



THIRD LAGUNA HILLS MUTUAL

Financial Statements and Supplementary Information

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

THIRD LAGUNA HILLS MUTUAL

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Independent Auditors' Report

The Board of Directors
Third Laguna Hills Mutual:

Opinion

We have audited the financial statements of Third Laguna Hills Mutual (the Mutual), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Mutual as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Mutual and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mutual's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mutual's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mutual's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information included in schedule 1 on future major repairs and replacements be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by 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 have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

KPMG LLP

Irvine, California
April 16, 2024

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Balance Sheets

December 31, 2023 and 2022

Assets	2023	2022
Cash and cash equivalents (note 3)	\$ 5,147,789	135,623
Accounts receivable and interest receivable, net of allowance for doubtful accounts of \$537,655 in 2023 and \$643,110 in 2022, respectively	438,553	84,306
Receivable from Golden Rain Foundation of Laguna Woods (note 5)	—	1,292,193
Income tax receivable (note 4)	—	31,029
Prepaid expenses	3,082,330	3,332,534
Total current assets	8,668,672	4,875,685
Investments and restricted cash (note 3)	28,839,044	31,086,860
Beneficial interest in Golden Rain Foundation of Laguna Hills Trust (note 2(g))	4,855,333	4,950,211
Equity Interest in Golden Rain Foundation of Laguna Woods (note 2(g))	43,779,552	42,272,100
Total assets	\$ 86,142,601	83,184,856
Liabilities and Members' Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,782,808	2,846,226
Amounts payable for accrued compensation (note 5)	577,083	598,365
Payable to Golden Rain Foundation of Laguna Woods (note 5)	465,484	—
Assessments and charges paid in advance	560,528	637,145
Income tax payable (note 4)	166,857	—
Total current liabilities	4,552,760	4,081,736
Total liabilities	4,552,760	4,081,736
Members' equity	81,589,841	79,103,120
Total liabilities and members' equity	\$ 86,142,601	83,184,856

See accompanying notes to financial statements.

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Statements of Operations

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue:		
Member assessments:		
Operating	\$ 43,617,171	42,917,426
Golden Rain Foundation of Laguna Woods restricted funds	1,244,808	1,610,928
Restricted funds	<u>12,779,940</u>	<u>12,811,362</u>
Total member assessments	<u>57,641,919</u>	<u>57,339,716</u>
Other revenue:		
Chargeable services revenue	1,607,993	1,087,996
Laundry	210,912	213,498
Investment income	863,415	16,709
Amortization of investment discount	279,509	187,965
Lease and resale processing fees	421,653	452,924
Income tax benefit (note 4)	—	4,240
Miscellaneous	<u>245,570</u>	<u>298,580</u>
Total other revenue	<u>3,629,052</u>	<u>2,261,912</u>
Total revenue	<u>61,270,971</u>	<u>59,601,628</u>
Expenses:		
Amounts paid to VMS for compensation	13,356,366	13,237,185
Operating materials and supplies	1,488,658	1,408,555
Utilities and telephone	5,782,749	5,887,317
Professional fees	76,879	130,160
Legal fees	475,459	268,778
Repairs and maintenance	12,447,877	8,660,179
Insurance	8,584,511	8,311,811
Income taxes (note 4)	197,886	—
Golden Rain Foundation of Laguna Woods operating expenses	16,350,834	15,831,070
Payments to Golden Rain Foundation of Laguna Woods restricted funds	1,244,808	1,610,928
Other	<u>190,797</u>	<u>356,153</u>
Total expenses	<u>60,196,824</u>	<u>55,702,136</u>
Net income before other changes	1,074,147	3,899,492
Other changes:		
Realized loss on available-for-sale investments (note 3)	—	(3,699)
Unrealized gain from voting interest in Golden Rain Foundation of Laguna Woods	1,507,452	1,198,838
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	<u>(94,878)</u>	<u>(104,929)</u>
Net income	<u>\$ 2,486,721</u>	<u>4,989,702</u>

See accompanying notes to financial statements.

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Statements of Changes in Members' Equity

Years ended December 31, 2023 and 2022

	Memberships		Changes	Total members' equity
	Number	Amount		
Members' equity, December 31, 2021	6,102	\$ 610,200	73,503,218	74,113,418
Net income	—	—	4,989,702	4,989,702
Members' equity, December 31, 2022	6,102	610,200	78,492,920	79,103,120
Net income	—	—	2,486,721	2,486,721
Members' equity, December 31, 2023	6,102	\$ 610,200	80,979,641	81,589,841

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net income	\$ 2,486,721	4,989,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	94,878	104,929
Realized loss on available-for-sale investments	—	3,699
Amortization of investment discount	(279,509)	(187,965)
Unrealized gain from voting interest in Golden Rain Foundation of Laguna Woods	(1,507,452)	(1,198,838)
Changes in operating assets and liabilities:		
Accounts and interest receivable (payable)	(354,247)	133,770
Income tax receivable	31,029	—
Prepaid expenses	250,204	(513,821)
Payable (receivable) from Golden Rain Foundation of Laguna Woods	1,757,677	(812,843)
Payable (receivable) for accrued compensation	(21,282)	2,262
Accounts payable and accrued expenses	(63,418)	(582,865)
Member assessments paid in advance	(76,617)	(47,281)
Income tax payable	166,857	—
Net cash provided by operating activities	<u>2,484,841</u>	<u>1,890,749</u>
Cash flows from investing activities:		
Purchases of held-to-maturity investments	(86,257,664)	(42,161,519)
Maturities of held-to-maturity investments	88,058,585	11,989,028
Proceeds from sales of available-for-sale investments	—	4,996,342
Net cash provided by (used in) investing activities	<u>1,800,921</u>	<u>(25,176,149)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	4,285,762	(23,285,400)
Cash and cash equivalents and restricted cash, beginning of year	<u>862,027</u>	<u>24,147,427</u>
Cash and cash equivalents and restricted cash, end of year (note 2b)	<u>\$ 5,147,789</u>	<u>862,027</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2023 and 2022

(1) Organization

(a) General

Third Laguna Hills Mutual (the Mutual), a nonprofit mutual benefit corporation, was formed to manage, operate, and maintain 6,102 condominium housing units (manors or common property) for the benefit of its members. These manors are a part of Laguna Woods Village, Laguna Woods, California (the Village), a housing development consisting of 12,736 manors and various community facilities.

The Mutual is a corporate member of Golden Rain Foundation of Laguna Woods (GRF), a nonprofit mutual benefit corporation. The individual Mutual members have a right to the use of facilities owned or held in trust by GRF, appurtenant to their membership in the Mutual. GRF, as trustee, holds title to certain community facilities in trust for the benefit of all Mutuals that are a part of the Village (the Village Mutuals).

The Mutual 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 5).

(b) Assessments

The Mutual receives, on a monthly basis, assessments from its members (member assessments) to conduct its operations and to fund certain reserve accounts as discussed in note 2(f). For 2023 and 2022, the members were assessed Mutual basic monthly assessments of \$780.93 and \$777.12, respectively, per manor per month, for direct and Mutual shared operating costs, Mutual reserve contributions, and GRF shared operating expenses and restricted funds. The Mutual basic monthly assessment does not include surcharges for those manors with common laundry facilities, elevators, and/or Garden Villa recreation rooms.

The total assessed to the members of the Mutual for Mutual basic costs and surcharges and GRF costs was \$57,641,919 and \$57,339,716, respectively, in 2023 and 2022.

(2) Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

(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, 2023 and 2022 is \$5,147,789 and \$135,623, respectively.

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Notes to Financial Statements

December 31, 2023 and 2022

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:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 5,147,789	135,623
Restricted cash	<u>—</u>	<u>726,404</u>
Total cash and cash equivalents and restricted cash	<u>\$ 5,147,789</u>	<u>862,027</u>

(c) *Investments*

The Mutual accounts for investments and restricted funds under the provisions of ASC Topic 320, *Investments – Debt and Equity Securities*. This statement requires the Mutual 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 Mutual 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 other 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 years ended December 31, 2023 and 2022.

The Mutual restricts a portion of member assessments to finance reserves set aside as restricted funds. Disbursements from restricted funds may be made only in accordance with the purpose established. Interest income earned on restricted funds is retained within the respective fund. Additions to the funds are determined each year as outlined in the annual business plan.

(d) *Fair Value Measurements*

The Mutual has adopted the provisions of ASC Topic 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. ASC Topic 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 Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 3).

(e) *Property*

The Mutual has adopted the provisions of ASC Topic 972, *Real Estate – Common Interest Realty Associations, Subtopic 360, Property, Plant and Equipment*, for the accounting for common real property acquired. As such, common real property directly associated with units is expensed when incurred. Common real property not directly associated with units are capitalized when the Mutual can

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Notes to Financial Statements

December 31, 2023 and 2022

dispose of the property, at the discretion of its board of directors or when the property is used to generate significant cash flows from members on the basis of usage or from nonmembers.

(f) *Future Major Repairs and Replacements*

A study was conducted by the Mutual in 2023 to estimate the remaining useful lives and current replacement costs of certain major components of common property. This study also considered future replacement costs of these certain major components based on the estimated useful lives, assuming a 3.0% inflation factor. The board of directors has a policy to plan additional fund contributions over the estimated useful lives of the components (on a current-cost basis) based on an annual analysis of the adequacy of the funds. Under the assumption that certain buildings would not be completely replaced within the next 30 years, replacement funds are not provided for those community facilities. Actual replacement costs when expended may vary from the estimated future expenditures considered in the fund analysis, and the variations may be material. If additional monies are needed, the Mutual has the right to adjust the monthly assessment, impose special assessments, or delay expenditures as appropriate.

(g) *Interests in Golden Rain Foundation of Laguna Woods and Golden Rain Foundation of Laguna Hills Trust*

The Mutual reports its 47.91% interest in GRF based on the non-Trust net assets of GRF to reflect the significant influence the Mutual exercises over GRF through its voting interest in accordance with ASC Topic 323, *Investments – Equity Method and Joint Ventures*. Such interest totaled \$43,779,552 or 47.91% of \$91,376,004 and \$42,272,100 or 47.91% of \$88,229,674, at December 31, 2023 and 2022.

The Mutual also has a beneficial interest in Golden Rain Foundation of Laguna Hills Trust (the Trust), which holds certain community facilities in trust for the Village Mutuals. The Mutual's beneficial interest is calculated based on the Mutual's "trusteed sums," defined as the original contribution amounts as stated in the trust agreement adjusted for earnings (loss), and totals \$4,855,333 and \$4,950,211, respectively, at December 31, 2023 and 2022.

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Notes to Financial Statements

December 31, 2023 and 2022

The Third Laguna Hills Mutual's interest in Golden Rain Foundation and Golden Rain Foundation Trust consists of its respective ownership of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,266,683	4,440,915
Receivables from Laguna Woods Mutuals	1,684,293	765,496
Receivables	1,284,556	1,237,202
Income tax receivable	10,000	10,000
Other current assets	3,450,775	3,117,448
Investments and restricted cash	32,752,891	33,013,304
Property and equipment, net	58,856,744	56,174,610
Community facilities, net	10,022,865	10,257,887
Intangible assets, net	21,195	85,573
Total assets	<u>\$ 111,350,002</u>	<u>109,102,435</u>
Accounts payable and accrued liabilities	\$ 9,108,928	8,472,924
Payables to Laguna Woods Mutual	—	1,345,602
Deferred income	668,066	622,209
Total liabilities	<u>9,776,994</u>	<u>10,440,735</u>
Members' equity in Golden Rain Foundation of Laguna Woods	91,376,004	88,229,674
Noncontrolling interest in consolidated trust	10,197,004	10,432,026
Total equity	<u>101,573,008</u>	<u>98,661,700</u>
Total liabilities and equity	<u>\$ 111,350,002</u>	<u>109,102,435</u>

(h) Income Taxes

The Mutual provides for income taxes in accordance with ASC Topic 740, Income Taxes. 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 accrual or disclosure existed at December 31, 2023 and 2022.

(i) Concentration of Credit Risk

The Mutual had cash balances of \$5,147,789 and \$135,623, and restricted cash balances of \$0 and \$726,404 at December 31, 2023 and 2022, respectively, maintained in a commercial bank and that consist of cash on deposit. At December 31, 2023 and 2022, all noninterest-bearing deposit transaction accounts were Federal Deposit Insurance Corporation (FDIC) insured up to a maximum of \$250,000, per depositor, per insured bank, for each account ownership category.

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Notes to Financial Statements

December 31, 2023 and 2022

(j) *Use of Estimates*

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

The Mutual's investments and restricted cash are presented as follows on the accompanying balance sheets at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Restricted cash and cash equivalent:		
Restricted cash	\$ —	726,404
Total restricted cash	<u>—</u>	<u>726,404</u>
Restricted investments:		
Held-to-maturity (at amortized cost):		
U.S. Treasury notes	<u>23,702,746</u>	<u>30,360,456</u>
Total restricted investment at amortized cost	<u>23,702,746</u>	<u>30,360,456</u>
Total restricted cash and restricted investments	23,702,746	31,086,860
Unrestricted investments:		
Held-to-maturity (at amortized cost):		
U.S. Treasury notes	<u>5,136,298</u>	<u>—</u>
Total restricted cash and investments	\$ <u><u>28,839,044</u></u>	<u><u>31,086,860</u></u>

The Mutual follows the provisions of ASC 820 for fair value measurements for financial assets and liabilities and nonfinancial items that are recognized at fair value in the 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 Mutual 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.

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Notes to Financial Statements

December 31, 2023 and 2022

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 investments that are measured at fair value on a recurring basis as reflected on the accompanying balance sheets at December 31, 2023 and 2022 are as follows:

		2023		
		Level 1	Level 2	Total
Cash and cash equivalents	\$	5,147,789	—	5,147,789
Total cash and cash equivalents and restricted cash	\$	5,147,789	—	5,147,789
		2022		
		Level 1	Level 2	Total
Cash and cash equivalents	\$	135,623	—	135,623
Investments and restricted cash:				
Restricted cash		726,404	—	726,404
Total cash and cash equivalents and restricted cash	\$	862,027	—	862,027

Investments held-to-maturity comprised of U.S. Treasury notes maturing one year from date of purchase, totaling \$28,839,044 and \$30,360,456, were carried at amortized cost at December 31, 2023 and December 31, 2022, respectively.

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Notes to Financial Statements

December 31, 2023 and 2022

The Mutual's investments are classified as held-to-maturity and are summarized as follows:

	<u>Purchase/ amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized loss</u>	<u>Estimated fair value</u>
At December 31, 2023:				
Held to Maturity	\$ 28,839,044	15,624	(22,944)	28,831,724
	<u>Purchase/ amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized loss</u>	<u>Estimated fair value</u>
At December 31, 2022:				
Held to Maturity	\$ 30,360,456	61	(115,739)	30,244,778

The Mutual determines realized gains and losses based on the specific-identification method. Realized gains and realized losses were as follows in 2023 and 2022:

<u>Available-for-sale</u>	<u>2023</u>	<u>2022</u>
Realized gain	\$ —	—
Realized loss	—	(3,699)
Realized loss on available-for-sale, net	\$ —	(3,699)

(4) Income Taxes

The Mutual is considered a homeowners' association for federal and state income tax purposes and is liable for tax on nonexempt function net income. The provision for income taxes for the years ended December 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
State taxes – current	\$ —	—
Federal taxes – current	197,886	(4,240)
Total tax expense (benefit)	\$ 197,886	(4,240)

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Notes to Financial Statements

December 31, 2023 and 2022

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022 are presented below:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
IRC Section 277 loss carryforwards	\$ —	388,894
Net operating loss carryforwards	557,965	684,186
Capital loss carryforwards	<u>73,639</u>	<u>73,639</u>
Total gross deferred tax assets	631,604	1,146,719
Less valuation allowance	<u>(631,604)</u>	<u>(1,146,719)</u>
Total deferred tax assets	<u>\$ —</u>	<u>—</u>

The valuation allowance for deferred tax assets as of December 31, 2023 and 2022 was \$631,604 and \$1,146,719, respectively. The net change in the total valuation allowance for the years ended December 31, 2023 and 2022 was a decrease of \$515,115 and an increase of \$30,021, respectively. Based upon the level of historical taxable income and projections for future taxable income over periods, deferred tax assets are deductible, management believes it is more likely than not that the Mutual will not realize the benefits of the deductible differences. As such, the Mutual recorded a full valuation allowance against the deferred tax assets at December 31, 2023 and 2022.

At December 31, 2023, the Mutual has federal and state net operating loss carryforwards of \$0 and \$6,311,816 available to offset future federal and state taxable income, respectively. At December 31, 2022, the Mutual has federal and state net operating loss carryforwards of \$193,927 and \$7,278,976 available to offset future federal and state taxable income, respectively. The federal carryforward amounts expired in 2022 and the state carryforward amounts expire in varying amounts between 2030 and 2042.

At December 31, 2023 and 2022, estimated federal income tax payable was \$166,857 and federal income tax receivable was \$31,029, respectively, and estimated state income tax payable was \$0 and \$10, respectively.

Income tax expense was computed by applying the U.S. federal income tax rate of 21% for both December 31, 2023 and 2022, respectively.

(5) Related Parties

As discussed in note 1, the Mutual is a corporate member of GRF and a member of VMS, all related entities. The accompanying financial statements include assessments to GRF for operating expenses and restricted funds as well as a receivable due from GRF for assessments collected by GRF not yet remitted to the Mutual. The accompanying financial statements also include amounts paid and owed to VMS as managing agent for compensation and related costs. At December 31, 2023 and 2022, respectively, the Mutual had related party (payable) receivable balances of (\$465,484) and \$1,292,193. The accompanying balance sheets also include amounts owed to VMS for accrued compensation of \$577,083 and \$598,365 at December 31, 2023 and 2022, respectively.

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Notes to Financial Statements

December 31, 2023 and 2022

(6) 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 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 GRF and the Mutuals. However, no such termination of or withdrawal from the plans is currently contemplated.

During 2023 and 2022, VMS sponsored a 401(k) plan covering all eligible employees and makes annual contributions to the plan. Employee contributions to the plan are at the participants' discretion. The Mutuals and GRF are not responsible for the management or ultimate funding of the 401(k) plan beyond the agreed-upon annual contributions.

Amounts contributed by VMS to these plans in 2023 and 2022, and reimbursed by the Mutual, totaled \$492,639 and \$466,623, respectively, for the defined-benefit pension plans and \$88,840 and \$74,794, respectively, for the 401(k) plan.

(7) Contingencies

The Mutual is involved in various legal matters arising in the normal course of business. In the opinion of management, the liability, if any, will not have a material effect on the Mutual's financial position.

(8) Subsequent Events

Subsequent events have been evaluated through April 16, 2024, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THIRD LAGUNA HILLS MUTUAL

Future Major Repairs and Replacements

December 31, 2023

(Unaudited)

The Mutual contracted a study in 2023 to estimate the remaining useful lives and current replacement costs of major components of common property, except for certain land improvements, buildings, and building improvements for which major repair and replacement funds are not provided, as these items are expected to last the life of the community or to be maintained from general operating and/or preventive maintenance funds. The estimates were determined from past experience and from information obtained from certain contractors.

The following table is based on the Mutual study of common property:

Major components	Estimated useful lives (in years)	Estimated remaining useful lives (in years)	Estimated current replacement costs	Estimated funding requirement as of December 31, 2023
Paved surfaces	1 to 25	0 to 24	\$ 6,855,522	4,161,762
Roofing and gutters	1 to 40	0 to 38	73,859,917	38,013,632
Building structures	1 to 40	0 to 29	6,817,382	3,720,885
Decking projects	1 to 9	0 to 9	949,927	485,233
Prior to painting and painting projects	1 to 15	0 to 14	37,364,773	17,351,394
Elevators	1 to 40	0 to 29	10,787,035	3,728,935
Garden villas	1 to 20	0 to 28	1,069,101	627,921
Lighting replacement projects	1	0	12,500	12,500
Walls, fencing and railings	1	0 to 1	244,590	156,752
Laundry facilities	1 to 25	0 to 19	474,689	273,897
Sewer lines, water lines, and electricity	1 to 10	0 to 22	5,197,545	3,510,000
Grounds and miscellaneous	1	0	27,582	27,582
Landscape projects	1	0 to 20	4,673,004	1,748,632
			<u>\$ 148,333,567</u>	<u>73,819,125</u>
Replacement fund balance as of December 31, 2023				\$ 23,702,746

The Board voted to contribute \$11,789,064 to the replacement funds in 2023. The contribution is included in the 2023 member assessments at \$161.00 per manor per month. Actual replacement costs when expended may vary and the variations may be material.

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 experience longer lives while others will experience premature failures. 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.