Eastern Star Homes of California

Financial Statements
and Independent Auditors' Report

September 30, 2012 and 2011

Eastern Star Homes of California

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Independent Auditors' Report

Board of Trustees
Eastern Star Homes of California

We have audited the accompanying statement of financial position of Eastern Star Homes of California as of September 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Eastern Star Homes of California as of September 30, 2011 and for the year then ended, were audited by other auditors whose report dated January 27, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Eastern Star Homes of California as of September 30, 2012, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Los Angeles, California
January 30, 2013

Eastern Star Homes of California

Statements of Financial Position
September 30, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	$ 375,025	$ 425,880
Other receivables	24,343	18,154
Due from affiliated organization:		
Grand Chapter of California, Order of the Eastern Star	-	11,783
Prepaid expenses and other	79,338	236,239
Property and equipment, net of accumulated depreciation	7,990,733	8,265,554
Totals	$ 8,469,439	$ 8,957,610
Liabilities and Net Deficit		
Accounts payable and accrued expenses	$ 231,572	$ 303,969
Due to affiliated organization:		
Grand Chapter of California, Order of the Eastern Star	18,090	-
Obligation to provide future services	15,126,658	11,974,145
Total liabilities	15,376,320	12,278,114
Net deficit:		
Unrestricted	(6,906,881)	(3,320,504)
Totals	$ 8,469,439	$ 8,957,610

See Notes to Financial Statements.

Eastern Star Homes of California

Statements of Activities
Years Ended September 30, 2012 and 2011

	Unrestricted	
	2012	2011
Support, revenue and gains		
Contributions:		
Per capita - Grand Chapter	$ 41,466	$ 44,508
Residents' contributions after admission	982,197	919,647
Donations	26,527	37,534
Net transfers from Grand Chapter Endowment Fund	2,525,000	2,575,000
Rental income	283,205	282,392
Other miscellaneous revenue	14,555	16,749
Total support, revenues and gains	3,872,950	3,875,830
Expenses		
Program services:		
Elderly care	3,640,279	3,702,085
Support services:		
Management and general	450,839	461,098
Rental property	198,630	200,062
Fundraising	17,066	19,730
Total expenses	4,306,814	4,382,975
Decrease in net assets before obligation to provide future services	(433,864)	(507,145)
(Increase) decrease in obligation to provide future services	(3,152,513)	1,504,378
Change in net assets	(3,586,377)	997,233
Net deficit at beginning of year	(3,320,504)	(4,317,737)
Net deficit at end of year	$ (6,906,881)	$ (3,320,504)

See Notes to Financial Statements.

Eastern Star Homes of California

Statement of Functional Expenses
Year Ended September 30, 2012

	Program Services	Supporting Services				
	Elderly Care	Management and General	Rental Property	Fundraising	Total Support Services	Total
Compensation and related expenses:						
Salaries and wages	$ 1,065,376	$ 118,375	$ -	$ -	$ 118,375	$ 1,183,751
Employee benefits	170,907	18,990	-	-	18,990	189,897
Payroll taxes	89,343	9,927	-	-	9,927	99,270
Other employee expenses	27,070	3,008	-	-	3,008	30,078
Professional and consultant fees	3,815	30,524	3,816	-	34,340	38,155
Administration fee	48,297	181,115	12,074	-	193,189	241,486
Insurance:					-	
Property and liability	107,549	-	26,887	-	26,887	134,436
Workers' compensation	131,413	-	14,601	-	14,601	146,014
Occupancy:					-	
Electricity	127,736	-	14,193	-	14,193	141,929
Gas	39,384	-	4,376	-	4,376	43,760
Water and sewer	41,367	-	4,596	-	4,596	45,963
Depreciation	288,193	-	76,666	-	76,666	364,859
Minor equipment and other supplies	46,104	9,221	6,147	-	15,368	61,472
Equipment rental and maintenance	95,926	19,185	12,790	-	31,975	127,901
Telephone	14,732	-	-	-	-	14,732
Licenses and taxes	37,784	5,038	7,557	-	12,595	50,379
Member assistance - Outreach	357,043	-	-	-	-	357,043
Resident activities	16,609	-	-	-	-	16,609
Resident allowances	72,679	-	-	-	-	72,679
Resident admission expenses	10,944	-	-	-	-	10,944
Holiday gifts - residents	6,686	-	-	-	-	6,686
Contract labor and food services	709,788	22,390	14,927	-	37,317	747,105
Board member expenses	3,550	14,198	-	-	14,198	17,748
Hospitalization/medical supplies	109,118	-	-	-	-	109,118
Dues and subscriptions	5,598	5,598	-	-	5,598	11,196
Other purchased services	3,550	3,551	-	-	3,551	7,101
Publications	9,718	9,719	-	-	9,719	19,437
Fundraising	-	-	-	17,066	17,066	17,066
Total expenses	$ 3,640,279	$ 450,839	$ 198,630	$ 17,066	$ 666,535	$ 4,306,814

See Notes to Financial Statements.

Eastern Star Homes of California

Statement of Functional Expenses
Year Ended September 30, 2011

	Program Services	Supporting Services				
	Elderly Care	Management and General	Rental Property	Fundraising	Total Support Services	Total
Compensation and related expenses:						
Salaries and wages	$ 1,005,549	$ 111,728	$ -	$ -	$ 111,728	$ 1,117,277
Employee benefits	198,785	22,087	-	-	22,087	220,872
Payroll taxes	78,463	8,718	-	-	8,718	87,181
Other employee expenses	28,935	3,215	-	-	3,215	32,150
Professional and consultant fees	2,644	21,150	2,644	-	23,794	26,438
Administration fee	48,743	182,787	12,186	-	194,973	243,716
Insurance:					-	
Property and liability	106,431	-	26,608	-	26,608	133,039
Workers' compensation	86,542	-	9,616	-	9,616	96,158
Occupancy:					-	
Electricity	132,108	-	14,679	-	14,679	146,787
Gas	49,068	-	5,452	-	5,452	54,520
Water and sewer	35,710	-	3,968	-	3,968	39,678
Depreciation	301,859	-	75,465	-	75,465	377,324
Minor equipment and other supplies	94,697	18,939	12,626	-	31,565	126,262
Equipment rental and maintenance	110,182	22,037	14,691	-	36,728	146,910
Telephone	13,507	-	-	-	-	13,507
Licenses and taxes	33,630	4,484	6,726	-	11,210	44,840
Member assistance - Outreach	409,891	-	-	-	-	409,891
Resident activities	17,473	-	-	-	-	17,473
Resident allowances	73,907	-	-	-	-	73,907
Resident admission expenses	25,630	-	-	-	-	25,630
Holiday gifts - residents	5,022	-	-	-	-	5,022
Contract labor and food services	733,361	23,102	15,401	-	38,503	771,864
Board member expenses	3,365	13,460	-	-	13,460	16,825
Hospitalization/medical supplies	77,195	-	-	-	-	77,195
Dues and subscriptions	6,562	6,563	-	-	6,563	13,125
Other purchased services	4,215	4,216	-	-	4,216	8,431
Publications	18,611	18,612	-	-	18,612	37,223
Fundraising	-	-	-	19,730	19,730	19,730
Total expenses	$ 3,702,085	$ 461,098	$ 200,062	$ 19,730	$ 680,890	$ 4,382,975

See Notes to Financial Statements.

Eastern Star Homes of California

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Operating activities:		
Contributions received	$ 1,008,724	$ 957,181
Due from/to Grand Chapter of California, Order of the Eastern Star	41,466	44,508
Transfers received from Endowment fund	2,525,000	2,575,000
Rental income received from medical office space	283,205	300,425
Miscellaneous income received	14,555	16,749
Administrative and operating expenses paid	(3,833,767)	(3,932,866)
Net cash provided by (used in) operating activities	39,183	(39,003)
Investing activities:		
Purchases of property and equipment	(90,038)	(28,058)
Net cash used in investing activities	(90,038)	(28,058)
Net decrease in cash and cash equivalents	(50,855)	(67,061)
Cash and cash equivalents, beginning of year	425,880	492,941
Cash and cash equivalents, end of year	$ 375,025	$ 425,880
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ (3,586,377)	$ 997,233
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	364,859	377,324
Increase (decrease) in obligation to provide future services	3,152,513	(1,504,378)
Changes in operating assets and liabilities:		
Other receivables	(6,189)	18,033
Due from/to Grand Chapter of California, Order of the Eastern Star	29,873	16,502
Prepaid expenses and other	156,901	(81,430)
Accounts payable and accrued expenses	(72,397)	137,713
Net cash provided by (used in) operating activities	$ 39,183	$ (39,003)

See Notes to Financial Statements.

Eastern Star Homes of California

Notes to Financial Statements

Note 1 – Description of organization:

Eastern Star Homes of California (the "Home") is a nonprofit corporation organized for the purpose of operating a home, operating under the name "Senior Living Community", for the care of aged members of the Order of the Eastern Star. Residents are affiliated members in good standing for at least five years, as described in the Constitution and Laws, who are at least sixty-five years of age. Upon admission to the Home, residents contribute their assets to the Endowment Fund (the "Endowment Fund") of the Grand Chapter of California, Order of the Eastern Star (the "Grand Chapter").

The Home also operates a medical office rental facility under the name "Eastern Star Professional Plaza."

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.

Financial statement presentation:

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

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

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

At September 30, 2012 and 2011, the Home does not have any temporarily or permanently restricted net assets.

Contributions:

Contributions received, including unconditional promises to give, are recorded as revenues in the period received at their fair value. Contributions from residents after admission consist primarily of social security and retirement payments to the residents.

For financial reporting purposes, the Home 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 reported 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 promiser, 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 noncash 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 Home receives a significant amount of donated services from unpaid volunteers who assist in resident activities. No donated services have been recognized in the statements of activities because the criteria for recognition is not satisfied.

Functional allocation of expenses:

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

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.

Property and equipment:

Property and equipment are stated at cost if purchased or fair value on the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ranging from two to thirty years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

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 has no unrecognized tax benefits at September 30, 2012 or 2011. The Home's Federal and state income tax returns prior to the 2009 and 2008 fiscal years, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Home recognizes 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 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations:

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

Endowment fund:

The Home is the income beneficiary of an Endowment Fund maintained by the Grand Chapter. 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 transferred from the temporarily restricted portion of the Endowment Fund. Support from the Endowment Fund for the years ended September 30, 2012 and 2011 was $2,525,000 and $2,575,000, respectively.

Reclassifications:

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Subsequent events:

The Home has evaluated the impact of subsequent events through January 30, 2013, which is the date the financial statements were available to be issued.

Note 3 – Property and equipment:

At September 30, 2012 and 2011, property and equipment consisted of the following:

	2012	2011
Land	$ 2,738,904	$ 2,738,904
Buildings	8,422,881	8,422,881
Building improvements	1,129,272	1,047,521
Computer equipment and software	27,906	31,429
Furniture, fixtures and equipment	491,227	484,165
Automobiles	189,195	193,195
	12,999,385	12,918,095
Less accumulated depreciation	5,008,652	4,652,541
	$ 7,990,733	$ 8,265,554

The Home's property also includes office facilities that are leased to the Grand Chapter and various other medical offices (see Note 8).

Note 4 – Obligation to provide future services:

Applicants for admission to the Home are required to make a contribution of their assets to the Endowment Fund. In exchange for this contribution, the Home agrees to care for the residents for the remainder of their lives.

The Home has recorded a liability for its obligation to provide care for the 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 less estimated cash revenue before any realized gains from the Endowment Fund or proceeds on future property sales. The excess of projected expenses over revenues has been estimated to increase at 2.34% and 1.08% annually as of September 30, 2012 and 2011, respectively, representing inflation. The resulting liability has been discounted by 5% to reflect net present value. This liability amounted to $15,126,658 and $11,974,145 at September 30, 2012 and 2011, respectively. The change in obligation from year to year is shown on the statements of activities.

Eastern Star Homes of California is licensed to operate a seventy-six bed continuing care home. Any shortfall in future operating cash flow is obligated to be met by the Endowment Fund.

Note 5 – 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 plus appropriations. Excess amounts are to be transferred to the unrestricted Endowment Fund 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, 2012 and 2011, the Home has operating cash balances of $221,168 and $238,273, respectively.

Note 6 – Related party transactions:

The Home incurred $241,486 and $243,716 administrative expense charges during the years ended September 30, 2012 and 2011, respectively, for services provided by the Grand Chapter. The Home also leases office space to the Grand Chapter (see Note 8). For the years ended September 30, 2012 and 2011, the Home earned $38,249 and $38,248, respectively, of rental income from the Grand Chapter. At September 30, 2012, $18,090 is due to Grand Chapter and at September 30, 2011, $11,783 is due from Grand Chapter.

Note 7 – Continuing care reserve requirement:

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 requirement at September 30, 2012 and 2011 was $809,991 and $823,079, respectively. The Home had a surplus of qualifying assets over the required reserve amount of $8,526,781 and $7,340,440 at September 30, 2012 and 2011, respectively.

Note 8 – Operating leases – rental income:

The Home leases office space under an operating lease to the Grand Chapter expiring June 2014. In addition, the Home leases various medical offices under operating leases expiring through September 2017. The future minimum lease payments to be received under the noncancelable leases are as follows:

Year ending September 30,	Related party	Non-related party	Total
2013	$ 41,940	$ 234,754	$ 276,694
2014	31,455	205,074	236,529
2015	-	162,846	162,846
2016	-	58,318	58,318
2017	-	45,519	45,519
	$ 73,395	$ 706,511	$ 779,906