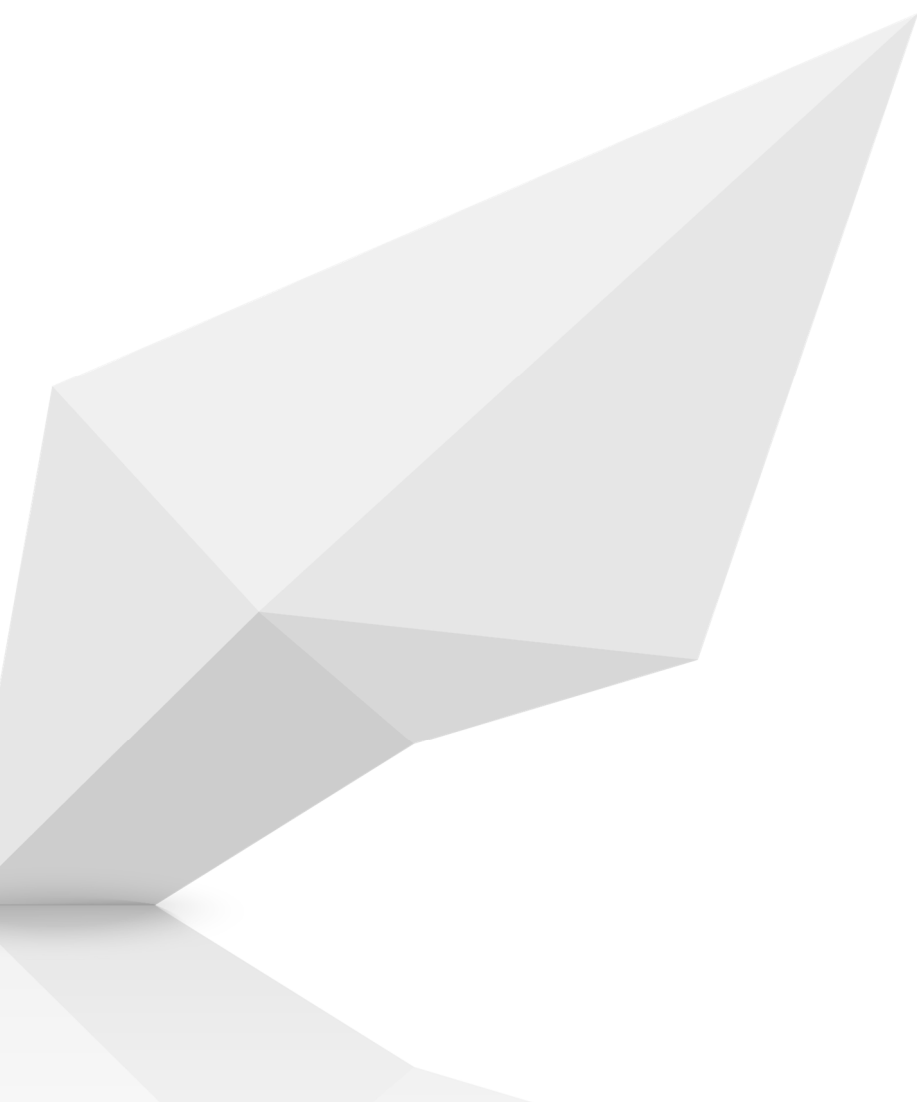


Eastern Star Homes of California

Financial Statements

Years Ended September 30, 2023 and 2022



Eastern Star Homes of California

Years Ended September 30, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 4, 2024

Eastern Star Homes of California

Statements of Financial Position

<i>As of September 30,</i>	2023	2022
<u>Assets</u>		
Current assets		
Cash	\$ 126,092	\$ 133,825
Receivables	30,892	22,652
Due from affiliate	-	53,020
Prepaid expenses	78,864	56,616
Total current assets	235,848	266,113
Property and equipment, net	5,229,390	5,350,564
Deferred rental income	17,195	22,769
Other assets	-	1,394
Total assets	\$ 5,482,433	\$ 5,640,840
<u>Liabilities and Net Assets (Deficit)</u>		
Current liabilities		
Accounts payable	\$ 101,513	\$ 30,680
Accrued expenses	102,818	87,014
Total current liabilities	204,331	117,694
Long-term liabilities		
Security deposits	27,277	25,958
Obligation to provide future services	3,927,376	5,789,125
Total long-term liabilities	3,954,653	5,815,083
Total liabilities	4,158,984	5,932,777
Net assets (deficit)		
Without donor restrictions	1,323,449	(291,937)
Total liabilities and net assets (deficit)	\$ 5,482,433	\$ 5,640,840

See accompanying notes to financial statements.

Eastern Star Homes of California

Statements of Activities

<i>Years Ended September 30,</i>	2023	2022
Support, revenue, and gains		
Contributions:		
Per capita - members of Grand Chapter of California, Order of the Eastern Star	\$ 50,450	\$ 53,020
Donations	49,534	37,379
Contributed nonfinancial assets	42,166	5,471
Grant from Endowment Fund of the Grand Chapter of California, Order of the Eastern Star	1,855,000	2,007,000
Resident revenue:		
Asset transfer resident revenue	775,951	591,055
Fee for service revenue	977,029	913,799
Rental income	299,317	314,570
Other miscellaneous revenue	5,857	12,233
Total support, revenue, and gains	4,055,304	3,934,527
Expenses		
Program services:		
Elderly care	3,633,440	3,488,988
Support services:		
Management and general	538,288	534,793
Rental property	100,399	136,417
Fundraising	29,540	27,559
Total expenses	4,301,667	4,187,757
Change in net assets before obligation to provide future services	(246,363)	(253,230)
Change in obligation to provide future services	1,861,749	(285,413)
Change in net assets (deficit)	1,615,386	(538,643)
Net assets (deficit) without donor restrictions, beginning of year	(291,937)	246,706
Net assets (deficit) without donor restrictions, end of year	\$ 1,323,449	\$ (291,937)

See accompanying notes to financial statements.

Eastern Star Homes of California

Statement of Functional Expenses

Year Ended September 30, 2023	Program Services		Support Services		Fundraising		Total	
	Elderly Care	Management and General	Rental Property	Fundraising	Fundraising	Total Support Services and Fundraising	Total	
Compensation and related expenses:								
Salaries and wages	\$ 1,662,140	\$ 147,746	\$ 18,468	\$ 18,468	\$ 184,682	\$ 1,846,822		
Employee benefits	203,710	18,108	2,263	2,263	22,634	226,344		
Payroll taxes	124,733	11,087	1,386	1,386	13,859	138,592		
Other employee expenses	46,251	4,111	514	514	5,139	51,390		
Professional and consultant fees	-	76,666	-	-	76,666	76,666		
Administration fee	6,771	67,152	4,802	-	71,954	78,725		
Insurance:								
Property and liability	193,369	17,188	2,149	2,149	21,486	214,855		
Workers' compensation	71,026	6,313	789	789	7,891	78,917		
Occupancy:								
Electricity	221,546	19,477	2,435	-	21,912	243,458		
Gas	77,232	8,581	-	-	8,581	85,813		
Water and sewer	36,697	4,077	10,194	-	14,271	50,968		
Depreciation and amortization	309,915	44,274	14,758	-	59,032	368,947		
Minor equipment and other supplies	119,320	39,205	11,932	-	51,137	170,457		
Equipment rental and maintenance	4,826	429	54	54	537	5,363		
Telephone	14,379	1,278	160	160	1,598	15,977		
Licenses and taxes	24,343	6,163	21,287	-	27,450	51,793		
Resident activities	26,409	-	-	-	-	26,409		
Resident allowances	20,904	-	-	-	-	20,904		
Resident admission	934	-	-	-	-	934		
Holiday gifts - residents	4,309	-	-	-	-	4,309		
Contract labor	152,544	62,812	8,973	-	71,785	224,329		
Board member expenses	112	448	-	-	448	560		
Hospitalization/medical supplies	46,086	-	-	-	-	46,086		
Dues and subscriptions	6,763	138	-	-	138	6,901		
Office expense	21,129	1,878	235	235	2,348	23,477		
Food services	227,393	-	-	-	-	227,393		
Other resident services	7,077	-	-	-	-	7,077		
Publications	-	798	-	-	798	798		
Events	3,522	359	-	3,522	3,881	7,403		
Total expenses	\$ 3,633,440	\$ 538,288	\$ 100,399	\$ 29,540	\$ 668,227	\$ 4,301,667		

See accompanying notes to financial statements.

Eastern Star Homes of California

Statement of Functional Expenses

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

Eastern Star Homes of California

Statements of Cash Flows

<i>Years Ended September 30,</i>	2023	2022
Cash flows from operating activities		
Grants received from Grand Chapter of California		
Order of the Eastern Star Endowment Fund	\$ 1,855,000	\$ 2,007,000
Per capita contributions	50,450	53,020
Contributions received	49,534	37,379
Contributed nonfinancial assets	42,166	5,471
Resident revenue	1,744,740	1,495,939
Rental income	304,891	320,161
Miscellaneous income	5,857	12,233
Cash payments for salaries and wages, benefits, payroll taxes, and other employment expenses	(2,357,869)	(2,284,825)
Cash payments to vendors	(1,456,123)	(1,544,512)
Net cash from operating activities	238,646	101,866
Cash flows from investing activities		
Purchases of property and equipment	(246,379)	(162,497)
Net cash from investing activities	(246,379)	(162,497)
Net change in cash	(7,733)	(60,631)
Cash, beginning of year	133,825	194,456
Cash, end of year	\$ 126,092	\$ 133,825
Reconciliation of change in net assets (deficit) to net cash from operating activities		
Change in net assets (deficit)	\$ 1,615,386	\$ (538,643)
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
Depreciation and amortization	368,947	363,660
Change in obligation to provide future services	(1,861,749)	285,413
Changes in operating assets and liabilities:		
Receivables	(8,240)	(8,915)
Due from affiliate	53,020	2,630
Prepaid expenses	(22,248)	7,241
Deferred rental income	5,574	5,591
Accounts payable	70,833	(2,978)
Accrued expenses	15,804	(12,736)
Security deposits	1,319	603
Net cash from operating activities	\$ 238,646	\$ 101,866

See accompanying notes to financial statements.

Eastern Star Homes of California

Notes to Financial Statements

Note 1: Description of Operations

Eastern Star Homes of California (the "Home") is a California nonprofit 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, 2023 and 2022.

Eastern Star Homes of California

Notes to Financial Statements

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 accounts at financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, such amounts may exceed federally insured limits.

Receivables

Receivables are stated at net realizable amounts. Management has elected to record bad debts using the direct write-off method. 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 result that would have been obtained had the allowance method been followed. No bad debt expense was recorded for the year ended September 30, 2023 and 2022. Receivables totaled \$13,737 as of October 1, 2021.

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, 2023 and 2022.

Eastern Star Homes of California

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Estimated Obligation to Provide Future Services

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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (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. At the time of issuance, a renewal for the waiver was in process. The daily rates received for ALW residents for assisted living services were up to \$166 and \$101 for the years ended September 30, 2023 and 2022, 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

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, 2023 and 2022, 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, 2023 and 2022, the fair value of donated services of \$42,166 and \$5,471, 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

Note 2: Summary of Significant Accounting Policies (Continued)

Endowment Fund

Support from the Endowment Fund for the years ended September 30, 2023 and 2022, was \$1,855,000 and \$2,007,000 respectively. At September 30, 2023 and 2022, the Endowment Fund has net assets with donor restrictions (restricted for specific purpose) of \$15,957,304 and \$14,915,423, respectively, and net assets with donor restrictions (perpetually restricted) of \$14,929,203 and \$14,847,711, 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, 2023 and 2022, 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

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

Adoption of Accounting Pronouncement

In February 2016, the FASB issued ASU No. 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 No. 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. The Homes has adopted ASU No. 2016-02 and the implementation of this standard did not have a material impact on the financial statements and related disclosures.

Eastern Star Homes of California

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Future Accounting Pronouncements

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.

Income Taxes

The Home is a nonprofit 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, 2023 and 2022.

Subsequent Events

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

Note 3: Liquidity and Availability

Financial assets available for general expenditure within one year of the statement of financial position as of September 30, 2023 and 2022, comprised the following:

	2023	2022
Cash	\$ 126,092	\$ 133,825
Receivables	30,892	22,652
Due from affiliate	-	53,020
Financial assets available to meet general expenditures over the next 12 months	\$ 156,984	\$ 209,497

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.

Eastern Star Homes of California

Notes to Financial Statements

Note 4: Property & Equipment

At September 30, 2023 and 2022, property and equipment consisted of the following:

	2023	2022
Land	\$ 2,738,904	\$ 2,738,904
Buildings	8,422,881	8,422,881
Building improvements	2,041,338	1,927,748
Furniture and equipment	435,176	435,176
Fixtures and improvements	189,451	177,550
Automobiles	67,604	67,604
Computer equipment and software	42,890	82,491
Construction in progress	120,887	-
Total property and equipment	14,059,131	13,852,354
Accumulated depreciation	(8,829,741)	(8,501,790)
Property and equipment, net	\$ 5,229,390	\$ 5,350,564

Depreciation expense on property and equipment totaled \$367,553 and \$359,103 for the years ended September 30, 2023 and 2022, respectively.

At September 30, 2023, construction in progress consisted of costs related to the parking lot repavement.

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.

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% annually (representing inflation) as of both September 30, 2023 and 2022, 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 both September 30, 2023 and 2022, to reflect net present value. This liability reflected in the accompanying statements of financial position amounted to \$3,927,376 and \$5,789,125 at September 30, 2023 and 2022, respectively.

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Notes to Financial Statements

Note 5: Obligation to Provide Future Services (Continued)

The change in obligation from year to year is shown on the statements of activities. Management estimates that the cost to provide future care for existing residents at a replacement facility in the local area, included in the cost estimates above, to range from \$4,323,479 to \$5,000,964 at September 30, 2023, 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 at September 30, 2023 and 2022, the Home had a total of 29 and 35 residents, respectively, of which 14 and 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, 2023 and 2022, were as follows:

	2023	2022
Resident revenue		
Asset transfer residents	\$ 514,024	\$ 591,055
Fee for service residents	847,605	836,573
ALW reimbursement by Medi-Cal	391,351	77,226
Total resident revenue	\$ 1,752,980	\$ 1,504,854

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, 2023 and 2022, the Home had operating cash balances of \$126,092 and \$133,825, respectively.

Note 8: Related-Party Transactions

The Home incurred \$78,725 and \$84,758 in administrative expense charges during the years ended September 30, 2023 and 2022, respectively, for services provided by the Grand Chapter. There was an outstanding balance for unpaid administrative fees due to Grand Chapter of \$7,130, which is included in accounts payable on the statement of financial position at September 30, 2023. There were no amounts due to Grand Chapter at September 30, 2022. The Home also leases office space to the Grand Chapter as disclosed in Note 10. For the years ended September 30, 2023 and 2022, the Home earned \$16,120 and \$15,881, respectively, of rental income from the Grand Chapter.

Eastern Star Homes of California

Notes to Financial Statements

Note 8: Related-Party Transactions (Continued)

At September 30, 2023, there were no amounts due from Grand Chapter. At September 30, 2022, \$53,020 was due from the Grand Chapter to the Home. At September 30, 2023, \$11,197 was due to the Endowment Fund, which is included in accounts payable on the statement of financial position. For the year ended September 30, 2022, there were no amounts due to the Endowment Fund.

During the year ended September 30, 2023 and 2022, the Home had a business relationship with an insurance company owned by an officer of the organization. For the years ended September 30, 2023 and 2022, the Home paid \$140,777 and \$124,198, respectively, to the insurance company. For the years ended September 30, 2023 and 2022, 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, 2023 and 2022 was \$607,350 and \$597,975, respectively. The Home reported a surplus of qualifying assets over the required reserve amount of \$15,476,046 and \$14,451,273 at September 30, 2023 and 2022, 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, 2023 and 2022, property and equipment held for leasing consisted of the following:

	2023	2022
Buildings	\$ 458,187	\$ 458,187
Building improvements	354,321	325,938
Furniture, fixtures and equipment	13,232	13,232
Construction in progress	32,995	-
Total property and equipment	858,735	797,357
Less: Accumulated depreciation	(653,184)	(630,566)
Property and equipment, net	\$ 205,551	\$ 166,791

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Notes to Financial Statements

Note 10: Rental Income (Continued)

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

<i>Year Ending September 30,</i>	Related Party	Non-related Parties	Total
2024	\$ 16,361	\$ 291,054	\$ 307,415
2025	16,607	257,204	273,811
2026	16,856	179,613	196,469
2027	17,109	150,316	167,425
2028	17,365	96,434	113,799
Thereafter	75,185	-	75,185
Totals	\$ 159,483	\$ 974,621	\$ 1,134,104

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 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.

Risk Management

The Home has obtained workers' compensation insurance through a private insurer. Worker's compensation expense through coverage by this entity was \$78,917 and \$97,903 for the years ended September 30, 2023 and 2022, respectively.