

EASTERN STAR HOMES OF CALIFORNIA

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED SEPTEMBER 30, 2025 AND 2024



HANSEN HUNTER & CO. P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the 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 statement of financial position as of September 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Star Homes of California as of September 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Restatement for Correction of Errors

As discussed in Note 2 to the financial statements, Eastern Star Homes of California restated its previously issued 2024 financial statements to correct material misstatements. Accordingly, the 2024 financial statements have been restated to correct these errors. Our opinion is not modified with respect to this matter.

Prior Year Financial Statements Audited by a Predecessor Auditor

The financial statements of Eastern Star Homes of California as of and for the year ended September 30, 2024 were audited by another auditor who expressed an unmodified opinion on those statements on January 31, 2025. We were not engaged to audit, review, or apply any procedures to the financial statements of the prior period other than with respect to the adjustments for the correction of the errors, and accordingly, we do not express an opinion or any other form of assurance on the prior period financial statements as a whole.



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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 that 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 generally accepted auditing standards 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 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 generally accepted auditing standards, 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.



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- 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.

Hansen Hunter + Co. P.C.

February 27, 2026

EASTERN STAR HOMES OF CALIFORNIA

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	2025	2024
ASSETS		
Current Assets		
Cash	\$ 141,277	\$ 203,068
Accounts receivable	29,922	26,392
Contributions receivable	-	9,609
Prepaid expenses	38,589	93,990
Total current assets	209,788	333,059
Property and equipment, net	5,948,314	5,128,654
Deferred rent	20,360	20,360
Total assets	\$ 6,178,462	\$ 5,482,073
LIABILITIES AND NET ASSETS (DEFICIT)		
Current liabilities		
Accounts payable	\$ 115,713	\$ 66,375
Accrued payroll liabilities	135,927	109,130
Accrued expenses	13,405	11,889
Due to related party (as restated)	60,551	33,077
Total current liabilities	325,596	220,471
Long-term liabilities		
Obligation to provide future services (as restated)	7,224,001	5,834,893
Security deposits	29,567	29,567
Total long-term liabilities	7,253,568	5,864,460
Total liabilities	7,579,164	6,084,931
Net assets (deficit)		
Without donor restrictions (as restated)	(1,400,702)	(602,858)
Total net assets (deficit)	(1,400,702)	(602,858)
Total liabilities and net assets (deficit)	\$ 6,178,462	\$ 5,482,073

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

EASTERN STAR HOMES OF CALIFORNIA

STATEMENTS OF ACTIVITIES

	Years Ended September 30,	
	2025	2024
Support, revenue, and gains:		
Contributions:		
Per capita - members of Grand Chapter of California, Order of the Eastern Star	\$ 45,810	\$ 48,010
Contributions (as restated)	38,254	37,554
Grant from Endowment Fund of the Grand Chapter of of California, Order of the Eastern Star	2,609,500	2,373,000
Resident revenue:		
Asset transfer resident revenue	664,123	772,508
Fee for service revenue	1,425,218	1,076,349
Rental income	346,970	327,512
Other income - Employee Retention Credit	949,860	-
Other miscellaneous revenue	32,949	13,357
	<u>6,112,684</u>	<u>4,648,290</u>
 Expenses		
Program services:		
Elderly care	4,674,208	3,955,454
Support services:		
Management and general	676,363	557,074
Rental property	130,126	116,738
Fundraising	40,723	37,814
	<u>5,521,420</u>	<u>4,667,080</u>
Change in net assets before obligation to provide future services (as restated)	591,264	(18,790)
Change in obligation to provide future services (as restated)	<u>(1,389,108)</u>	<u>(1,907,517)</u>
Change in net assets (deficit) (as restated)	(797,844)	(1,926,307)
Net assets, beginning of year (as restated)	<u>(602,858)</u>	<u>1,323,449</u>
Net assets (deficit), end of year (as restated)	<u>\$ (1,400,702)</u>	<u>\$ (602,858)</u>

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

EASTERN STAR HOMES OF CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2025

	Program Services		Support Services			Total Support Services and Fundraising	Total
	Elderly Care	Management and General	Rental Property	Fundraising	Fundraising		
Compensation and related expenses:							
Salaries and wages	\$ 2,264,707	\$ 201,307	\$ 25,163	\$ 25,163	\$ 251,633	\$ 2,516,340	
Employee benefits	258,889	23,012	2,877	2,877	28,766	287,655	
Payroll taxes	191,482	17,021	2,128	2,128	21,277	212,759	
Other employee expenses	51,316	4,561	570	570	5,701	57,017	
Professional and consultant fees	-	88,922	-	-	88,922	88,922	
Administration fee	9,297	92,203	6,594	-	98,797	108,094	
Insurance:							
Property and liability	263,365	23,410	2,926	2,926	29,262	292,627	
Workers' compensation	112,474	9,998	1,250	1,250	12,498	124,972	
Occupancy:							
Electricity	204,084	17,942	2,243	-	20,185	224,269	
Gas	43,691	4,855	-	-	4,855	48,546	
Water and sewer	56,976	6,331	15,827	-	22,158	79,134	
Depreciation	370,230	52,890	17,630	-	70,520	440,750	
Minor equipment and other supplies	130,807	42,979	13,081	-	56,060	186,867	
Equipment rental and maintenance	4,525	402	50	50	502	5,027	
Telephone	5,127	456	57	57	570	5,697	
Licenses and taxes	32,710	8,282	28,604	-	36,886	69,596	
Resident activities	17,399	-	-	-	-	17,399	
Resident allowances	13,890	-	-	-	-	13,890	
Resident admission	285	-	-	-	-	285	
Holiday gifts - residents	580	-	-	-	-	580	
Contract labor	158,368	65,211	9,316	-	74,527	232,895	
Consulting - Employee Retention Credit	128,231	11,398	1,425	1,425	14,248	142,479	
Hospitalization/medical supplies	90,773	-	-	-	-	90,773	
Dues and subscriptions	12,162	248	-	-	248	12,410	
Office expense	19,562	2,235	216	216	2,667	22,229	
Advertising	15,322	1,750	169	169	2,088	17,410	
Food services	207,155	-	-	-	-	207,155	
Other resident services	6,909	-	-	-	-	6,909	
Publications	-	552	-	-	552	552	
Events	3,892	398	-	3,892	4,290	8,182	
Total expenses	\$ 4,674,208	\$ 676,363	\$ 130,126	\$ 40,723	\$ 847,212	\$ 5,521,420	

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

EASTERN STAR HOMES OF CALIFORNIA

STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

For the Year Ended September 30, 2024

	Program Services		Support Services			Total Support Services and Fundraising	Total
	Elderly Care	Management and General	Rental Property	Fundraising			
Compensation and related expenses:							
Salaries and wages	\$ 1,861,939	\$ 165,506	\$ 20,688	\$ 20,688	\$ 206,882	\$ 2,068,821	
Employee benefits	216,971	19,286	2,411	2,411	24,108	241,079	
Payroll taxes	140,012	12,446	1,556	1,556	15,558	155,570	
Other employee expenses	53,229	4,731	591	591	5,913	59,142	
Professional and consultant fees	-	36,500	-	-	36,500	36,500	
Administration fee	6,715	66,598	4,763	-	71,361	78,076	
Insurance:							
Property and liability	230,529	20,491	2,561	2,561	25,613	256,142	
Workers' compensation	68,182	6,061	758	758	7,577	75,759	
Occupancy:							
Electricity	220,620	19,395	2,424	-	21,819	242,439	
Gas	47,768	5,308	-	-	5,308	53,076	
Water and sewer	44,778	4,975	12,438	-	17,413	62,191	
Depreciation	338,245	48,321	16,107	-	64,428	402,673	
Minor equipment and other supplies	166,079	54,569	16,608	-	71,177	237,256	
Equipment rental and maintenance	5,774	513	64	64	641	6,415	
Telephone	4,795	426	53	53	532	5,327	
Licenses and taxes	27,286	6,909	23,861	-	30,770	58,056	
Resident activities	21,833	-	-	-	-	21,833	
Resident allowances	17,998	-	-	-	-	17,998	
Resident admission	1,564	-	-	-	-	1,564	
Holiday gifts - residents	2,751	-	-	-	-	2,751	
Contract labor	198,731	81,831	11,690	-	93,521	292,252	
Hospitalization/medical supplies	53,956	-	-	-	-	53,956	
Dues and subscriptions	5,547	113	-	-	113	5,660	
Office expense	14,772	1,313	165	165	1,643	16,415	
Food services	193,523	-	-	-	-	193,523	
Other resident services	2,890	-	-	-	-	2,890	
Publications	-	868	-	-	868	868	
Events	8,967	914	-	8,967	9,881	18,848	
Total expenses	\$ <u>3,955,454</u>	\$ <u>557,074</u>	\$ <u>116,738</u>	\$ <u>37,814</u>	\$ <u>711,626</u>	\$ <u>4,667,080</u>	

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

EASTERN STAR HOMES OF CALIFORNIA

STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	2025	2024
Cash flows from operating activities		
Grants received from Grand Chapter of California Order of the Eastern Star Endowment Fund	\$ 2,609,500	\$ 2,373,000
Per capita contributions	45,810	48,010
Contributions received (as restated)	47,863	37,554
Resident revenue	2,085,811	1,848,857
Rental income	346,970	327,512
Miscellaneous income	32,949	8,248
Other income - Employee Retention Credit	949,860	-
Cash payments for salaries, wages, benefits, payroll taxes, and other employment expenses	(3,097,861)	(2,618,571)
Cash payments to vendors	(1,900,644)	(1,678,774)
	1,120,258	345,836
Cash flows from investing activities		
Purchases of property and equipment	(1,209,523)	(301,937)
	(1,209,523)	(301,937)
Cash flows from financing activities		
Payments to related parties (as restated)	27,474	33,077
	27,474	33,077
Net change in cash	(61,791)	76,976
Cash, beginning of year	203,068	126,092
Cash, end of year	\$ 141,277	\$ 203,068

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

EASTERN STAR HOMES OF CALIFORNIA

STATEMENTS OF CASH FLOWS

(Continued)

	Years Ended September 30,	
	2025	2024
Reconciliation of changes in net assets to net cash from operating activities		
Change in net assets (deficit) (as restated)	\$ (797,844)	\$ (1,926,307)
Adjustments to reconcile changes in net assets (deficit) to net cash from operating activities:		
Depreciation	440,750	402,673
Change in obligation to provide future services (as restated)	1,389,108	1,907,517
Changes in operating assets and liabilities:		
Accounts receivable	(3,530)	(1,821)
Contributions receivable	9,609	(3,288)
Prepaid expenses	55,401	(15,126)
Deferred rent receivable	-	(3,165)
Accounts payable	(1,549)	(35,138)
Accrued payroll liabilities	26,797	18,201
Accrued expenses	1,516	-
Security deposits	-	2,290
	\$ 1,120,258	\$ 345,836
Net cash provided by (used in) operating activities	\$ 1,120,258	\$ 345,836
<u>Supplemental disclosure of noncash investing and financing activities:</u>		
Fixed asset purchases included in accounts payable	\$ 50,887	\$ -

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

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

NOTE 1 – Nature of Business

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 presentation

The accompanying financial statements 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, revenues, gains, and losses are classified based on the existence or absence of donor (or certain grantor) imposed restrictions. Accordingly, the net assets and changes therein are classified 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, 2025 and 2024.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and cash equivalents

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

Accounts receivable

Accounts receivable represents the estimated net realizable value of amounts. The receivables are recorded at amounts that reflect the consideration to which the Home expects to be entitled in exchange for providing services.

Management has elected to record credit losses using the direct write-off method. GAAP requires that the allowance method be used to reflect expected credit losses. 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. There were no material credit losses for the years ended September 30, 2025 and 2024.

Accounts receivable consisted of the following as of:

	September 30,		
	2025	2024	2023
Amounts due from Medi-Cal	\$ 25,695	\$ 25,753	\$ 24,571
Other accounts receivable	<u>4,227</u>	<u>639</u>	<u>-</u>
Accounts receivable	<u>\$ 29,922</u>	<u>\$ 26,392</u>	<u>\$ 24,571</u>

Prepaid expenses

Prepaid expenses primarily consist of payments made to vendors that will benefit periods beyond the reporting year. Prepaid expenses include items such as maintenance costs, supplies, insurance premiums, funeral costs and licensing fees.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Property and equipment

Acquisitions of property and equipment in excess of \$5,000 and with an estimated useful life of more than one year are capitalized at cost. Donated property is recorded as 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, repairs, and minor replacements are charged to expense when incurred. Major replacements or betterments of property are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gains or loss is reported in the statements of activities. Depreciation is computed using the straight-line method based upon the following estimated useful lives:

Buildings and improvements	3-30 years
Furniture, fixtures and equipment	5-10 years
Automobiles	5-10 years

The Home evaluates whether events and circumstances have occurred that indicate the carrying values of long-lived assets may have been impaired. In the event that the Home determines that impairment has occurred, a write-down to estimated fair value would be recorded. Measurement is based on those assets' estimated fair values as compared to the carrying value. No events have occurred to date that would indicate impairment in value as of September 30, 2025 and 2024.

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 these residents as described in Note 6.

Contributions

The Organization recognizes contributions and grants under Financial Accounting Standards Board (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.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Contributions (continued)

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. Promises to give are included in contributions receivable on the statements of financial position.

Donated goods, facilities, and services

Donated nonfinancial 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, 2025 and 2024, 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, 2025 and 2024, there were no donated services presented as contributed nonfinancial assets in the statements of activities and functional expenses.

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.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

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 6), 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, 2024 through February 29, 2029. The daily rates received for ALW residents for assisted living services were up to \$176 and \$171 for the years ended September 30, 2025 and 2024, 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.

The Home has applied the practical expedient provided by FASB Accounting Standards Codification (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.

Leases and revenue recognition

The Home leases office space generally under long-term lease agreements to one related party and other unrelated parties. The Home believes that the rental stream is exempted from compliance with Topic 606 due to its inclusion under current and future lease standards.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Leases and revenue recognition (continued)

The determination of whether an arrangement is a lease is made at the lease's inception. FASB ASC Topic 842, Leases, a contract is a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Home reassesses the determination of whether an arrangement is a lease if the terms and conditions of the contract are changed. At the lease's inception, the Home also estimates the residual value expected from the leased assets at the end of the lease term based on expected useful lives of the fixed assets held for lease and expected market conditions for the customer base. Leases are classified at inception as operating leases, sales-type leases, or direct financing leases, depending on the terms and conditions of each arrangement.

For leases classified as operating leases, the Home retains ownership of the underlying asset and recognizes lease income related to fixed lease payments on a straight-line basis over the noncancelable lease term when collectability of lease payments is probable, unless another systematic and rational basis is more representative of the pattern in which benefit from the use of the underlying asset is expected to be derived. Variable lease payments that do not depend on an index or rate (e.g., payments based on usage or performance, such as a percentage of sales) are recognized as income in the period in which the event or condition that triggers those payments occurs. Variable lease payments that depend on an index or rate are included in the measurement of lease income to the extent that the index or rate is known at lease commencement; changes in such payments due to future changes in the index or rate are recognized in the period in which the change occurs.

The Home leases the property to the lessee to operate the Eastern Star Professional Plaza. The Home has elected to account for the lease of the land and building as a single lease component. The Home has determined that the building lease is predominant and is accounting for the combined land and building component as an operating lease under Topic 842.

Lease collectability assessment

At lease commencement, the Home assesses the collectability of lease payments. If collectability is not probable, lease income is limited to the lesser of the income that would have been recognized if collectability were probable or the lease payments, including variable lease payments, that have been collected. If the Home subsequently concludes that collectability has become probable, a current-period adjustment is recognized for the difference between the lease income that would have been recognized to date assuming collectability had always been probable and the lease income actually recognized (limited to amounts collected) to date.

Endowment Fund

Support from the Endowment Fund for the years ended September 30, 2025 and 2024, was \$2,609,500 and \$2,373,000 respectively. At September 30, 2025 and 2024, the Endowment Fund has net assets with donor restrictions (restricted for specific purpose) of \$19,259,441 and \$19,639,492, respectively, and net assets with donor restrictions (perpetually restricted) of \$16,996,568 and \$15,204,890, respectively.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Functional 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, 2025 and 2024, as follows:

- The following expenses are, by definition, 100% allocated to elderly care program services:
 - Member assistance
 - Resident activities
 - Resident allowances
 - Resident admission
 - 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
 - Advertising
- Professional and consultant fees were deemed all management and general expenses.
- 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 approximately 10% to program services and 90% to management and general.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Functional expenses (continued)

- 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 and sewer
- The License and Tax expenses are kept separate for the Rental Property and the Home portion was distributed 80% to program services and 20% 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:
 - Dues and subscriptions
 - Publications
 - Events
- The Employee Retention Credit consulting services were allocated using the allocation method used for compensation.

Advertising

Advertising costs are charged to expense as incurred. Total advertising expenses for the Home was \$17,410 for the year ended September 30, 2025, as shown on the statement of functional expenses. There was no advertising expense for the year ended September 30, 2024.

Financial instruments

The Home's financial instruments consist of accounts receivable, contributions receivable, accounts payable, accrued payroll liabilities, accrued expenses, due to related party, and security deposits. It is management's opinion that the Home is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

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.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 2 – Summary of Significant Accounting Policies (continued)

Income taxes (continued)

The Home follows the provisions of the Income Tax Topic of the FASB ASC relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Home is liable for taxes to the extent of any unrelated business income as defined by the Internal Revenue Service (IRS) regulations. The Home believes that it has not generated any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of September 30, 2025 and 2024.

Restatement of previously issued financial statements

The financial statements as of and for the year ended September 30, 2024 have been restated to correct errors related to the obligation to provide future services. The cumulative effect of these corrections increased the obligation to provide future services by \$1,991,298 as of September 30, 2024 and increased the expense for the change in obligation to provide future services by \$1,991,298 for the year ended September 30, 2024. Had the errors not occurred, net assets would have decreased by \$1,991,298 as of September 30, 2024.

In addition, financial statements as of and for the year ended September 30, 2024 have been restated to correct errors related to contribution revenue. The cumulative effect of these corrections increased due to related party by \$33,077 as of September 30, 2024 and decreased contribution revenue by \$33,077 for the year ended September 30, 2024. Had the errors not occurred, net assets would have decreased by \$33,077 as of September 30, 2024.

The correction of the combined errors above resulted in a decrease in net assets of \$1,314,984 as of September 30, 2024.

NOTE 3 – Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at:

	September 30,	
	2025	2024
Cash	\$ 141,277	\$ 203,068
Accounts receivable	29,922	26,392
Contributions receivable	-	9,609
	<u>\$ 171,199</u>	<u>\$ 239,069</u>

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 3 – Liquidity and Availability (continued)

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. The Grand Chapter's Constitution and Laws limit the cash reserves held at the Home, see Note 8.

NOTE 4 – Deferred Rent

Deferred rent represents the difference between actual lease payments received under the related party and unrelated parties leases (see Note 11) and the recording of lease income on the straight-line basis as required under the Lease Topic of the FASB ASC.

NOTE 5 – Property and Equipment

Property and equipment consisted of the following as of:

	September 30,	
	2025	2024
Land	\$ 2,738,904	\$ 2,738,904
Buildings	8,422,881	8,422,881
Building improvements	3,164,798	1,923,308
Computer equipment	32,596	32,596
Equipment	190,484	171,588
Furniture and fixtures	69,119	69,119
Automobiles	187,604	187,604
Less: accumulated depreciation	<u>(8,858,072)</u>	<u>(8,417,346)</u>
Property and equipment, net	\$ <u>5,948,314</u>	\$ <u>5,128,654</u>

Depreciation expense amounted to \$440,750 and \$402,673 for the years ended September 30, 2025 and 2024, 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 11.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 6 – 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, 2025 and 2024, 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, 2025 and 2024, to reflect net present value. This liability reflected in the accompanying statements of financial position amounted to \$7,224,001 and \$5,834,893 at September 30, 2025 and 2024 (as restated, see Note 2), respectively.

The Home is licensed to operate a seventy-six bed continuing care home, and at September 30, 2025 and 2024, the Home had a total of 32 residents for both years, respectively, of which 13 and 14 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 1 and Note 2.

NOTE 7 – Composition of Revenue

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

	September 30,	
	2025	2024
Resident revenue:		
Asset transfer residents	\$ 449,608	\$ 681,947
Fee for service residents	1,290,660	944,697
ALW reimbursement by Medi-Cal	349,073	222,213
Total resident revenue by primary payors	\$ <u>2,089,341</u>	\$ <u>1,848,857</u>

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 8 – 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, 2025 and 2024, the Home had operating cash balances of \$187,087 and \$203,068, respectively.

NOTE 9 – Related Party Transactions

The Home incurred \$108,094 and \$78,076 in administrative expense charges during the years ended September 30, 2025 and 2024, respectively, for services provided by the Grand Chapter. There was an outstanding balance for unpaid administrative fees due to Grand Chapter of \$8,156 as of September 30, 2025, which is included in due to related parties on the statements of financial position. There was an outstanding balance for unpaid administrative fees due to the Grand Chapter of \$80 as of September 30, 2024, which is included in accounts payable on the statements of financial position.

The Home also leases office space to the Grand Chapter as disclosed in Note 11. For the years ended September 30, 2025 and 2024, the Home earned \$17,294 and \$16,361, respectively, of rental income from the Grand Chapter.

As of September 30, 2025, there is an amount totaling \$45,810 due from the Grand Chapter to the Home related to per capita from members of the Grand Chapter. This amount is included in due from related party on the statement of financial position. There was no such amount due to the Home as of September 30, 2024.

For the years ended September 30, 2025 and 2024 (as restated, see Note 2), there were amounts due to the Endowment Fund of \$98,205 and \$33,077 related to investment income from beneficial interests in trusts collected by the Home on behalf of the Endowment Fund that were incorrectly recorded on the Home's books as contributions. See Note 2 for additional disclosures regarding support from and net assets related to the Endowment Fund

NOTE 10 – 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 at September 30, 2025 and 2024 was \$751,125 and \$655,050, respectively. The Home reported a surplus of qualifying assets over the required reserve amount of \$18,629,616 and \$19,187,510 at September 30, 2025 and 2024, respectively, which includes net assets with donor restrictions held in the Endowment Fund of the Grand Chapter for the benefit of the Home.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 11 – Rental Income

The Home leases various offices to one related party and nine unrelated parties under operating leases expiring through November 2032. Property and equipment held for leasing consisted of the following as of:

	September 30,	
	2025	2024
Building	\$ 458,187	\$ 458,187
Building improvements	373,801	326,454
Less: accumulated depreciation	(631,134)	(602,529)
Leased property and equipment, net	\$ 200,854	\$ 182,112

Base rent for the related party lease was \$1,387 and \$1,367 as of September 30, 2025 and 2024, respectively. The base rent increases by 1.5% on an annual basis. The lease expires in November 2032, with no options to extend.

Base rent for the unrelated party leases range from \$2,067 to \$5,077 as of September 30, 2025. Base rent for unrelated party leases ranged from \$2,067 to \$4,927 as of September 30, 2024. Base rent for the unrelated party leases are subject to increase based on the terms of each lease agreement. One unrelated party lease is month-to-month. Five of the unrelated party leases have 5-year extension options.

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

Year Ending September 30,	Related parties	Unrelated parties	Total
2026	\$ 16,855	\$ 271,429	\$ 288,284
2027	17,109	221,382	238,491
2028	17,365	169,104	186,469
2029	17,626	61,687	79,313
2030	17,890	-	17,890
Thereafter	39,669	-	39,669
Total	\$ 126,514	\$ 723,602	\$ 850,116

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 12 – Employee Retention Credit

The Employee Retention Credit (“ERC”), a credit against certain payroll taxes allowed to an eligible employer for qualifying wages, was established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), and further amended by the Consolidated Appropriations Act and the American Rescue Plan. During the year ended September 30, 2025, the Home received total refundable credits of \$949,860.

The Home recognized the refundable credits as other income once there is reasonable assurance that the conditional applicable eligibility barriers to receive the funds have been substantially met. During the year ended September 30, 2025, the Company determined that the conditions for the barriers had been substantially met and therefore the refundable credits received in the amount of \$949,860 were recognized as other income – Employee Retention Credit in the accompanying statement of activities. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Home’s claim to the ERC, and it is not possible to determine the impact this would have upon the Home, if any.

NOTE 13 – 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 fraud and abuse prevention. 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.

EASTERN STAR HOMES OF CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2025 and 2024

(Continued)

NOTE 13 – 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 \$124,972 and \$75,759 for the years ended September 30, 2025 and 2024, respectively.

NOTE 14 – Concentrations and Risks

The Home is licensed to operate a seventy-six bed residential care facility for the elderly (RCFE) in Yorba Linda, California. In addition, the Home conducts business in a heavily regulated environment. Operations are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Changes may occur with little notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with changes.

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 per depositor, per insured bank, per ownership category. At times, such balances may exceed federally insured limits.

NOTE 15 – Reclassifications

Certain items in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net assets or changes in net assets.

NOTE 16 – Subsequent Events

Subsequent events have been evaluated by the Home through February 27, 2026, which is the date the financial statements were available to be issued.