



UNITED LAGUNA WOODS MUTUAL

Financial Statements and Supplementary Information

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

UNITED LAGUNA WOODS MUTUAL

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Independent Auditors' Report

The Board of Directors
United Laguna Woods Mutual:

Opinion

We have audited the financial statements of United Laguna Woods 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)	\$ 1,655	325,286
Accounts receivable and interest receivable	1,492,125	560,049
Income taxes receivable (note 4)	12,599	19,053
Prepaid expenses	3,842,904	2,788,791
Total current assets	5,349,283	3,693,179
Investments and restricted cash (note 3)	15,267,296	19,416,770
Deferred tax asset, net (note 4)	380,000	380,000
Property, at cost:		
Land	8,175,233	8,175,233
Buildings and improvements	83,814,372	83,814,372
Total property, at cost	91,989,605	91,989,605
Less accumulated depreciation	(83,768,440)	(83,765,378)
Property, net	8,221,165	8,224,227
Beneficial interest in Golden Rain Foundation of Laguna Hills Trust (note 2(h))	5,124,732	5,260,669
Equity interest in Golden Rain Foundation of Laguna Woods (note 2(h))	45,365,144	43,803,096
Total assets	\$ 79,707,620	80,777,941
Liabilities and Members' Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,645,378	3,527,414
Payable to Golden Rain Foundation of Laguna Woods (note 7)	1,186,203	678,871
Amounts payable for accrued compensation (note 7)	528,432	551,668
Assessments and charges paid in advance	831,178	928,298
Deferred income	11,000	15,500
Total current liabilities	5,202,191	5,701,751
Asset retirement obligation (note 9)	1,583,198	1,479,625
Total liabilities	6,785,389	7,181,376
Members' equity	72,922,231	73,596,565
Total liabilities and members' equity	\$ 79,707,620	80,777,941

See accompanying notes to financial statements.

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Statements of Operations

Years ended December 31, 2023 and 2022

	2023	2022
Revenue:		
Member assessments for:		
Operating	\$ 53,390,321	49,987,262
Golden Rain Foundation of Laguna Woods restricted funds	1,289,892	1,669,272
Restricted funds	11,929,983	10,776,240
Total member assessments	66,610,196	62,432,774
Other revenue:		
Chargeable services revenue	1,044,616	753,356
Laundry	227,041	233,760
Interest	698,222	355,305
Lease and resale processing fees	303,710	326,570
Collection and late fees	144,208	176,556
Miscellaneous	178,505	137,456
Total other revenue	2,596,302	1,983,003
Total revenue	69,206,498	64,415,777
Expenses:		
Amounts paid to VMS for compensation	14,114,823	13,637,454
Operating materials and supplies	3,178,441	2,480,461
Utilities and telephone	4,478,035	4,281,647
Professional fees	91,325	126,900
Legal fees	122,596	184,179
Repairs and maintenance	11,759,839	9,890,910
Property taxes	14,151,681	13,164,598
Insurance	4,963,416	4,019,831
Golden Rain Foundation of Laguna Woods shared operating expenses	16,892,514	16,306,463
Payments to Golden Rain Foundation of Laguna Woods restricted funds	1,289,892	1,669,272
Depreciation and amortization	3,062	3,063
Income taxes (note 4)	6,454	1,116
Other	151,292	219,506
Total expenses	71,203,370	65,985,400
Net loss before other changes	(1,996,872)	(1,569,623)
Other changes:		
Accretion of asset retirement obligation	(103,573)	(96,798)
Realized loss on available-for-sale investments	—	(1,379,255)
Unrealized gain on available-for-sale investments	—	86,678
Unrealized gain from voting interest in Golden Rain Foundation of Laguna Woods	1,562,048	1,242,258
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	(135,937)	(150,335)
Net loss	\$ (674,334)	(1,867,075)

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	6,323	\$ 3,395,803	72,067,837	75,463,640
Net loss	—	—	(1,867,075)	(1,867,075)
Members' equity, December 31, 2022	6,323	3,395,803	70,200,762	73,596,565
Net loss	—	—	(674,334)	(674,334)
Members' equity, December 31, 2023	6,323	\$ 3,395,803	69,526,428	72,922,231

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 loss	\$ (674,334)	(1,867,075)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain from voting interest in Golden Rain Foundation of Laguna Woods	(1,562,048)	(1,242,258)
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	135,937	150,335
Realized loss on available-for-sale investments	—	1,379,255
Unrealized gain on available-for-sale investments	—	(86,678)
Amortization of investment premium and discount, net	(108,405)	(105,708)
Depreciation and amortization	3,062	3,063
Accretion of asset retirement obligation	103,573	96,798
Changes in operating assets and liabilities:		
Accounts and accrued interest receivable	(932,076)	224,539
Receivable from Golden Rain Foundation of Laguna Woods	(61,766)	—
Payable to Golden Rain Foundation of Laguna Woods	569,098	193,671
Payable for accrued compensation	(23,236)	33,563
Income taxes receivable	6,454	(7,382)
Prepaid expenses	(1,054,113)	(593,388)
Accounts payable and accrued expenses	(882,036)	268,864
Assessments and charges paid in advance	(97,120)	71,276
Deferred income	(4,500)	(24,750)
Net cash used in operating activities	<u>(4,581,510)</u>	<u>(1,505,875)</u>
Cash flows from investing activities:		
Purchases of held-to-maturity investments	(24,045,053)	(30,985,673)
Maturities of held-to-maturity investments	28,755,459	12,971,884
Proceeds from sales of available-for-sale investments	<u>—</u>	<u>13,835,108</u>
Net cash provided by (used in) investing activities	<u>4,710,406</u>	<u>(4,178,681)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	128,896	(5,684,556)
Cash and cash equivalents and restricted cash, beginning of year	<u>622,675</u>	<u>6,307,231</u>
Cash and cash equivalents and restricted cash, end of year (note 2 (b))	<u>\$ 751,571</u>	<u>622,675</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year:		
Income taxes	\$ —	5,000

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2023 and 2022

(1) Organization

(a) General

United Laguna Woods Mutual (the Mutual), a nonprofit mutual benefit corporation, was formed to own, manage, operate, and maintain 6,323 cooperative housing units (manors or common property) for the benefit of its members. The 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 7).

(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(e). For both 2023 and 2022, the members were assessed monthly member assessments of \$644.22 and \$613.88 per manor per month, for direct and Mutual-shared operating costs, Mutual reserve contributions, and GRF-shared operating expenses and restricted funds. The basic monthly member assessment does not include the applicable share of property taxes and property insurance related to each manor.

Total amounts assessed to the members of the Mutual for direct and Mutual-shared operating costs, Mutual reserve contributions, property tax, property insurance costs, GRF-shared operating expenses, and restricted funds were \$66,610,196 and \$62,432,774, 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 Mutual 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 \$1,655 and \$325,286, 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	\$ 1,655	325,286
Restricted cash	<u>749,916</u>	<u>297,389</u>
Total cash and cash equivalents and restricted cash	<u>\$ 751,571</u>	<u>622,675</u>

(c) *Investments and Restricted Cash*

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 year ended December 31, 2023 and 2022.

The Mutual restricts a portion of member assessments to finance reserves set aside and reported 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 Measurement*, 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. Statement 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 between 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).

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Notes to Financial Statements

December 31, 2023 and 2022

(e) Future Major Repairs and Replacements

A study was contracted 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 that fund. Under the assumption that certain buildings would not be completely replaced within the next 30 years, replacement funds are not provided for those corporate and 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 moneys are needed, the Mutual has the right to adjust the monthly assessment, impose special assessments, or delay expenditures as appropriate.

(f) Property

The Mutual has adopted the provisions of ASC Topic 972, Real Estate – Common Interest Realty Associations, and 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 is capitalized when the Mutual can dispose of the property, at the discretion of its board of directors and retain the proceeds or when the property is used to generate significant cash flows from members on the basis of usage or from nonmembers.

Depreciation of buildings and improvements is computed on the straight-line method over an estimated useful life of 40 years.

(g) 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 2023 and 2022, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

(h) Interest in Golden Rain Foundation of Laguna Woods and Golden Rain Foundation of Laguna Hills Trust

The Mutual reports its 49.65% 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 \$45,365,144, or 49.65% of \$91,376,004, and \$43,803,096, or 49.65% of \$88,229,674, at December 31, 2023 and 2022, respectively.

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Notes to Financial Statements

December 31, 2023 and 2022

The United Laguna Woods 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 totaled \$5,124,732 and \$5,260,669 at December 31, 2023 and 2022, respectively.

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

	2023	2022
Cash and cash equivalents	\$ 3,266,683	4,440,915
Receivables from Laguna Woods Mutuals	1,684,293	765,496
Accounts receivable and interest receivable	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
Income tax payable	—	—
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>

(i) **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.

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Notes to Financial Statements

December 31, 2023 and 2022

(j) **Concentration of Credit Risk**

The Mutual had cash balances of \$1,655 and \$325,286 and restricted cash and cash equivalents of \$737,510 and \$297,389 at December 31, 2023 and 2022, respectively, maintained in a commercial bank and consisting of cash on deposit. At December 31, 2023 and 2022, all noninterest-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 Mutual's restricted cash and cash equivalents also included a money market fund of \$12,406 and \$0 at December 31, 2023 and 2022, respectively, that were Securities Investor Protection Corporation insured up to a maximum of \$500,000, per institution.

(k) **Asset Retirement Obligations**

Under ASC Topic 410, *Asset Retirement Obligations*, companies must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional. The Mutual identified future asbestos abatement activities as a conditional asset retirement obligation. Asbestos abatement activities were estimated based upon historical removal costs per square foot applied to assets identified requiring asbestos abatement. ASC 410 requires that the estimate be recorded as a liability and as an increase to the recorded historical cost of the asset. The capitalized portion, if any, is depreciated over the remaining useful life of the asset. The present values of the asset retirement obligations totaled \$1,583,198 and \$1,479,625 utilizing a rate of 7% as of December 31, 2023 and 2022, respectively. The liability will continue to be accreted to expense until such point that the remediation costs are required (note 9).

(l) **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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(3) **Cash and Cash Equivalents and 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 equivalents	\$ 749,916	297,389
Restricted investments:		
Held-to-maturity (at amortized cost):		
U.S. Treasury notes	<u>14,517,380</u>	<u>19,119,381</u>
Total restricted investment at amortized cost	<u>14,517,380</u>	<u>19,119,381</u>
Total restricted cash and restricted investments	<u>\$ 15,267,296</u>	<u>19,416,770</u>

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Notes to Financial Statements

December 31, 2023 and 2022

The Mutual follows the provisions of ASC Topic 820 for fair value measurements for financial assets and liabilities 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.

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	\$ 1,655	—	1,655
Restricted cash	749,916	—	749,916
Total cash and cash equivalents and restricted cash	\$ 751,571	—	751,571

2022			
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 325,286	—	325,286
Restricted cash	297,389	—	297,389
Total cash and cash equivalents and restricted cash	\$ 622,675	—	622,675

Investments held-to-maturity comprise U.S. Treasury notes maturing one year from date of purchase, totaling \$3,018 and \$13,367,299, respectively, and are carried at amortized cost at December 31, 2023 and 2022. Investments held-to-maturity comprise U.S. Treasury notes maturing one to five years from date of purchase, totaling \$14,514,362 and \$5,752,082, respectively, and are carried at amortized cost at December 31, 2023 and 2022. Fair value of such investments total \$14,492,992 and \$19,093,810 as of December 31, 2023 and 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	\$ 14,517,380	23,293	(47,681)	14,492,992
	<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	\$ 19,119,381	—	(25,571)	19,093,810

The Mutual determines realized gains and losses based on the specific-identification method. The 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	—	(1,379,255)
Realized loss on available-for-sale investments, net	\$ —	(1,379,255)

(4) Income Taxes

The Mutual is a cooperative housing association taxable as a regular corporation for income tax purposes. The provision (benefit) for income taxes for the years ended December 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
Federal taxes:		
Current	\$ 4,542	(26)
State taxes:		
Current	1,912	1,142
Total	\$ 6,454	1,116

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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	\$ 4,395,355	4,395,355
Federal and state net operating losses	<u>2,793,793</u>	<u>2,349,854</u>
Total gross deferred tax assets	7,189,148	6,745,209
Less valuation allowance	<u>(6,809,148)</u>	<u>(6,365,209)</u>
Net deferred tax assets	<u>\$ 380,000</u>	<u>380,000</u>

The Mutual recognizes a deferred tax asset for the expected future tax consequences from net operating loss carryovers. The tax benefit is recorded as an asset when the benefits are more likely than not to be recognized. A valuation allowance is required to be recorded when it is more-likely than-not that all or a portion of deferred tax assets may not be realized. A review of all available positive and negative evidence is considered, including past and future performance, the market environment in which the Mutual operates, and utilization of tax attributes in the past, length of carryforward periods, and potential utilization in the future. In the current year and prior years, a full valuation allowance was assessed against the IRC Section 277 loss carryforwards.

The valuation allowance for deferred tax assets as of December 31, 2023 and 2022 was \$6,809,148 and \$6,365,209, respectively. The net change in the total valuation allowance for the years ended December 31, 2023 and 2022 was an increase of \$443,939 and \$365,157, respectively. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Mutual will realize some of the benefits of these deductible differences. As such, the Mutual recorded a partial valuation allowance against the deferred tax assets at December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, the Mutual has member loss carryforwards pursuant to Internal Revenue Code Section 277 of \$20,930,264 for each year available to offset future net member income. These carryforward amounts have no expiration dates.

At December 31, 2023 and 2022, the Mutual had net operating loss carryforwards pursuant to Internal Revenue Code Section 382 of \$13,334,261 and \$11,189,778, respectively. These carryforwards expire in 2033 to 2036.

At December 31, 2023 estimated federal income tax receivable was \$9,511 and estimated state income tax receivable was \$3,088. At December 31, 2022 estimated federal income tax receivable was \$14,866 and state income tax receivable was \$4,187.

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

UNITED LAGUNA WOODS MUTUAL

Notes to Financial Statements

December 31, 2023 and 2022

(5) Original Contributions to Members' Equity

The Mutual has 6,323 memberships authorized and issued, recorded at various initial capital values, ranging from \$302 to \$1,770 per membership. These contributions were required by the Mutual to cover the costs of acquiring its properties in excess of the funds obtained from trust deed notes, to pay the permanent finance fee, and to provide the Mutual with working capital.

(6) 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.

(7) 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 balances of \$1,186,203 and \$678,871. The accompanying balance sheets also include amounts owed to VMS for accrued compensation of \$528,432 and \$551,668 at December 31, 2023 and 2022, respectively.

(8) Pension Plans

Village Management Services 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 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. Employee contributions to the plan are at the participants' discretion. In 2023 and 2022, VMS made contributions into the plan for eligible nonunion employee participants. 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 were \$496,643 and \$460,895 for the defined-benefit pension plans and \$89,914 and \$69,203, respectively, for the 401(k) plan.

UNITED LAGUNA WOODS MUTUAL

Notes to Financial Statements

December 31, 2023 and 2022

(9) Asset Retirement Obligation

The following schedule summarizes asset retirement obligation activities for the years ended December 31, 2023 and 2022:

	2023	2022
Beginning balance	\$ 1,479,625	1,382,827
Accretion expense	103,573	96,798
Ending balance	<u>\$ 1,583,198</u>	<u>1,479,625</u>

(10) 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

UNITED LAGUNA WOODS 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 operating funds. The estimates were determined from past experience and from information obtained from certain contractors.

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
Paving	1 to 25	0 to 25	\$ 5,829,363	3,262,972
Asphalt and concrete repair/replace	1 to 20	0 to 20	804,807	376,599
Roofs – built-up	0 to 25	0 to 29	35,154,343	11,256,530
Roofs – comp shingle	40	0 to 29	25,399,140	11,181,703
Roofs – tile	40	20 to 30	5,975,741	2,200,030
Infrastructure/buildings	1 to 20	0 to 14	3,146,786	2,384,403
Carport siding renovation	6	3 to 9	109,200	4,333
Manor components	1	0 to 1	4,074,071	3,239,960
Lighting and electrical	1 to 50	0 to 24	2,185,025	1,815,928
Laundry rooms	1 to 25	0 to 24	194,882	163,514
Off cycle decking	1	0	144,053	144,053
Prior to painting	1	0	900,295	900,295
Interior and exterior painting	1	0	1,749,510	1,749,510
Walls, fencing, railing and gates	1	0	50,400	50,400
Grounds and miscellaneous	1 to 4	0 to 2	1,400,926	1,389,676
Building structures	1 to 10	0 to 2	1,376,659	1,181,890
Plumbing	1	0 to 12	2,795,510	2,745,510
			<u>\$ 91,290,711</u>	<u>44,047,306</u>
Replacement funds balance as of December 31, 2023			\$	15,267,296

The Board voted to contribute \$11,853,864 to the replacement funds in 2023. The contribution is included in the 2023 member assessments at \$156.23 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 will be sufficient at the end of year to meet the Mutual's obligations for repair and/or replacement of major components during the next 30 years.

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

See accompanying independent auditors' report.