KPMG

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS AND AFFILIATE

Consolidated Financial Statements and Supplementary Information

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

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KPMG LLP
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Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
Golden Rain Foundation of Laguna Woods:

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, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, 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, 2020 and 2019, 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 12, 2021

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Balance Sheets

December 31, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents (note 3)	$	2,520,519	2,731,180
Accounts receivable and interest receivable		1,719,097	1,445,309
Operating supplies		888,150	1,018,587
Income tax receivable (note 8)		—	46,377
Prepaid expenses and deposits		1,971,219	1,465,161
Total current assets		7,098,985	6,706,614
Investments and restricted cash (note 3)		24,509,316	21,895,591
Property and equipment, net (note 4)		59,109,271	58,814,798
Community facilities held in trust, net (note 5)		10,850,965	11,185,066
Intangible assets, net (note 6)		189,781	235,982
Total assets	$	101,758,318	98,838,051
Liabilities and Equity			
Liabilities:			
Accounts payable and accrued expenses	$	2,022,872	2,570,591
Amounts payable to VMS for accrued compensation (notes 10 and 11)		3,719,022	3,448,893
Payables to Laguna Woods Mutuals (note 10)		1,333,179	2,056,698
Deferred income (note 7)		471,840	613,419
Income tax payable (note 8)		546,062	—
Total current liabilities		8,092,975	8,689,601
Total liabilities		8,092,975	8,689,601
Equity:			
Members’ equity in Golden Rain Foundation of Laguna Woods		82,640,239	78,789,245
Noncontrolling interests in consolidated trust (note 12)		11,025,104	11,359,205
Total equity		93,665,343	90,148,450
Total liabilities and equity	$	101,758,318	98,838,051

See accompanying notes to consolidated financial statements.

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Statements of Operations

Years ended December 31, 2020 and 2019

		2020	2019
Revenue:			
Assessments:			
Operating	$	27,754,291	28,095,107
Additions to restricted funds (note 3)		3,667,968	2,903,808
Total assessments		31,422,259	30,998,915
Other revenue:			
Trust facilities fees (note 3)		3,385,000	4,150,000
Golf		1,515,098	1,583,340
Recreational fees		269,714	483,286
Additional occupant fee		191,860	191,223
Charges for services to mutuals		2,900,667	2,547,224
Rental income		266,398	845,978
Merchandise sales		269,630	338,214
Broadband services		5,186,355	4,797,353
Interest income		349,753	545,440
Miscellaneous		194,211	441,710
Total other revenue		14,528,686	15,923,768
Total revenue		45,950,945	46,922,683
Expenses:			
Amounts paid to VMS for compensation		21,569,930	23,098,076
Operating materials and supplies		1,847,293	1,998,426
Community events		125,189	563,596
Utilities and telephone		2,095,787	2,320,501
Fuel and oil		370,940	511,609
Legal fees		336,669	994,184
Professional fees		621,149	626,610
Equipment rental		200,704	213,295
Repairs and maintenance		2,924,567	2,439,999
Income taxes, net (note 8)		593,124	32,003
Property and sales taxes		125,795	125,556
Insurance		2,008,550	1,374,364
Cable programming fees		3,792,055	5,131,674
Depreciation and amortization		5,603,640	5,651,270
Merchant fees		278,799	293,905
Uniforms		98,880	113,695
Other		301,013	525,218
Total expenses		42,894,084	46,013,981
Other expense:			
Realized gain (loss) on available-for-sale investments		37,829	(325,915)
Unrealized gain on available-for-sale investments		422,203	—
Net income	$	3,516,893	582,787

See accompanying notes to consolidated financial statements.

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Statements of Comprehensive Income

Years ended December 31, 2020 and 2019

		2020	2019
Net income	$	3,516,893	582,787
Other comprehensive income:			
Unrealized income on available-for-sale investments arising during the year:			
Unrealized holding gains arising during the period		—	672,295
Comprehensive income		3,516,893	1,255,082
Comprehensive loss:			
Comprehensive loss attributable to noncontrolling interest (note 12)		(334,101)	(337,450)
Comprehensive income attributable to Members of Golden Rain Foundation	$	3,850,994	1,592,532

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, 2020 and 2019

		Members' equity	Noncontrolling interest	Total equity
Balance, December 31, 2018	$	77,196,713	11,696,655	88,893,368
Net income (loss)		920,237	(337,450)	582,787
Unrealized gain on available-for-sale investments, net		672,295	—	672,295
Balance, December 31, 2019		78,789,245	11,359,205	90,148,450
Net income (loss)		3,850,994	(334,101)	3,516,893
Balance, December 31, 2020	$	82,640,239	11,025,104	93,665,343

See accompanying notes to consolidated financial statements.

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS AND AFFILIATE

Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Net income	$	3,516,893	582,787
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		5,603,640	5,651,270
Unrealized gain on available-for-sale investments		(422,203)	—
Amortization of investment premium and discount, net		5,564	(469,093)
Change in operating assets and liabilities:			
Accounts receivable and interest receivable		(273,788)	98,002
Operating supplies		130,437	149,870
Prepaid expenses and deposits		(506,058)	(762,736)
Accounts payable and accrued expenses		(547,718)	309,305
Amounts payable to VMS for accrued compensation		270,129	(261,555)
Receivables from Laguna Woods Mutuals, net		(723,519)	(1,323,434)
Income tax receivable		46,377	(970)
Income tax payable		546,062	—
Deferred income		(141,579)	75,926
Net cash provided by operating activities		7,504,237	4,049,372
Cash flows from investing activities:			
Maturities of held-to-maturity investments		3,992,995	8,911,860
Purchases of held-to-maturity investments		(5,999,187)	(4,962,145)
Proceeds from sales of held-to-maturity investments		—	661,216
Proceeds from principal payments and maturities of available-for-sale investments		3,237,518	23,184,860
Purchases of available-for-sale investments		(3,493,606)	(22,813,074)
Purchases of property and equipment		(5,517,811)	(8,543,816)
Net cash used in investing activities		(7,780,091)	(3,561,099)
Net (decrease) increase in cash and cash equivalents and restricted cash		(275,854)	488,273
Cash and cash equivalents and restricted cash at beginning of year		4,772,671	4,284,398
Cash and cash equivalents and restricted cash at end of year (note 2 (b))	$	4,496,817	4,772,671

See accompanying notes to consolidated financial statements.

(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 are presented separately in the accompanying consolidated financial statements. See further disclosures at note 12.

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 10).

(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 2020 and 2019:

		Assessment per manor per month	
		2020	**2019**
GRF – shared operating expenses	$	181.60	183.83
GRF – contribution to restricted funds		24.00	19.00

(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) 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, 2020 and 2019 is $2,520,519 and $2,731,180, which includes $288,936 and $191,899, respectively, of money market funds.

The table below provides a reconciliation of cash, cash equivalents, and restricted cash reported on the balance sheet that sum to the total of those same amounts shown in the statement of cash flows:

		2020	2019
Cash and cash equivalents	$	2,520,519	2,731,180
Restricted cash		1,976,298	2,041,491
	$	4,496,817	4,772,671

(c) 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 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 earnings and reported as a component of comprehensive income. Equity securities including mutual funds 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 included in earnings during the year ended December 31, 2020. Unrealized gains and losses from available-for-sale securities were included in other comprehensive income during the year ended December 31, 2019.

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 2020 and 2019. Additions to the funds are determined each year as outlined in the annual business plan approved by the Company.

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(d) 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).

(e) Future Major Repairs and Replacements

A study was conducted by the Company in 2020 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.

(f) 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.

(g) 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

(h) 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 2020 and 2019, there were no events or

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changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

(i) 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.

(j) 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, 2020 and 2019.

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, 2020 and 2019. The open years for federal and state tax assessments are 2017-2020 for federal and 2016-2020 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.

(k) Concentration of Credit Risk

The Company had cash balances of $2,231,583 and $2,539,281 and restricted cash balances of $1,976,298 and $2,041,491 at December 31, 2020 and 2019, respectively, maintained in a commercial bank and that consist of cash on deposit. At December 31, 2020 and 2019, 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.

The Company also maintained a money market fund in the amount of $288,936 and $191,899 at December 31, 2020 and 2019, respectively, that was Securities Investor Protection Corporation insured up to a maximum of $500,000, per institution.

(l) 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

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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.

(m) Current Environment

In March 2020 the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak led to a dramatic loss of life worldwide and affected travel, commerce and financial markets globally, including the United States. The spread of COVID-19 adversely affected Mutual operations and the ability to conduct maintenance on major components as planned. Commencing March 2020, certain community and corporate facilities within the Village were closed to resident use. While some staff worked in corporate facilities adhering to social distancing programs, many employees were furloughed for a period of four months from April 2020 through July 2020. As of December 31, 2020, uncertainty remains over the progression of the virus, the availability of vaccinations, and the changing governmental directives. By the issuance date of this report, Mutual operations have largely returned to normal levels.

(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 sheet at December 31, 2020 and 2019:

		2020	2019
Restricted cash	$	1,976,298	2,041,491
Restricted Investments:			
Available-for-sale (at fair value):			
Index funds		18,203,590	18,854,795
Held-to-maturity (at amortized cost):			
U.S. Treasury notes		—	999,305
Total restricted cash and restricted investments		20,179,888	21,895,591
Unrestricted investments:			
Available-for-sale (at fair value):			
Index funds		1,329,496	—
Held-to-maturity (at amortized cost):			
U.S. Treasury notes		2,999,932	—
Total unrestricted investments		4,329,428	—
Total restricted cash and investments	$	24,509,316	21,895,591

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 sheet at December 31, 2020 and 2019 are summarized as follows:

		2020		
		Level 1	**Level 2**	**Total**
Assets:				
Cash and cash equivalents	$	2,520,519	—	2,520,519
Investments and restricted cash:				
Restricted cash		1,976,298	—	1,976,298
Available-for-sale:				
Index funds		19,533,086	—	19,533,086
Total investments and restricted cash		21,509,384	—	21,509,384
Total cash and cash equivalents, and investments and restricted cash	$	24,029,903	—	24,029,903

		2019		
		Level 1	Level 2	Total
Assets:				
Cash and cash equivalents	$	2,731,180	—	2,731,180
Investments and restricted cash:				
Restricted cash		2,041,491	—	2,041,491
Available-for-sale:				
Index funds		18,854,795	—	18,854,795
Total investments and restricted cash		20,896,286	—	20,896,286
Total cash and cash equivalents, and investments and restricted cash	$	23,627,466	—	23,627,466

In November 2019 the Board of Directors approved a revised Investment Policy allowing bond holdings at investment grade ratings and directing the Investment Manager to convert individual holdings of U.S. Treasury notes, GNMAs, and corporate bonds to a portfolio of index funds. In December 2019 the sale of previously owned holdings was executed and all proceeds were used for the immediate purchase of index funds. The valuation of the index fund portfolio used quoted prices in active markets for identical investments and are classified as Level 1 in the fair value hierarchy. Fair value of such investments totaled $19,533,086 and $18,854,795 at December 31, 2020 and 2019.

Investments held-to-maturity comprise U.S. Treasury notes, totaling $2,999,932 and $999,305 were carried at cost at December 31, 2020 and 2019. Fair value of such investments totaled $2,999,932 and $999,728 at December 31, 2020 and 2019 and were considered Level 1 in the fair value hierarchy.

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

		Purchase cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At December 31, 2020:					
Available-for-sale	$	19,095,602	818,509	(381,025)	19,533,086
Held-to-maturity		2,999,932	—	—	2,999,932

		Purchase cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At December 31, 2019:					
Available-for-sale	$	18,839,514	15,281	—	18,854,795
Held-to-maturity		999,305	423	—	999,728

The Company determines realized gains and losses based on the specific-identification method. In 2020 realized gain and realized loss were as follows in 2020 and 2019:

Available-for-sale		2020	2019
Realized gain	$	157,400	151,471
Realized (loss)		(119,571)	(477,386)
Realized gain (loss) on available-for-sale, net	$	37,829	(325,915)

Restricted cash and investments consist of the following reserve and contingency funds:

		Facilities fund	Equipment fund	Trust facilities fee fund	Trust improvement fund	Contingency fund	Total
Balances, December 31, 2018	$	8,168,749	5,419,706	9,195,156	174,139	429,001	23,386,751
Mutuals' assessments		—	2,598,144	—	—	305,664	2,903,808
Net investment income and other contributions		119,915	29,414	4,182,596	—	2,123	4,334,048
Expenditures		(8,906)	(2,871)	—	—	(72,405)	(84,182)
Construction in progress additions		(5,866,916)	(2,707,114)	—	—	(70,804)	(8,644,834)
Fund transfers		6,000,000	—	(6,000,000)	—	—	—
Balances, December 31, 2019		8,412,842	5,337,279	7,377,752	174,139	593,579	21,895,591
Mutuals' assessments		—	2,903,808	—	—	764,160	3,667,968
Net investment income and other contributions		301,851	191,074	3,667,303	—	21,262	4,181,490
Expenditures		—	(90,667)	—	—	(49,875)	(140,542)
Construction in progress additions		(4,573,146)	(4,519,520)	—	—	—	(9,092,666)
Fund transfers		6,000,000	—	(6,000,000)	—	(331,955)	(331,955)
Balances, December 31, 2020	$	10,141,547	3,821,974	5,045,055	174,139	997,171	20,179,886

(a) Facilities Reserve Fund

The Facilities Reserve Fund is used for the acquisition, addition, replacement or improvement of Foundation and Trust facilities and their components. This fund receives monies through assessments, interest earnings, and a transfer of operating surplus if directed by the Board. Balances are used to fund the 30-year reserves plan.

(b) Equipment Reserve Fund

The Equipment Reserve Fund is used for the purchase of new and replacement equipment, including but not limited to vehicles, machinery, office equipment, and furniture. This fund receives monies through assessments, interest earnings, and a transfer of operating surplus if directed by the Board.

(c) Trust Facilities Fee Fund

The Trust Facilities Fee Fund was established in 2012 to maintain and improve the recreational and other amenities available to all residents of Laguna Woods Village. A fee, allowed under Civil Code 4580, is imposed on all transactions involving the purchase of a separate interest in any of the Community's common interest developments (United Mutual, Third Mutual and Mutual Fifty).

(d) Trust Improvement Fund

Established in 1974, this fund was established in the Trust to provide for improvement to certain existing community facilities. Contributions to this fund were discontinued in 1985 and improvements to GRF and Trust assets are funded through the funds mentioned above.

(e) Contingency Fund

The Contingency Fund provides for unanticipated expenditures not otherwise identified in the operating budget or reserve plan and provides for uninsured damage to property. This fund receives monies through assessments, interest earnings, and a transfer of operating surplus if directed by the Board.

(4) Property and Equipment

Property and equipment are recorded at cost and consist of the following at December 31, 2020 and 2019:

		2020	2019
Land	$	3,236,749	3,236,749
Land improvements		23,688,414	21,382,485
Buildings and improvements		48,479,644	46,600,687
Furniture, vehicles, and other equipment		42,899,684	37,829,530
Cable television system		17,420,062	17,420,062
		135,724,553	126,469,513
Less accumulated depreciation and amortization		(81,525,877)	(76,302,539)
		54,198,676	50,166,974
Construction in progress		4,910,595	8,647,824
Total property and equipment, net	$	59,109,271	58,814,798

(5) Community Facilities Held in Trust

Community facilities held in trust are recorded at cost and consist of the following at December 31, 2020 and 2019:

		2020	2019
Land	$	7,535,113	7,535,113
Land improvements		9,001,706	9,001,706
Buildings and improvements		19,334,726	19,334,726
		35,871,545	35,871,545
Less accumulated depreciation and amortization		(25,020,580)	(24,686,479)
Total community facilities held in trust, net	$	10,850,965	11,185,066

(6) Intangible Assets

Intangible assets consist of the following as of December 31, 2020 and 2019:

		2020	2019
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		(473,772)	(427,571)
Total intangible assets, net	$	189,781	235,982

(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. This reclamation facility asset was used until the end of 2019, the projected completion date of the ETWD Recycled Water System Expansion Project, and was amortized until then. At the end of 2019, 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.

(Continued)

(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, 2020 and 2019, the Company had a deferred income liability of $471,840 and $613,419, 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) Income Tax Provision

The provision for income taxes for the years ended December 31, 2020 and 2019 consists of the following:

		2020	2019
State taxes – current	$	134,616	—
Federal taxes – current		458,508	32,003
Total taxes	$	593,124	32,003

At December 31, 2020 and 2019, the Company has no net operating loss carry forwards 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% 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, 2020, the estimated income tax payable was $546,062 and at December 31, 2019 the estimated income tax receivable was $46,377.

(9) 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 $1,800,000, in relation to the Company's workers' compensation policy. The Company has not utilized any advances relating to these letters of credit for year ending December 31, 2020.

(Continued)

(10) Related Parties

As discussed in note 1, the Mutuals are members of GRF and GRF is a member of VMS, all related entities. The accompanying consolidated financial statements include assessments from the Mutuals for operating expenses and reserve contributions as well as payables due to the Laguna Woods Mutuals for $1,333,179 and $2,056,698 at December 31, 2020 and 2019, respectively. The accompanying consolidated balance sheets also include amounts owed to VMS for compensation and related costs of $3,719,022 and $3,448,893 at December 31, 2020 and 2019, respectively.

(11) Workers' Compensation Insurance

The Company has a workers' compensation insurance policy under a deductible based program. In addition to the basic premium, the Company is responsible for the first $200,000 of each loss. At December 31, 2020 and 2019, the estimated workers' compensation insurance obligation was $2,123,298 and $1,058,042, respectively, and is included in amounts payable to VMS for accrued compensation in the accompanying consolidated balance sheets.

(12) 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, 2020 and 2019, the Mutuals own an undivided interest in the Trust as follows, which is recorded in the respective Mutual financial statements:

		United Laguna Woods Mutual	Third Laguna Hills Mutual	Laguna Woods Mutual No. Fifty	Total
Trust's equity, December 31, 2018	$	5,992,130	5,460,742	243,783	11,696,655
Change in net assets of the Trust		(195,181)	(136,229)	(6,040)	(337,450)
Trust's equity, December 31, 2019		5,796,949	5,324,513	237,743	11,359,205
Change in net assets of the Trust		(193,244)	(134,876)	(5,981)	(334,101)
Trust's equity, December 31, 2020	$	5,603,705	5,189,637	231,762	11,025,104

(13) 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 2020 and 2019, VMS sponsored a 401(k) plan covering all eligible employees. Employee contributions to the plan are at the participants' discretion. In 2020 and 2019, 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.

Amounts contributed by VMS to these plans in 2020 and 2019 and reimbursed by the Foundation were $228,260 and $219,785 for the defined-benefit pension plan and $285,206 and $265,860, respectively, for the 401(k) plan.

(14) Malware Attack

GRF and two of its corporate members, United Laguna Woods Mutual and Third Laguna Hills Mutual, were victims of a malware attack in October 2020. The criminal(s) responsible for the attack encrypted data denying users access. While the financial systems remained functional, numerous internal systems were rendered inoperable. The FBI and local law enforcement were notified and a team of professionals were contracted with to resolve the incident. At December 31, 2020 the corporations had access to the recovered data and safeguard measures had been enacted to limit the risk of future losses.

(15) Subsequent Events

Subsequent events have been evaluated through April 12, 2021, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Schedule 1

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

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

December 31, 2020

Assets		Foundation	Trust	Total
Cash and cash equivalents	$	2,520,519	—	2,520,519
Accounts receivable and interest receivable		1,719,097	—	1,719,097
Operating supplies		888,150	—	888,150
Prepaid expenses and deposits		1,971,219	—	1,971,219
Restricted cash and investments		24,335,177	174,139	24,509,316
Property and equipment, net		59,109,271	—	59,109,271
Community facilities, net		—	10,850,965	10,850,965
Intangible assets, net		189,781	—	189,781
Total assets	$	90,733,214	11,025,104	101,758,318
Liabilities and Equity				
Liabilities:				
Accounts payable and accrued expenses	$	2,022,872	—	2,022,872
Amounts payable to VMS for accrued compensation		3,719,022	—	3,719,022
Payables to Laguna Woods Mutuals		1,333,179	—	1,333,179
Deferred income		471,840	—	471,840
Income tax payable		546,062	—	546,062
Total liabilities		8,092,975	—	8,092,975
Equity:				
Members' equity in Golden Rain Foundation of Laguna Woods		82,640,239	—	82,640,239
Noncontrolling interests in consolidated trust		—	11,025,104	11,025,104
Total equity		82,640,239	11,025,104	93,665,343
Total liabilities and equity	$	90,733,214	11,025,104	101,758,318

See accompanying independent auditors' report.

Schedule 2

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS AND AFFILIATE

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

Year ended December 31, 2020

	Foundation	Trust	Total
Revenue:			
Assessments:			
Operating	$ 27,754,291	—	27,754,291
Additions to restricted funds	3,667,968	—	3,667,968
Total assessments	31,422,259	—	31,422,259
Other revenue	14,528,686	—	14,528,686
Total revenue	45,950,945	—	45,950,945
Expenses:			
Amounts paid to VMS for compensation	21,569,930	—	21,569,930
Operating materials and supplies	1,847,293	—	1,847,293
Community events	125,189	—	125,189
Utilities and telephone	2,095,787	—	2,095,787
Fuel and oil	370,940	—	370,940
Legal fees	336,669	—	336,669
Professional fees	621,149	—	621,149
Equipment rental	200,704	—	200,704
Repairs and maintenance	2,924,567	—	2,924,567
Income taxes, net	593,124	—	593,124
Property and sales taxes	125,795	—	125,795
Insurance	2,008,550	—	2,008,550
Cable programming/copyright/franchise	3,792,055	—	3,792,055
Depreciation and amortization	5,269,539	334,101	5,603,640
Merchant fees	278,799	—	278,799
Uniforms	98,880	—	98,880
Other	301,013	—	301,013
Total expenses	42,559,983	334,101	42,894,084
Other expense:			
Realized gain on available-for-sale investment	37,829	—	37,829
Unrealized gain on available-for-sale investment	422,203	—	422,203
Net income (loss)	$ 3,850,994	(334,101)	3,516,893

See accompanying independent auditors’ report.

Schedule 3

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS AND AFFILIATE

Future Major Repairs and Replacements

December 31, 2020

(Unaudited)

The Company conducted a study in 2020 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 common property:

	Consolidated reserve funds of the Foundation and the Trust			
Major components	**Estimated useful lives (years)**	**Estimated remaining useful lives (years)**	**Estimated current replacement costs**	**Estimated funding requirement, December 31, 2020**
Land, buildings, and improvements	9–60	1–36	$ 117,550,000	63,665,762
Equipment	1–20	0-19	39,766,335	29,901,945
			$ 157,316,335	93,567,707
Balances as of December 31, 2020 (note 3):				
Facilities fund				$ 10,141,547
Equipment fund				3,821,974
Trust facilities fee fund				5,045,055
Trust improvement fund				174,139
Total reserve fund balances				$ 19,182,715

Because 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, net interest earned on invested fund balances, and through a fee charged at the close of each escrow, where applicable.

See accompanying independent auditors' report.