

**LAGUNA WOODS MUTUAL NO. FIFTY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**



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For the Years Ended December 31, 2017 and 2016**

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Independent Auditor's Report

To the Board of Directors of Laguna Woods Mutual No. Fifty

We have audited the accompanying financial statements of Laguna Woods Mutual No. Fifty (the "Association"), which comprise the balance sheet as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Laguna Woods Mutual No. Fifty as of December 31, 2017 and 2016, and results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America

Emphasis of Matter - Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements, are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Repairs and Replacements on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Newman & Associates, Inc

Newman and Associates, Inc.
An Accountancy Corporation
Carlsbad, California
April 17, 2018

LAGUNA WOODS MUTUAL NO. FIFTY
BALANCE SHEET
December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Assessments receivable	\$ 902,080	\$ 335,879
Allowance for doubtful accounts	(657,800)	(234,600)
Other receivables	1,989	4,848
Prepaid expenses	62,059	56,317
Prepaid income taxes	141,673	-
Receivable from Golden Rain Foundation of Laguna Woods	-	86,633
Deposits	150,000	150,000
Total current assets	600,001	399,077
Restricted cash, cash equivalents and investments	2,139,885	3,826,984
Rental property, improvements and equipment, cost	515,272	515,272
Less accumulated depreciation	(515,272)	(515,272)
Rental property, improvements and equipment, net	-	-
Beneficial interest in Golden Rain Foundation of Laguna Hills Trust	234,981	256,598
Non-controlling interest in Golden Rain Foundation of Laguna Woods	1,868,337	1,870,816
Total assets	\$ 4,843,204	\$ 6,353,475
Liabilities and Members' Equity		
Liabilities		
Accounts payable and accrued expenses	\$ 806,916	\$ 954,190
Prepaid assessments and deposits	103,032	119,492
Income taxes payable	-	219,386
Loan payable	1,314,194	-
Total liabilities	2,224,142	1,293,068
Members' equity		
Unrestricted fund	(1,502,992)	(1,127,563)
Restricted funds	4,122,054	6,187,970
	2,619,062	5,060,407
Total liabilities and members' equity	\$ 4,843,204	\$ 6,353,475

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Revenues		
Member assessments		
Operating assessments	\$ 5,329,883	\$ 5,798,788
Golden Rain Foundation of Laguna Woods restricted funds	89,568	78,372
Restricted funds	1,350,000	910,608
Total member assessments	6,769,451	6,787,768
Other revenue		
Interest income	31,968	33,641
Multiple resident charges	263,792	306,573
Rental income	933,126	753,250
Food services	128,674	157,884
Miscellaneous income	136,753	217,349
Total other revenue	1,494,313	1,468,697
Total revenues	8,263,764	8,256,465
Expenses		
Direct Mutual operating expenses	4,192,721	4,104,544
Expenses from restricted funds	3,350,663	591,782
Food service	2,518,313	2,563,069
Housekeeping	607,926	641,613
Income tax provision	19,997	219,386
	10,689,620	8,120,394
Net surplus (deficit) before other changes	(2,425,856)	136,071
Other changes:		
Unrealized gain (loss) in interest in Golden Rain Foundation of Laguna Woods	(2,479)	2,138
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	(7,572)	(20,156)
Net surplus (deficit)	\$ (2,435,907)	\$ 118,053

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net surplus (deficit)	\$ (2,435,907)	\$ 118,053
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale investments arising during the year	(5,438)	3,944
Comprehensive income (loss)	<u>\$ (2,441,345)</u>	<u>\$ 121,997</u>

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2017 and 2016

	<u>Memberships</u>		<u>Changes</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>		<u>Members'</u>
Members' equity, December 31, 2015	311	\$ 139,950	\$ 4,803,990	\$ 4,943,940
Net surplus (deficit)			118,053	118,053
Unrealized gain on available-for-sale investments, net			3,944	3,944
Prior period adjustment			(5,530)	(5,530)
Members' equity, December 31, 2016	<u>311</u>	<u>139,950</u>	<u>4,920,457</u>	<u>5,060,407</u>
Net surplus (deficit)			(2,435,907)	(2,435,907)
Unrealized loss on available-for-sale investments, net			(5,438)	(5,438)
Members' equity, December 31, 2017	<u><u>311</u></u>	<u><u>\$ 139,950</u></u>	<u><u>\$ 2,479,112</u></u>	<u><u>\$ 2,619,062</u></u>

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net surplus (deficit)	\$ (2,425,856)	\$ 118,053
Adjustments to reconcile surplus(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities		
Depreciation	-	18,721
Loss on beneficial interest in Golden Rain Foundation of Laguna Woods	7,572	20,156
Unrealized gain in voting interest in Golden Rain Foundation of Laguna Woods	2,479	(2,138)
Changes in operating assets and liabilities		
Assessments receivable	(566,201)	(1,532)
Allowance for doubtful accounts	423,200	73,754
Other receivables	2,859	33,751
Prepaid expenses	(5,742)	(37,351)
Prepaid income taxes	(141,673)	-
Receivable from Golden Rain Foundation of Laguna Woods	86,633	(11,635)
Deposits	-	(150,000)
Accounts payable and accrued expenses	(147,274)	91,308
Prepaid assessments and deposits	(16,460)	(13,292)
Income taxes payable	(219,386)	169,562
Net cash provided(used) by operating activities	(2,999,849)	309,357
Cash flows from investing activities:		
Purchases of available-for-sale investments	(314,630)	(142,192)
Proceeds from available-for-sale investments	245,974	139,009
Deposits to (withdrawals from) restricted funds, net	7,719,736	7,048,462
Net cash provided by (used in) investing activities	7,651,080	7,045,279
Cash flows from financing activities:		
Proceeds from loan payable	1,314,194	-
Net cash provided by (used in) financing activities	1,314,194	-
Net increase(decrease) in cash and cash equivalents	5,965,425	7,354,636
Cash and cash equivalents at beginning of year	3,825,540	3,527,652
Cash and cash equivalents at end of year	\$ 2,139,885	\$ 3,826,984

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

LAGUNA WOODS MUTUAL NO. FIFTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

1. Organization

Laguna Woods Mutual No. Fifty (the "Mutual") was incorporated in 1969 as a nonprofit mutual benefit corporation under the laws of California, for the purposes of managing, operating, maintaining and preserving residential condominium development for the mutual benefit of its members.

The Mutual consists of 311 residential units and is part of Laguna Woods Village, Laguna Woods, California (the "Village"), a common interest development of 12,736 homes and community facilities. The Mutual is a corporate member of Golden Rain Foundation of Laguna Woods ("GRF"), which is a nonprofit mutual benefit corporation. Mutual members are afforded the right to use facilities owned or held in trust by GRF in accordance with their membership in the Mutual. As trustee, GRF holds title to community facilities in trust for the benefit of all of the mutual associations in the Village (the "Village Mutuals").

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Mutual maintains its financial records on the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

Revenue Recognition

Revenue is recorded when services are provided. Any amounts collected in advance are recorded as prepaid assessments and deposits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Assessments and Assessments Receivable

Mutual members are subject to monthly assessments to provide funds for the Mutual's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable represent fees due from owners. The Mutual's governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner's unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner's other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Mutual has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Mutual records an allowance for doubtful accounts to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old.

LAGUNA WOODS MUTUAL NO. FIFTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

Improvements and Equipment

The Mutual depreciates the cost of improvements and equipment on the straight-line method over estimated useful lives of 5 to 40 years.

Cash and Cash Equivalents

Cash and cash equivalents include the Mutual's cash, checking accounts, money market funds and investments with original maturities of 90 days or less.

Investments and Restricted Cash and Investments

ASC 320, Investments – Debt and Equity Securities, requires the Mutual requires the Mutual to classify its investments in equity securities that have readily determinable fair values and for all debt securities into three categories:

1. Debt securities the Mutual intends and has the ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost;
2. Debt and equity securities bought and sold primarily 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 net income;
3. Debt and equity securities not classified as held-to-maturity securities or trading securities are classified as available-for-sale securities, and reported at fair value, with unrealized gains and losses excluded from net income, and reported in other comprehensive income.

The Mutual restricts a portion of member assessments to finance reserves set aside and reported as restricted funds. Disbursements from the restricted funds may be made only in accordance with the established purpose of those funds.

Fair Value Measurements

Under ASC 820, Fair Value Measurements for fair value measurements of financial assets and financial liabilities, and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at a measurement date.

Interest in Golden Rain Foundation of Laguna Woods and Golden Rain Foundation of Laguna Hills Trust

The Mutual holds an approximate 2.4% interest in GRF based on the non-Trust net assets of GRF, which reflects the influence the Mutual exercises over GRF through its voting interest in accordance with ASC 323 – Investments – Equity Method and Joint Ventures. The interest totaled \$1,868,337 and \$1,870,816 at December 31, 2017 and 2016, respectively.

The Mutual has a beneficial interest in Golden Rain Foundation of Laguna Hills Trust (the “GRF Trust”), which holds certain community facilities in trust for the Village Mutuals. The beneficial interest is defined as the original contribution amounts stated in the Trust agreement (the “trusteed sums”). The Mutual’s beneficial interests were \$234,981 and \$256,598 at December 31, 2017 and 2016 respectively.

The Mutual’s interest in the Golden Rain Foundation and Golden Rain Foundation Trust consist of its ownership of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 6,820,716	\$ 9,224,648
Accounts receivable and interest receivable	973,163	958,291
Other current assets	2,138,769	2,457,693
Restricted funds	22,728,249	22,089,785
Property and equipment, net	53,694,564	52,789,308
Community facilities, net	11,876,861	12,238,441
Intangible assets, net	328,385	374,586
Total assets	<u>\$ 98,560,707</u>	<u>\$ 100,132,752</u>
Accounts payable and accrued expenses	\$ 9,045,604	\$ 9,543,512
Deferred income	952,408	901,914
Mortgage loan payable	-	661,533
Total liabilities	<u>9,998,012</u>	<u>11,106,959</u>
Members’ equity in Golden Rain Foundation Laguna Woods	76,511,695	76,613,213
Noncontrolling interests in consolidated trust	12,051,000	12,412,580
Total equity	<u>88,562,695</u>	<u>89,025,793</u>
Total liabilities and equity	<u>\$ 98,560,707</u>	<u>\$ 100,132,752</u>
Laguna Woods Mutual No. Fifty's 2.4% interest in Golden Rain Foundation of Laguna Woods	<u>\$ 1,868,337</u>	<u>\$ 1,870,816</u>

Concentration of Credit Risk

The Mutual maintains bank accounts and certificates of deposit with various financial institutions. The balances in these accounts may occasionally exceed FDIC federally insured limits of \$250,000.

LAGUNA WOODS MUTUAL NO. FIFTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

Subsequent Events

Subsequent events have been evaluated through April 17, 2018, which is the date the financial statements were available to be issued.

3. Cash and Cash Equivalents and Restricted Cash and Investments

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Restricted cash	\$ 912,300	\$ 2,656,299
Available for sale - at fair value		
U.S. Treasury Notes	759,332	649,580
GNMAs	468,253	521,105
	<u>\$ 2,139,885</u>	<u>\$ 3,826,984</u>

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 quotes 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 levels of hierarchy are as follows:

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

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

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 Mutual's cash and cash equivalents and restricted cash and investments that are measured at fair value on a recurring basis are as follows:

		December 31, 2017		
		Level 1	Level 2	Total
Restricted cash and investments				
Restricted cash	\$	912,300		\$ 912,300
Available for sale				
U.S. Treasury Notes			759,332	759,332
GNMAs			468,253	468,253
Total restricted cash and investments	\$	912,300	\$ 1,227,585	\$ 2,139,885

		December 31, 2016		
		Level 1	Level 2	Total
Restricted cash and investments				
Restricted cash	\$	2,656,299		\$ 2,656,299
Available for sale				
U.S. Treasury Notes			649,580	649,580
GNMAs			521,105	521,105
Total restricted cash and investments	\$	2,656,299	\$ 1,170,685	\$ 3,826,984

The Mutual did not hold any held-to-maturity investments at December 31, 2017 and 2016.

The Mutual's investments in restricted funds are classified as either available-for-sale or held-to-maturity, and are summarized below:

		December 31, 2017		
		Gross	Gross	Estimated fair
		Amortized cost	unrealized gains	unrealized losses
		value		
Available-for-sale	\$	1,227,585		\$ (5,438) \$ 1,222,147

		December 31, 2016		
		Gross	Gross	Estimated fair
		Amortized cost	unrealized gains	unrealized losses
		value		
Available-for-sale	\$	1,166,737		\$ 3,948 \$ 1,170,685

LAGUNA WOODS MUTUAL NO. FIFTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

To value its investments, Mutual uses significant other observable inputs, including dealer market prices for comparable investments as of the valuation date, or December 31, 2016 and 2015, and are therefore classified as Level 2 securities in the fair value hierarchy. No significant transfers into or out of Level 3 occurred during the years ended December 31, 2017 and 2016.

Investments as of December 31, 2017 and 2016 have maturity schedules as follows:

		December 31, 2017	
		Estimated fair	
		Amortized cost	value
Available for sale			
1 to 5 years	\$	709,129	\$ 715,673
5 to 10 years		348,659	338,185
More than 10 years		169,797	168,289
		\$ 1,227,585	\$ 1,222,147

		December 31, 2016	
		Estimated fair	
		Amortized cost	value
Available for sale			
1 to 5 years	\$	480,676	\$ 494,624
5 to 10 years		576,693	567,400
More than 10 years		109,368	108,661
		\$ 1,166,737	\$ 1,170,685

Restricted cash and investments consist of the following reserve funds:

Replacement funds							
General							
	Replacement	equipment	Capital	Preventive	Facilities		
	fund	depreciation	equipment	maintenance	renovation	Contingency	Total
	fund	fund	fund	fund	fund	fund	
Balance at December 31, 2015	\$ 2,557,110	\$ 76,924	\$ 495,782	\$ 357,674	\$ 183,496	\$ 83,750	\$ 3,754,736
Member assessments	798,648					111,960	910,608
Expenditures	(591,782)						(591,782)
Balance at December 31, 2016	2,763,976	76,924	495,782	357,674	183,496	195,710	4,073,562
Member assessments	950,000					400,000	1,350,000
Net investment/other							-
Expenditures	(2,866,003)						(2,866,003)
Balance at December 31, 2017	\$ 847,973	\$ 76,924	\$ 495,782	\$ 357,674	\$ 183,496	\$ 595,710	\$ 2,557,559

LAGUNA WOODS MUTUAL NO. FIFTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

4. Future Major Repairs and Replacements

The Mutual's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations. The board of directors conducted a reserve study in 2017, to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on this study.

The Mutual is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Mutual has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

The Mutual has established the following specific funds:

Replacement funds

Replacement funds have been established to provide funds for the replacement of roofs, asphalt surfaces, elevators and selected equipment that were in place and included in the cost of manors purchased by initial members. Member assessments for the replacement funds are included in the restricted funds member assessments in the statements of operations.

General Equipment Depreciation fund

The general equipment depreciation fund was established to provide funds to replace existing equipment.

Capital Equipment fund

The capital equipment fund provides funds to purchase additional equipment.

Preventive Maintenance fund

The preventive maintenance fund was created to provide funds for preventative maintenance of buildings, including painting and waterproofing of buildings, carports and balconies.

Facilities Renovation fund

The facilities renovation fund was established to provide improvements to common property.

Contingency fund

The contingency fund was established for the repair or replacement of Mutual assets damaged by uninsured or unexpected disasters in addition to providing for unanticipated significant expenditures not identified in the business plan.

LAGUNA WOODS MUTUAL NO. FIFTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

5. Income Taxes

The Mutual is considered a homeowners' association for federal and state income tax purposes; and is liable for tax on non-member income sources. Non-member income sources include interest earned on investments, manor rental revenue, cell tower rental, merchandise revenue. The income tax provision consists of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Federal taxes - current	\$ 13,011	\$ 172,357
State taxes - current	6,986	47,029
	<u>\$ 19,997</u>	<u>\$ 219,386</u>

At December 31, 2017, the Mutual had IRC Section 277 excess expenses of \$2,484,888 that may be used to offset federal net member income in the next tax year.

The Mutual's management does not expect the Mutual to realize the benefits of the deductible differences and has recorded a valuation allowance as of December 31, 2017 and 2016.

Income tax expense differs from the amounts calculated due principally to variances in tax rates applied to temporary differences in current and previous years, together with other adjustments.

Management does not believe there are any uncertain tax positions requiring accrual or disclosure at December 31, 2017 or 2016. The Internal Revenue Service and the California Franchise Tax Board can examine the Association's income tax returns generally up to three years and four years, respectively.

LAGUNA WOODS MUTUAL NO. FIFTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

6. Pension Plans

In accordance with a negotiated labor contract between Associa and a labor union, Associa contributes to two union-sponsored, multiemployer defined benefit pension plans. Should the plan be terminated, or Associa withdraw from the plan, Associa may be required to contribute additional amounts to the plan. Such amounts would be reimbursable by GRF and the Village Mutuals.

During 2017, Associa sponsored a 401(k) plan covering all eligible employees. Employee contributions to the plan are at the participant's discretion. During 2016, Associa contributed to the plan for eligible non-union employees. The Village Mutuals and GRF are not responsible for the management or funding of the 401(k) plan beyond agreed-upon annual contributions. The Mutual reimbursed Associa for contributions to the plans totaling \$52,386 and \$52,213 for the years ended December 31, 2017 and 2016.

7. Loan Payable

On May 26, 2017, the Association entered into a loan agreement with Pacific Western Bank to borrow up to \$2,200,000 to finance a central plant building automation system and energy management system. As of December 31, 2017, the Association had drawn \$1,314,194 from the loan. The loan carries a fixed interest rate of 4.6%. For the first twelve months of the loan, monthly interest only charges will be paid by the Association. Beginning June 26, 2018, the Association will commence monthly principal and interest payments of \$19,984 until the maturity date of the loan on May 26, 2030.

8. Contingencies

From time to time, the Mutual has claims made against it that result from normal operations. The Mutual's Board of Directors believes that it has adequate legal defense and insurance for potentially adverse legal consequences, and that the results of such contingencies will not have a material adverse impact on the mutual.

SUPPLEMENTARY INFORMATION

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENT OF EXPENSES
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Direct Mutual operating expenses		
Buildings and maintenance	\$ 1,715,227	\$ 1,530,167
Towers administration	647,787	717,372
Master association fee	722,553	725,128
Electricity	361,727	376,140
Natural gas	78,535	65,202
Water and sewer	149,897	156,858
Trash	9,365	11,933
Professional fees	329,014	372,290
Rental unit costs	49,179	34,947
Property insurance	93,712	87,644
Depreciation	-	18,721
Other	35,725	8,142
Total direct Mutual operating expenses	<u>\$ 4,192,721</u>	<u>\$ 4,104,544</u>

LAGUNA WOODS MUTUAL NO. FIFTY
FUTURE MAJOR REPAIRS AND REPLACEMENTS
For the Years Ended December 31, 2017 and 2016

The Mutual's board of directors, in conjunction with a reserve study expert, conducted a reserve study in 2017, to estimate the remaining useful lives and the replacement costs of the components of common property, except for certain land improvements, buildings and building improvements for which major repair and replacement funds are not provided, due to such items being expected to last the life of the community, or to be maintained by funds from the general operating or preventive maintenance funds. Replacement costs were based on the estimated costs to repair or replace the common property components on the date of the study.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives	Estimated current replacement costs	Study recommended annual funding requirement	Study recommended fund balance
Roof/decks	2-13	\$ 1,222,200	\$ 144,768	\$ 887,117
Structure	1-30	404,650	29,940	183,402
Paint	1-9	2,164,400	68,616	420,483
Mechanical/plumbing/electrical	0-30	5,547,950	425,292	2,606,258
Kitchen	0-32	465,400	50,388	308,606
Flooring	1-29	366,200	46,740	286,347
Landscape/hardscape	1-30	697,700	85,176	521,868
Recreation facilities	1-18	917,950	94,404	578,203
Miscellaneous	0-6	102,650	12,852	78,819
		<u>\$ 11,889,100</u>	<u>\$ 958,176</u>	<u>\$ 5,871,103</u>
Other Assumptions:				
	Interest rate			2.00%
	Inflation rate			1.76%