



**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
AND AFFILIATE**

Consolidated Financial Statements and  
Supplementary Information

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
AND AFFILIATE**

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## Independent Auditors' Report

The Board of Directors  
Golden Rain Foundation of Laguna Woods:

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Golden Rain Foundation of Laguna Woods and Affiliate (the Company), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden Rain Foundation of Laguna Woods and Affiliate as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the information included in schedule 3 on future major repairs and replacements be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplementary information included in schedule 1 and 2 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**KPMG LLP**

Irvine, California  
April 5, 2019

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Consolidated Balance Sheets

December 31, 2018 and 2017

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current assets:		
Cash and cash equivalents (note 3)	\$ 4,110,259	6,820,716
Accounts receivable and interest receivable	1,543,311	973,163
Operating supplies	1,168,456	961,238
Income tax receivable (note 9)	45,407	22,315
Prepaid expenses and deposits	702,425	1,155,216
Total current assets	<u>7,569,858</u>	<u>9,932,648</u>
Investments and restricted cash (note 3)	23,869,568	22,728,249
Property and equipment, net (note 4)	55,538,601	53,694,564
Community facilities held in trust, net (note 5)	11,522,516	11,876,861
Intangible assets, net (note 6)	282,184	328,385
Total assets	<u>\$ 98,782,727</u>	<u>98,560,707</u>
<b>Liabilities and Equity</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,261,286	2,304,711
Amounts payable to VMS for accrued compensation (notes 11 and 12)	3,710,448	2,925,755
Payables to Laguna Woods Mutuals (note 11)	3,380,132	3,815,138
Deferred income (note 7)	537,493	952,408
Total current liabilities	<u>9,889,359</u>	<u>9,998,012</u>
Total liabilities	<u>9,889,359</u>	<u>9,998,012</u>
Equity:		
Members' equity in Golden Rain Foundation of Laguna Woods	77,196,713	76,511,695
Noncontrolling interests in consolidated trust (note 13)	11,696,655	12,051,000
Total equity	<u>88,893,368</u>	<u>88,562,695</u>
Total liabilities and equity	<u>\$ 98,782,727</u>	<u>98,560,707</u>

See accompanying notes to consolidated financial statements.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
AND AFFILIATE**

Consolidated Statements of Operations  
Years ended December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
Revenue:		
Assessments:		
Operating	\$ 27,291,210	25,921,836
Additions to restricted funds (note 3)	3,056,640	3,667,968
Total assessments	30,347,850	29,589,804
Other revenue:		
Trust facilities fees (note 3)	3,607,500	2,535,000
Golf	1,757,000	1,422,707
Recreational fees	510,320	448,935
Additional occupant fee	221,697	132,675
Charges for services to mutuals	2,470,431	2,152,582
Rental income	749,820	691,873
Merchandise sales	312,636	291,898
Broadband services	4,907,714	4,381,905
Interest income	526,896	374,786
Income taxes, net (note 9)	25,511	23,486
Miscellaneous	236,290	327,334
Total other revenue	15,325,815	12,783,181
Total revenue	45,673,665	42,372,985
Expenses:		
Amounts paid to VMS for compensation	23,261,071	21,608,683
Operating materials and supplies	1,786,863	2,139,125
Community events	430,812	425,255
Utilities and telephone	2,333,420	2,444,559
Fuel and oil	510,572	436,786
Legal fees	856,126	440,123
Professional fees	652,260	566,021
Equipment rental	223,429	278,891
Repairs and maintenance	2,417,953	2,089,249
Interest expense	—	13,732
Property and sales taxes	100,000	115,858
Insurance	1,265,678	1,237,090
Cable programming fees	5,088,697	4,778,805
Depreciation and amortization	5,246,413	5,252,327
Merchant fees	196,065	167,757
Uniforms	124,532	146,058
Other	640,123	579,673
Total expenses	45,134,014	42,719,992
Net income (loss)	\$ 539,651	(347,007)

See accompanying notes to consolidated financial statements.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net income (loss)	\$ 539,651	(347,007)
Other comprehensive loss:		
Unrealized loss on available-for-sale investments arising during the year:		
Unrealized holding losses arising during the period	<u>(208,978)</u>	<u>(116,091)</u>
Comprehensive income (loss)	330,673	(463,098)
Comprehensive loss:		
Comprehensive loss attributable to noncontrolling interest (note 13)	<u>(354,345)</u>	<u>(361,580)</u>
Comprehensive income (loss) attributable to Members of Golden Rain Foundation	<u>\$ 685,018</u>	<u>(101,518)</u>

See accompanying notes to consolidated financial statements.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Consolidated Statements of Changes in Equity

Years ended December 31, 2018 and 2017

	<u>Members'</u> <u>equity</u>	<u>Noncontrolling</u> <u>interest</u>	<u>Total</u> <u>equity</u>
Balance, December 31, 2016	\$ 76,613,213	12,412,580	89,025,793
Net income (loss)	14,573	(361,580)	(347,007)
Unrealized loss on available-for-sale investments, net	<u>(116,091)</u>	<u>—</u>	<u>(116,091)</u>
Balance, December 31, 2017	76,511,695	12,051,000	88,562,695
Net income (loss)	893,996	(354,345)	539,651
Unrealized loss on available-for-sale investments, net	<u>(208,978)</u>	<u>—</u>	<u>(208,978)</u>
Balance, December 31, 2018	<u>\$ 77,196,713</u>	<u>11,696,655</u>	<u>88,893,368</u>

See accompanying notes to consolidated financial statements.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Consolidated Statements of Cash Flows  
Years ended December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Net income (loss)	\$ 539,651	(347,007)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,246,413	5,252,327
Amortization of investment premium and discount, net	30,342	74,693
Loss on disposition of assets	150,296	—
Change in operating assets and liabilities:		
Accounts receivable and interest receivable	(570,148)	18,121
Operating supplies	(207,218)	59,434
Prepaid expenses and deposits	452,791	(363,817)
Accounts payable and accrued expenses	(43,425)	(2,249,059)
Amounts payable to VMS for accrued compensation	784,693	(530,180)
Receivables from/payables to Laguna Woods Mutuals, net	(435,006)	2,263,039
Income tax receivable	(23,092)	608,603
Deferred income	(414,915)	50,494
Net cash provided by operating activities	5,510,382	4,836,648
Cash flows from investing activities:		
Maturities of held-to-maturity investments	13,915,480	—
Purchases of held-to-maturity investments	(14,532,099)	(4,988,053)
Proceeds from principal payments and maturities of available-for-sale investments	4,605,007	4,022,153
Purchases of available-for-sale investments	(5,369,028)	(4,988,227)
Withdrawals from restricted funds, net	—	5,124,882
Purchases of property and equipment	(6,840,199)	(5,749,802)
Net cash used in investing activities	(8,220,839)	(6,579,047)
Cash flows from financing activity:		
Payment on mortgage loan	—	(661,533)
Net cash used in financing activity	—	(661,533)
Net decrease in cash and cash equivalents	(2,710,457)	(2,403,932)
Cash and cash equivalents at beginning of year	6,820,716	9,224,648
Cash and cash equivalents at end of year	\$ 4,110,259	6,820,716
Supplemental disclosures of cash flow information:		
Cash paid during the year:		
Interest	\$ —	13,732

See accompanying notes to consolidated financial statements.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

**(1) Organization**

**(a) General**

Golden Rain Foundation of Laguna Woods (the Foundation or GRF), a nonprofit mutual benefit corporation, operates and maintains certain community and corporate facilities within Laguna Woods Village, Laguna Woods, California (the Village), a housing development consisting of 12,736 residential units (manors), and various community facilities. There are three corporate members of the Foundation: United Laguna Woods Mutual (6,323 manors), Third Laguna Hills Mutual (6,102 manors), and Laguna Woods Mutual No. Fifty (311 manors), collectively, the Laguna Woods Village housing mutuals (the Mutuals). The individual Mutual's members have a right appurtenant to their membership in the Mutuals to the use of facilities owned or held in trust by the Foundation.

Golden Rain Foundation of Laguna Hills Trust (the Trust) was established to hold title to various community facilities for the benefit of the Mutuals. Each Mutual owns a beneficial interest in the Trust in proportion to the amount originally contributed to the Trust by the Mutual (trusteed sums). The Foundation is the trustee for the Trust and operates and maintains the community facilities held by the Trust. As the Foundation administers the Trust, its assets and activities, and the Mutuals own a beneficial interest in the Trust, without voting control, such beneficial interests represent a noncontrolling interest in the equity of the Trust and is presented separately in the accompanying consolidated financial statements. See further disclosures at note 13.

The consolidated financial statements include the accounts of the Foundation and the Trust (collectively referred to herein as the Company).

GRF is a member of Village Management Services, Inc. (VMS), an affiliated California nonprofit mutual benefit corporation. VMS was formed to provide management services under contract for GRF and the Mutuals. No management fee is paid to VMS (note 11).

**(b) Assessments and Management Fees**

The Foundation receives monthly assessments from the Mutuals for certain services. It charges the individual owners directly for other specific services. The members of the Mutuals were assessed the following amounts for their proportionate share of GRF's costs during 2018 and 2017:

	<b>Assessment per manor per month</b>	
	<b>2018</b>	<b>2017</b>
GRF – shared operating expenses	\$ 178.57	169.61
GRF – contribution to restricted funds	20.00	24.00

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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The consolidated financial statements have been prepared on the accrual basis of accounting. All significant transactions and balances among the consolidated entities have been eliminated in the accompanying consolidated financial statements.

**(b) Comprehensive Income**

Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income*, establishes standards for the reporting and display of comprehensive income. Comprehensive income is defined as all changes in an entity's equity except changes resulting from transactions with owners. It differs from net income in which certain items currently recorded to equity would be part of comprehensive income. Changes in accumulated other comprehensive income were as follows for 2018 and 2017:

		<b>Unrealized losses on securities, net</b>
Ending balance, December 31, 2016	\$	(331,945)
Net current period other comprehensive loss		<u>(116,091)</u>
Ending balance, December 31, 2017		(448,036)
Net current period other comprehensive loss		<u>(208,978)</u>
Ending balance, December 31, 2018	\$	<u><u>(657,014)</u></u>

**(c) Cash and Cash Equivalents**

For purposes of reporting cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. The total balance of cash and cash equivalents at December 31, 2018 and 2017 was \$4,110,259 and \$6,820,716, respectively, which included \$75,230 and \$421,698, respectively, of money market funds.

**(d) Investments and Restricted Cash and Investments**

Investments are accounted for under the provisions of ASC Topic 320, *Investments – Debt and Equity Securities*. This standard requires the Company to classify and account for investments in equity securities that have readily determinable fair values and for all debt securities into three categories: (1) debt securities that the Company has the positive intent and the ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost; (2) debt and equity securities that are bought and held principally for the purpose of selling them in the near-term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings; and (3) debt and equity securities not classified as held-to-maturity securities or trading securities are

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classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a component of comprehensive income.

The Company restricts a portion of monthly assessments to finance reserves set aside and reported as restricted funds on the accompanying consolidated balance sheets. Disbursements from these funds may be made only in accordance with the purpose established. Interest income earned on these funds was generally retained within the respective fund in 2018 and 2017. Additions to the funds are determined each year as outlined in the annual business plan approved by the Company.

**(e) Fair Value Measurements**

The Company applies the provisions of ASC Topic 820, *Fair Value Measurement* (ASC 820), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized at fair value or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction among market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 3).

**(f) Future Major Repairs and Replacements**

A study was conducted by the Company in 2018 to estimate the remaining useful lives and current replacement costs of certain major components of corporate and community facilities. This study also considered future replacement costs of these certain major components of corporate and community facilities based on the estimated useful lives, assuming a 2.5% inflation factor. The board of directors has a policy to plan additional reserve contributions over the remaining useful lives of those assets based on an annual analysis of the adequacy of the reserve funds. Under the assumption that certain buildings would not be completely replaced within the next 30 years, replacement funds also provide for major repair or replacement of those corporate and community facilities. Actual replacement costs when expended may vary from the estimated future expenditures considered in the reserve analysis, and the variations may be material. If additional monies are needed, the Company has the right to adjust the monthly assessment, impose special assessments, or delay expenditures, as appropriate.

**(g) Operating Supplies**

Operating supplies are stated at cost on an average-cost basis, which is not in excess of market value. Operating supplies include materials for landscape, plumbing, paint, maintenance, and other supplies necessary to operate and maintain services for the Village.

**(h) Property and Equipment**

Depreciation of property and equipment is computed on the straight-line method over the following estimated useful lives:

Buildings and improvements	2–40 Years
Furniture, vehicles, and other equipment	1–33 Years
Cable television system	10–11 Years

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Notes to Consolidated Financial Statements

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**(i) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. During 2018 and 2017, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

**(j) Interest Income**

Interest earned on investments, if any, held by the Foundation is allocated to the reserve and contingency fund balances based on their respective proportion of the equity balance in each fund.

Interest earned on investments, if any, held by the Trust is allocated to the individual Mutuals based on their respective proportion of the equity balance in the Trust.

**(k) Income Taxes**

The Foundation files as a homeowners' association in accordance with Internal Revenue Code Section 528. As such, federal and state income taxes were provided on the excess of nonexempt function revenue over nonexempt function expenses for the years ended December 31, 2018 and 2017.

The Foundation provides for income taxes in accordance with ASC Topic 740, *Income Taxes* (ASC 740). ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more likely than not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. ASC 740 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. Management believes that no uncertain tax positions requiring further accrual or disclosure existed at December 31, 2018 or 2017. The open years for federal and state tax assessments are 2015-2018 for federal and 2014-2018 for California.

The Trust is treated as a grantor trust for income tax purposes. Grantor trusts are not taxed at the trust level, rather the trust's income and deductions flow through to the grantor and are included on the grantor's income tax return. The Foundation is the Trustee of the Trust and the Mutuals are the grantors. The Trust generates depreciation expense which is then included on the income tax returns for the Mutuals each year.

**(l) Concentration of Credit Risk**

The Company had cash balances of \$4,035,029 and \$6,399,018 and restricted cash balances of \$174,139 and \$174,139 at December 31, 2018 and 2017, respectively, maintained in a commercial bank and that consist of cash on deposit. At December 31, 2018 and 2017, all non-interest-bearing deposit transaction accounts are Federal Deposit Insurance Corporation insured up to a maximum of \$250,000 per depositor, per insured bank, for each account ownership category.

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The Company also maintained a money market fund in the amount of \$75,230 and \$421,698 at December 31, 2018 and 2017, respectively, that was Securities Investor Protection Corporation insured up to a maximum of \$500,000 per institution.

**(m) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements. Actual results could differ from those estimates.

**(n) Reclassifications**

Certain reclassifications have been made to the 2017 comparative information to conform to the 2018 financial statement presentation.

**(3) Cash and Cash Equivalents and Investments and Restricted Cash**

The Company's investments and restricted cash are presented as follows on the accompanying consolidated balance sheets at December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Restricted cash	\$ 174,139	174,139
Restricted Investments:		
Available for sale (at fair value):		
U.S. Treasury notes	8,140,224	7,768,247
Governmental National Mortgage Association securities (GNMAs)	4,686,280	4,927,239
Corporate bonds	5,258,359	4,867,266
Total restricted investments at fair value	18,084,863	17,562,752
Held to maturity (at amortized cost):		
U.S. Treasury notes	4,466,533	4,225,712
Certificate of deposit	661,216	—
Total restricted investments at amortized cost	5,127,749	4,225,712
Total restricted cash and restricted investments	23,386,751	21,962,603
Unrestricted investments:		
Held to maturity (at amortized cost):		
U.S. Treasury notes	482,817	765,646
Total restricted cash and investments	\$ 23,869,568	22,728,249

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The Company follows the provisions of ASC 820 for fair value measurements of assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement.

The Company's cash and cash equivalents and investments that are measured at fair value on a recurring basis as reflected on the accompanying consolidated balance sheets at December 31, 2018 and 2017 are summarized as follows:

	<b>2018</b>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 4,110,259	—	4,110,259
Investments and restricted cash:			
Restricted cash	174,139	—	174,139
Available for sale:			
U.S. Treasury notes	8,140,224	—	8,140,224
GNMAs	—	4,686,280	4,686,280
Corporate bonds	—	5,258,359	5,258,359
Total investments and restricted cash	<u>8,314,363</u>	<u>9,944,639</u>	<u>18,259,002</u>
Total cash and cash equivalents and investments and restricted cash	<u>\$ 12,424,622</u>	<u>9,944,639</u>	<u>22,369,261</u>

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Notes to Consolidated Financial Statements

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	<b>2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 6,820,716	—	\$ 6,820,716
Investments and restricted cash:			
Restricted cash	174,139	—	174,139
Available for sale:			
U.S. Treasury notes	7,768,247	—	7,768,247
GNMAs	—	4,927,239	4,927,239
Corporate bonds	—	4,867,266	4,867,266
Total investments and restricted cash	<u>7,942,386</u>	<u>9,794,505</u>	<u>17,736,891</u>
Total cash and cash equivalents, and investments and restricted cash	<u>\$ 14,763,102</u>	<u>9,794,505</u>	<u>24,557,607</u>

For the valuation of U.S. Treasury notes, GNMAs, and corporate bonds, the Company used significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation dates of December 31, 2018 and 2017, which are classified as Level 2 in the fair value hierarchy. Investments held to maturity comprised of U.S. Treasury notes and a Certificate of deposit, totaling \$5,610,566 and \$4,991,358, and are carried at cost at December 31, 2018 and 2017, respectively. Fair value of such investments totaled \$5,609,794 and \$4,988,325 at December 31, 2018 and 2017, respectively, and were considered Level 2 in the fair value hierarchy. There were no significant transfers into or out of Levels 1 or 2 for the years ended December 31, 2018 and 2017.

The Company's investments are classified as either available for sale or held to maturity and are summarized as follows:

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
<b>At December 31, 2018:</b>				
Available for sale	\$ 18,741,878	35,014	(692,029)	18,084,863
Held to maturity	5,610,566	—	(772)	5,609,794

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December 31, 2018 and 2017

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
At December 31, 2017:				
Available for sale	\$ 18,010,790	79,466	(527,504)	17,562,752
Held to maturity	4,991,358	—	(3,033)	4,988,325

Investments as of December 31, 2018 and 2017 have the following scheduled maturities:

		<b>2018</b>	
<b>Available for sale</b>		<b>Amortized cost</b>	<b>Estimated fair value</b>
One to five years	\$	13,078,813	12,978,024
Five to ten years		2,926,183	2,620,255
More than ten years		2,736,882	2,486,584
	\$	18,741,878	18,084,863
<b>Held to maturity</b>			
Within one year	\$	5,610,566	5,609,794
		<b>2017</b>	
<b>Available for sale</b>		<b>Amortized cost</b>	<b>Estimated fair value</b>
One to five years	\$	11,645,151	11,679,656
Five to ten years		4,152,198	3,865,786
More than ten years		2,213,441	2,017,310
	\$	18,010,790	17,562,752
<b>Held to maturity</b>			
Within one year	\$	4,991,358	4,988,325

The Company determines realized gains and losses based on the specific-identification method. The Company had no realized gains or losses on available-for-sale investments in 2018 or 2017.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Notes to Consolidated Financial Statements

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Restricted cash and investments consist of the following reserve funds:

	Facilities fund	Equipment fund	Trust facilities fee fund	Trust improvement fund	Contingency fund	Total
Balances, December 31, 2016	\$ 7,585,470	5,836,497	7,778,895	174,139	714,784	22,089,785
Mutuals' assessments	1,681,152	1,833,984	—	—	152,832	3,667,968
Net investment income and other contributions	169,705	77,544	2,609,214	—	6,403	2,862,866
Expenditures	(161,544)	(105,337)	20	—	(106,428)	(373,289)
Construction-in-progress additions	(2,843,550)	(2,645,504)	(99,370)	—	(34,770)	(5,623,194)
Loan payments	(661,533)	—	—	—	—	(661,533)
Fund transfers	4,850,000	—	(4,850,000)	—	—	—
Balances, December 31, 2017	10,619,700	4,997,184	5,438,759	174,139	732,821	21,962,603
Mutuals' assessments	1,069,824	1,833,984	—	—	152,832	3,056,640
Net investment income and other contributions	202,645	113,673	3,756,397	—	8,530	4,081,245
Expenditures	(131,172)	(31,035)	—	—	(457,142)	(619,349)
Construction-in-progress additions	(3,592,248)	(1,494,100)	—	—	(8,040)	(5,094,388)
Balances, December 31, 2018	\$ 8,168,749	5,419,706	9,195,156	174,139	429,001	23,386,751

**(a) Facilities Fund**

The facilities fund was established to provide funds for replacements and improvements of both corporate and community facilities and provide for the principal repayments of certain long-term debt obligations (note 8). Monthly assessments for the facilities fund were included in restricted funds assessments in the accompanying consolidated statements of operations.

**(b) Equipment Fund**

The equipment fund was established to provide funds for the replacement of existing capital equipment and the acquisition of new capital equipment. Monthly assessments for the equipment fund were included in restricted funds assessments in the accompanying consolidated statements of operations.

**(c) Trust Facilities Fee Fund**

The trust facilities fee fund was established to maintain and improve the recreational and other amenities available to all residents within Laguna Woods Village. This fee is a fixed amount, as determined periodically by the Trustee of the Golden Rain Foundation Trust.

**(d) Trust Improvement Fund**

The trust improvement fund was established to provide for additions, improvements, and replacements of major components of community facilities held by the Trust.

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**(e) Contingency Fund**

The contingency fund is used for the repair or replacement of Foundation or Trust assets damaged by uninsured or unexpected disasters in addition to providing for unanticipated significant expenditures not otherwise identified in the business plan.

**(4) Property and Equipment**

Property and equipment are recorded at cost and consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,236,749	3,236,749
Land improvements	20,224,695	19,263,798
Buildings and improvements	45,697,867	44,514,742
Furniture, vehicles, and other equipment	36,626,106	33,285,782
Cable television system	<u>16,755,620</u>	<u>16,389,077</u>
	122,541,037	116,690,148
Less accumulated depreciation and amortization	<u>(72,096,572)</u>	<u>(67,498,249)</u>
	50,444,465	49,191,899
Construction in progress	<u>5,094,136</u>	<u>4,502,665</u>
Total property and equipment, net	<u>\$ 55,538,601</u>	<u>53,694,564</u>

**(5) Community Facilities Held in Trust**

Community facilities held in trust are recorded at cost and consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 7,535,113	7,535,113
Land improvements	9,001,706	9,001,706
Buildings and improvements	<u>19,334,726</u>	<u>19,334,726</u>
	35,871,545	35,871,545
Less accumulated depreciation and amortization	<u>(24,349,029)</u>	<u>(23,994,684)</u>
Total community facilities held in trust, net	<u>\$ 11,522,516</u>	<u>11,876,861</u>

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**(6) Intangible Assets**

Intangible assets consist of the following as of December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Water reclamation facility	\$ 87,967	87,967
Cable television system – management rights	557,506	557,506
Logo	18,080	18,080
	663,553	663,553
Less accumulated depreciation and amortization	(381,369)	(335,168)
Total intangible assets, net	\$ 282,184	328,385

**(a) Water Reclamation Facility**

During 2012, the El Toro Water District (ETWD) agreed to reimburse the Company for the net book value of the water reclamation facility that was originally constructed for the exclusive use of the Village with funds from its facilities fund. At the end of 2012, the net book value of the reclamation facility was \$432,565 and the Company received a payment from ETWD of \$344,598, which resulted in a remaining asset value of \$87,967 at December 31, 2012. At the end of 2018, this remaining reclamation facility asset was fully amortized with the exception of a recycled water discharge pipe, which will continue to serve only the Village and will be amortized over its remaining useful life.

**(b) Cable Television System – Management Rights**

During 2012, Connexion Technologies, the company that has provided cable management services since December 31, 2009 for the Company’s cable television system servicing the Laguna Woods Village community, filed for bankruptcy in the United States Bankruptcy Court for the District of Delaware. As part of the bankruptcy, management rights per the December 31, 2009 agreement were to be sold through the bankruptcy court via auction. On June 13, 2012, the Company was the highest bidder and reacquired the management contract. The Company paid a total of \$598,773 for the Cable Television System contract and recorded \$557,506 of the purchase price as an intangible asset at December 31, 2012. The Cable Television System contract is being amortized over the remaining life of the contract, which is scheduled to end in 2024.

**(7) Deferred Income**

Deferred income represents advance payments for products or services that are to be delivered in the future. At December 31, 2018 and 2017, the Company had a deferred income liability of \$537,493 and \$952,408, respectively, relating to items such as prepaid cable services and advertising, clubhouse rental reservations, ticket sales for future events, and funds on deposit for resale corrections not yet completed.

**(8) Mortgage Loan Payable**

During 2002, the Company entered into a loan agreement for \$9,500,000 as permanent financing for the Community Center. The note was collateralized by the building and land and matured in November 2017.

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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

**(9) Income Tax Provision**

The provision for income taxes for the years ended December 31, 2018 and 2017 consists of the following:

	<b>2018</b>	<b>2017</b>
State taxes – current	\$ (10,000)	5,070
Federal taxes – current	(15,511)	(28,556)
Total taxes	\$ (25,511)	(23,486)

At December 31, 2018 and 2017, the Company has no net operating loss carryforwards available to offset future federal unrelated business taxable income. The Company is considered a homeowner's association for federal and state tax purposes and is taxed on its nonexempt function net income at a rate of 30.00% for federal taxes and 8.84% for state taxes. The Company's nonexempt function income is from commercial and other services provided to nonmembers. At December 31, 2018 and 2017 the estimated income tax receivable was \$45,407 and \$22,315, respectively.

**(10) Commitments and Contingencies**

The Company is involved in various legal matters arising in the normal course of business. Although the results of these legal matters cannot be predicted with certainty, management believes that the final outcome of such matters will not have a material adverse effect on the Company's consolidated financial position.

The Company holds letters of credit from Bank of America, totaling \$660,000, in relation to the Company's workers' compensation policy.

**(11) Related Parties**

As discussed in note 1, the Mutuels are members of GRF and GRF is a member of VMS, all related entities. The accompanying consolidated financial statements include assessments from the Mutuels for operating expenses and reserve contributions as well as payables due to the Laguna Woods Mutuels for \$3,380,132 and \$3,815,138 at December 31, 2018 and 2017, respectively. The accompanying consolidated balance sheets also include amounts owed to VMS for compensation and related costs of \$3,710,448 and \$2,925,755 at December 31, 2018 and 2017, respectively.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

**(12) Workers' Compensation Insurance**

The Company has a workers' compensation insurance policy under a retrospective rating program. In addition to the basic premium, the Company is responsible for the first \$200,000 of each loss. At December 31, 2018 and 2017, the estimated workers' compensation insurance obligation was \$745,856 and \$519,130, respectively, and is included in amounts payable to VMS for accrued compensation in the accompanying consolidated balance sheets.

**(13) Noncontrolling Interests in Consolidated Trust**

The Mutuals have a beneficial interest in the Trust, which holds certain community facilities in trust for the Mutuals. The Mutuals' beneficial interest is calculated based on the Mutuals' "trusteed sums," defined as the original contribution amounts as stated in the trust agreement.

As of and for the years ended December 31, 2018 and 2017, the Mutuals own an undivided interest in the Trust as follows, which is recorded in the respective Mutual financial statements:

	<b>United Laguna Woods Mutual</b>	<b>Third Laguna Hills Mutual</b>	<b>Laguna Woods Mutual No. Fifty</b>	<b>Total</b>
Trust's equity, December 31, 2016	\$ 6,406,221	5,749,761	256,598	12,412,580
Change in net assets of the Trust	<u>(209,138)</u>	<u>(145,969)</u>	<u>(6,473)</u>	<u>(361,580)</u>
Trust's equity, December 31, 2017	6,197,083	5,603,792	250,125	12,051,000
Change in net assets of the Trust	<u>(204,953)</u>	<u>(143,050)</u>	<u>(6,342)</u>	<u>(354,345)</u>
Trust's equity, December 31, 2018	<u>\$ 5,992,130</u>	<u>5,460,742</u>	<u>243,783</u>	<u>11,696,655</u>

**(14) Pension Plans**

Village Management Services, Inc. makes contributions to two union-sponsored, multiemployer defined-benefit pension plans (covering most union employees), in accordance with a negotiated labor contract between VMS and the labor union. In the event that these plans are either terminated, or VMS withdraws from the plans, VMS may be required to contribute additional amounts under the provisions of the Employee Retirement Income Security Act of 1974. Such amounts would be reimbursed by the Foundation and the Mutuals. However, no such termination of or withdrawal from the plans is currently contemplated.

During 2018 and 2017, VMS sponsored a 401(k) plan covering all eligible employees. Employee contributions to the plan are at the participants' discretion. In 2018 and 2017, VMS made matching contributions into the plan for eligible nonunion employee participants. The Mutuals and the Foundation are not responsible for the management or ultimate funding of the 401(k) plan beyond the agreed-upon matching contributions.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
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Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Amounts contributed by VMS to these plans in 2018 and 2017 and reimbursed by the Foundation were \$210,850 and \$202,582 for the defined-benefit pension plans and \$258,491 and \$304,234, respectively, for the 401(k) plan.

**(15) Subsequent Events**

Subsequent events have been evaluated through April 5, 2019, which is the date the consolidated financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
AND AFFILIATE**

Consolidating Balance Sheet Information – Golden Rain Foundation and  
Golden Rain Foundation Trust

December 31, 2018

<b>Assets</b>	<b>Foundation</b>	<b>Trust</b>	<b>Total</b>
Cash and cash equivalents	\$ 4,110,259	—	4,110,259
Accounts receivable and interest receivable	1,507,478	—	1,507,478
Receivables from Laguna Woods Mutuals	35,833	—	35,833
Operating supplies	1,168,456	—	1,168,456
Income tax receivable	45,407	—	45,407
Prepaid expenses and deposits	702,425	—	702,425
Restricted cash and investments	23,695,429	174,139	23,869,568
Property and equipment, net	55,538,601	—	55,538,601
Community facilities, net	—	11,522,516	11,522,516
Intangible assets, net	282,184	—	282,184
Total assets	<u>\$ 87,086,072</u>	<u>11,696,655</u>	<u>98,782,727</u>
<b>Liabilities and Equity</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 2,261,286	—	2,261,286
Amounts payable to VMS for accrued compensation	3,710,448	—	3,710,448
Payables to Laguna Woods Mutuals	3,380,132	—	3,380,132
Deferred income	537,493	—	537,493
Total liabilities	<u>9,889,359</u>	<u>—</u>	<u>9,889,359</u>
Equity:			
Members' equity in Golden Rain Foundation of Laguna Woods	77,196,713	—	77,196,713
Noncontrolling interests in consolidated trust	—	11,696,655	11,696,655
Total equity	<u>77,196,713</u>	<u>11,696,655</u>	<u>88,893,368</u>
Total liabilities and equity	<u>\$ 87,086,072</u>	<u>11,696,655</u>	<u>98,782,727</u>

See accompanying independent auditors' report.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
AND AFFILIATE**

Consolidating Operations Information – Golden Rain Foundation and  
Golden Rain Foundation Trust

Year ended December 31, 2018

Revenue:	<u>Foundation</u>	<u>Trust</u>	<u>Total</u>
Assessments:			
Operating	\$ 27,291,210	—	27,291,210
Additions to restricted funds	<u>3,056,640</u>	<u>—</u>	<u>3,056,640</u>
Total assessments	30,347,850	—	30,347,850
Other revenue	<u>15,325,815</u>	<u>—</u>	<u>15,325,815</u>
Total revenue	<u>45,673,665</u>	<u>—</u>	<u>45,673,665</u>
Expenses:			
Amounts paid to VMS for compensation	23,261,071	—	23,261,071
Operating materials and supplies	1,786,863	—	1,786,863
Community events	430,812	—	430,812
Utilities and telephone	2,333,420	—	2,333,420
Fuel and oil	510,572	—	510,572
Legal fees	856,126	—	856,126
Professional fees	652,260	—	652,260
Equipment rental	223,429	—	223,429
Repairs and maintenance	2,417,953	—	2,417,953
Property and sales taxes	100,000	—	100,000
Insurance	1,265,678	—	1,265,678
Cable programming/copyright/franchise	5,088,697	—	5,088,697
Depreciation and amortization	4,892,068	354,345	5,246,413
Merchant fees	196,065	—	196,065
Uniforms	124,532	—	124,532
Other	<u>640,123</u>	<u>—</u>	<u>640,123</u>
Total expenses	<u>44,779,669</u>	<u>354,345</u>	<u>45,134,014</u>
Net income (loss)	<u>\$ 893,996</u>	<u>(354,345)</u>	<u>539,651</u>

See accompanying independent auditors' report.

**GOLDEN RAIN FOUNDATION OF LAGUNA WOODS  
AND AFFILIATE**

Future Major Repairs and Replacements

December 31, 2018

(Unaudited)

The Company conducted a study in 2018, to estimate the remaining useful lives and current replacement costs of major components of corporate and community facilities of the Foundation and the Trust, respectively. The estimates were determined from past experience and from information obtained from certain contractors. Certain land improvements, buildings, and building improvements were excluded from the study and are excluded from the table, as these items are expected to last the life of the community or to be maintained from operating funds. The assumption is that certain buildings would not be completely replaced within the next 30 years.

The following table is based on the Company's study of its common property:

<b>Consolidated funds of the Foundation and the Trust</b>				
<b>Major components</b>	<b>Estimated useful lives (years)</b>	<b>Estimated remaining useful lives (years)</b>	<b>Estimated current replacement costs</b>	<b>Estimated funding requirement, December 31, 2018</b>
Land, buildings, and improvements	9–60	2–38	\$ 117,404,000	57,326,848
Equipment	1–20	0–14	33,512,373	24,951,984
			\$ 150,916,373	82,278,832
Fund balances as of December 31, 2018				
			\$ 8,168,749	8,168,749
			5,419,706	5,419,706
			9,195,156	9,195,156
			174,139	174,139
			Total reserve fund balances	\$ 22,957,750

As the reserve study is a projection, the estimated lives and costs of components will likely change over time depending on a variety of factors such as (i) future inflation rates, (ii) levels of maintenance applied by future boards, unknown defects in materials that may lead to premature failures, remaining useful lives, etc. As a result, some components may cost less at the time of replacement while others may cost more. To adequately plan for future expenditures, the Board has adopted via resolution a 30-Year Funding Plan that projects contributions to and disbursements from the reserves over the next thirty years, without falling below a minimum threshold in the reserve balance.

Reserves receive monies through assessments and net interest earned on invested fund balances.

See accompanying independent auditors' report.