OPEN MEETING

Laguna Woods Village®

SPECIAL MEETING OF THE SELECT AUDIT TASK FORCE
WITH INVITATION TO ALL BOARDS ALL DIRECTORS

Friday, February 22, 2019 – 11:00 a.m.
Laguna Woods Village Community Center Board Room
24351 El Toro Road

NOTICE AND AGENDA

1. Call to Order
2. Acknowledgment of Media
3. Approval of Agenda
4. Chair Remarks

Items for Discussion and Consideration:

5. Introduce Representatives from KPMG
6. Presentation of 2018 Annual Audit Plan by KPMG

Concluding Business:

7. Task Force Member Comments
8. Board Member Comments
9. Adjournment

Diane Phelps, Chair
Betty Parker, Staff Officer
Telephone: 949-597-4201

Laguna Woods Village

February 22, 2019

Pre-Audit Communications – Boards of Directors
December 31, 2018

Core engagement team

— Mark Thomas, Engagement Partner

— Sarah Opfer, Engagement Quality Control Reviewer

— Spencer Endicott, Engagement Senior Manager

— Robert Richter, Engagement Senior

— Chad Franks, Tax Principal

— Valarie Ball, Tax Senior Manager

This presentation to the Boards of Directors is intended solely for the information and use of the Boards of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

Audit plan - Scope

Scope of work	Audit of the financial statements of the Golden Rain Foundation of Laguna Woods and Affiliate, United Laguna Woods Mutual and Third Laguna Hills Mutual. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting.
Applicable financial reporting framework	U.S. generally accepted accounting principals
Applicable auditing standards	U.S. generally accepted auditing standards

Audit plan - Materiality

— Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.

— Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

— Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

— Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Audit plan - Deliverables and time line

- Plan audit approach for upcoming audits
- Identify key members of the engagement team, including specialists as needed

- Perform risk assessment procedures and identify risks
- Evaluate entity-level controls
- Determine planned audit approach
- Understand accounting and reporting activities

- Complete audit procedures
- Discuss key issues and deficiencies identified with management and Audit Task Force
- Review of financial statement and disclosures
- Obtain written representation from management
- Issue audit opinions on financial statements
- Present required communications to Select Audit Task Force and Boards of Directors

- Meetings with management to discuss key issues
- Present audit plan to Select Audit Task Force and Boards of Directors
- Start audit fieldwork

Audit plan - Deliverables and time line

Audit reports and time line	— Auditors' report on the December 31, 2018 financial statements and summary financial statements of the following entities: — Golden Rain Foundation of Laguna Woods and Affiliate — United Laguna Woods Mutual — Third Laguna Hills Mutual — Planning and fieldwork timing: February 18, 2019 – April 5, 2019 — Draft financials to be provided to KPMG: TBD — Meeting with Select Audit Task Force: March 29, 2019 — Issue final audit reports: April 5, 2019
Other deliverables	— Material written communications between KPMG and management — Required communications between KPMG and the Select Audit Task Force and Boards of Directors

Audit plan - Auditing and accounting matters

Areas of Audit Emphasis:

— Cash, cash equivalents, and investments

— Property and equipment

— Revenues

  - Operating assessments
  - Additions to restricted funds
  - Other revenues

— Expenses

  - Expenses paid from restricted funds
  - Amounts paid to managing agent for compensation/payroll and related benefits
  - Direct operating expenses
  - Shared operating expenses

— Members' equity

— Financial statements and related footnote disclosures

Risk assessment

Based on our risk assessment procedures, the following are significant risks/financial statement level risks that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such significant risks:

Significant risks/financial statement level risks:

Due to Error

— No significant risks or financial statement level risks noted in planning the audits that may result in a material misstatement due to error.

Due to Fraud

— Risk of management override of controls – Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Objectives of an audit

— The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP).

— We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance.

— Our audit includes:

  - Performing tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion.
  - Assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Responsibilities

Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- 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
- Ensuring that each entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the each entity's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within each entity with whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect each entity's financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent , deter, and detect fraud.

Responsibilities (continued)

KPMG is responsible for:

— Planning and performing our audits, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audits are not designed to detect error or fraud that is immaterial to the financial statements.

— Conducting the audits in accordance with professional standards and complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the ethical standards of relevant CPA societies, and relevant state boards of accountancy.

— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Select Audit Task Force are presented fairly, in all material respects, in conformity with GAAP

— An audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting.

— Communicating to the Select Audit Task Force all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

— Communicating to management and the Select Audit Task Force in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audits of the financial statements is not to report on each entity's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.

— Communicating to the Select Audit Task Force circumstances that affect the form and content of the auditors' reports, if any.

Responsibilities (continued)

Audit Committee responsibilities include:

Governance:

- Evaluating the audit committee charter, responsibilities, effectiveness assessments, and orientation protocol.
- Managing conflicts of interest and related party transactions

Audit Quality:

- Oversight and review of external auditor's independence and objectivity.
- Evaluating the soundness of the audit strategy, including approach and scope.
- Reviewing the financial statements and management letter, if any.

Other Areas:

- Oversight of enterprise risk identification, mitigation, monitoring and compliance with laws and regulations.
- Oversight of technology including cyber-security, privacy, new systems, disaster recovery, vendor security, and IT governance.

Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- The auditors' responsibility is to make appropriate arrangements with management to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.

KPMG

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