

### Note 11: Commitments and Contingencies

#### *Health Care*

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for resident services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

#### *Litigation*

The Home may be subject to asserted and unasserted claims encountered in the normal course of business. The Home's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Home or unasserted claims that may result in such proceedings, the Home's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. In the opinion of management, disposition of these matters will not have a material effect on the Home's financial condition or results of operation.

#### *Professional Liability Coverage*

The Home is insured for professional liability under an occurrence policy for a combined occurrence and maximum annual aggregate of \$3,000,000.

# Eastern Star Homes of California

## Notes to Financial Statements

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### **Note 11: Commitments and Contingencies (Continued)**

#### *Risk Management*

The Home has obtained workers' compensation insurance through a private insurer. Worker's compensation expense through coverage by this entity was \$97,903 and \$137,468 for the years ended September 30, 2022 and 2021, respectively.

### **Note 12: Risk and Uncertainties**

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

### **Note 13: CARES Act**

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

### **Note 14: Reclassification**

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