



OPEN MEETING

SPECIAL OPEN MEETING OF THE BOARD OF DIRECTORS OF THE UNITED LAGUNA WOODS MUTUAL A CALIFORNIA NON-PROFIT MUTUAL BENEFIT CORPORATION

**Monday, April 5, 2021 at 2:00 PM
Virtual Meeting
24351 El Toro Road**

The purpose of this meeting is to discuss and consider the results of the 2020 Audit Report prepared by KPMG as required by Article XII of the United amended and restated bylaws dated August 2, 2017.

NOTICE AND AGENDA

1. Call Meeting to Order / Establish Quorum – Sue Margolis President
2. Approval of the Agenda
3. Open Forum (Three Minutes per Speaker)

At this time Members only may address the Board of Directors regarding items not on the agenda and within the jurisdiction of this Board of Directors. The Board reserves the right to limit the total amount of time allotted for the Open Forum. Members can attend the meeting by joining the Zoom link <https://zoom.us/j/92081839160> or by calling (949) 268-2020 or email meeting@vmsinc.org to request to speak

4. Entertain Motion to Accept the 2020 Audit Report
5. Director Comments
6. Adjournment

UNITED LAGUNA WOODS MUTUAL

Financial Statements and Supplementary Information

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

UNITED LAGUNA WOODS MUTUAL

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Independent Auditors' Report

The Board of Directors
United Laguna Woods Mutual:

We have audited the accompanying financial statements of United Laguna Woods Mutual (the Mutual), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Laguna Woods Mutual as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

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 financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

[(signed) KPMG LLP]

Irvine, California
April xx, 2021

UNITED LAGUNA WOODS MUTUAL

Balance Sheets

December 31, 2020 and 2019

Assets	2020	2019
Cash and cash equivalents (note 3)	\$ 580,122	629,027
Accounts receivable and interest receivable	751,467	675,921
Receivable from Golden Rain Foundation of Laguna Woods (note 7)	1,001,717	1,400,595
Income taxes receivable (note 4)	19,837	19,561
Prepaid expenses	2,302,881	718,566
Total current assets	4,656,024	3,443,670
Investments and restricted cash (note 3)	20,555,072	18,351,707
Deferred tax asset (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	(83,759,253)	(83,756,191)
Property, net	8,230,352	8,233,414
Beneficial interest in Golden Rain Foundation of Laguna Hills Trust (note 2(i))	5,603,706	5,796,949
Equity interest in Golden Rain Foundation of Laguna Woods (note 2(ii))	41,028,127	39,116,237
Total assets	\$ 80,453,281	75,321,977
Liabilities and Members' Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,006,601	1,336,442
Amounts payable for accrued compensation (note 7)	473,338	596,765
Assessments and charges paid in advance	869,789	819,210
Deferred income	52,250	117,341
Total current liabilities	4,401,978	2,869,758
Asset retirement obligation (note 9)	1,292,361	1,207,814
Total liabilities	5,694,339	4,077,572
Members' equity	74,758,942	71,244,405
Total liabilities and members' equity	\$ 80,453,281	75,321,977

See accompanying notes to financial statements.

UNITED LAGUNA WOODS MUTUAL

Statements of Operations

Years ended December 31, 2020 and 2019

	2020	2019
Revenue:		
Member assessments for:		
Operating	\$ 44,235,166	41,827,807
Golden Rain Foundation of Laguna Woods restricted funds (note 7)	1,821,024	1,441,644
Restricted funds (note 3)	12,293,430	12,367,788
Total member assessments	58,349,620	55,637,239
Other revenue:		
Chargeable services revenue	373,419	602,446
Laundry	243,779	253,604
Interest	263,939	440,089
Lease and resale processing fees	247,994	265,222
Collection and late fees	103,718	128,809
Income tax benefit (note 4)	266	13,931
Miscellaneous	142,791	167,047
Total other revenue	1,375,906	1,871,148
Total revenue	59,725,526	57,508,387
Expenses:		
Reimbursement to managing agent for compensation and related costs	12,192,771	13,630,356
Operating materials and supplies	1,695,379	3,155,479
Utilities and telephone	4,191,764	4,126,815
Professional fees	77,833	149,831
Legal fees	275,188	238,961
Repairs and maintenance	8,122,291	10,091,965
Property taxes	11,899,352	11,375,124
Insurance	2,515,514	1,482,527
Golden Rain Foundation of Laguna Woods shared operating expenses	15,234,410	15,176,144
Payments to Golden Rain Foundation of Laguna Woods restricted funds (note 7)	1,821,024	1,441,644
Depreciation and amortization	3,062	3,063
Other	175,045	237,598
Total expenses	58,203,633	61,109,507
Net loss before other changes	1,521,893	(3,601,120)
Other changes:		
Accretion of asset retirement obligation	(84,547)	(79,017)
Realized loss on available for sale investments	29,901	(285,861)
Unrealized gain on available for sale investments	328,643	—
Unrealized gain from voting interest in Golden Rain Foundation of Laguna Woods	1,911,890	790,640
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	(193,243)	(195,181)
Net income (loss)	\$ 3,514,537	(3,370,539)

See accompanying notes to financial statements.

UNITED LAGUNA WOODS MUTUAL

Statements of Comprehensive Income (Loss)

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net income (loss)	\$ 3,514,537	(3,370,539)
Other comprehensive gain:		
Unrealized gain on available-for-sale investments arising during the year	<u>—</u>	<u>517,647</u>
Comprehensive income (loss)	<u>\$ 3,514,537</u>	<u>(2,852,892)</u>

See accompanying notes to financial statements

UNITED LAGUNA WOODS MUTUAL
 Statements of Changes in Members' Equity
 Years ended December 31, 2020 and 2019

	Memberships		Changes	Total members' equity
	Number	Amount		
Members' equity, December 31, 2018 (note 5)	6,323	\$ 3,395,803	70,701,494	74,097,297
Net loss	—	—	(3,370,539)	(3,370,539)
Unrealized gain on available-for-sale investments, net	—	—	517,647	517,647
Members' equity, December 31, 2019 (note 5)	6,323	3,395,803	67,848,602	71,244,405
Net income	—	—	3,514,537	3,514,537
Members' equity, December 31, 2020 (note 5)	<u>6,323</u>	<u>\$ 3,395,803</u>	<u>71,363,139</u>	<u>74,758,942</u>

See accompanying notes to financial statements.

UNITED LAGUNA WOODS MUTUAL

Statements of Cash Flows

Years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ 3,514,537	(3,370,539)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain from voting interest in Golden Rain Foundation of Laguna Woods	(1,911,890)	(790,640)
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	193,243	195,181
Unrealized (gain) loss on sales of AFS investments	(328,643)	—
Amortization of investment premium and discount, net	(28)	(349,346)
Depreciation and amortization	3,062	3,063
Accretion of asset retirement obligation	84,547	79,017
Changes in operating assets and liabilities:		
Accounts and accrued interest receivable	(75,546)	115,579
Receivable from Golden Rain Foundation of Laguna Woods	398,878	482,245
Payable for accrued compensation	(123,427)	(15,996)
Income taxes receivable	(276)	(1,808)
Income taxes payable	—	(12,474)
Prepaid expenses	(1,584,315)	(589,068)
Accounts payable and accrued expenses	1,670,159	43,049
Assessments and charges paid in advance	50,579	(99,608)
Deferred income	(65,091)	62,341
Net cash used in operating activities	1,825,789	(4,249,004)
Cash flows from investing activities:		
Purchases of held-to-maturity investments	(7,999,097)	(13,914,378)
Maturities of held-to-maturity investments	7,991,933	16,873,614
Proceeds from payments of available-for-sale investments	2,532,495	19,207,346
Purchases of available-for-sale investments	(2,715,222)	(18,872,361)
Net cash provided by investing activities	(189,891)	3,294,221
Net (decrease) increase in cash and cash equivalents and restricted cash	1,635,898	(954,783)
Cash and cash equivalents and restricted cash, beginning of year	2,292,269	3,247,052
Cash and cash equivalents and restricted cash, end of year (note 2 (c))	\$ 3,928,167	2,292,269
Supplemental disclosure of cash flow information:		
Cash paid during the year:		
Income taxes	\$ 10	3,000

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2020 and 2019

(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 2020 and 2019, the members were assessed monthly member assessments of \$601.98 and \$578.52, respectively, 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 \$58,349,620 and \$55,637,239, respectively, in 2020 and 2019.

(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, 2020 and 2019 is \$580,122 and \$629,027, respectively, and included \$224,971 and \$132,387, respectively, of money market funds.

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Notes to Financial Statements

December 31, 2020 and 2019

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	\$ 580,122	629,027
Restricted cash	3,348,045	1,663,242
	<u>\$ 3,928,167</u>	<u>2,292,269</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, 2020. Unrealized gains and losses from available-for-sale securities were included in other comprehensive income during the year ended December 31, 2019.

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).

(e) Future Major Repairs and Replacements

A study was contracted by the Mutual in 2020 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

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Notes to Financial Statements

December 31, 2020 and 2019

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 2020 and 2019, 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 \$41,322,192 and \$39,116,237 at December 31, 2020 and 2019, respectively.

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, and totaled \$5,603,706 and \$5,796,949 at December 31, 2020 and 2019, respectively.

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Notes to Financial Statements

December 31, 2020 and 2019

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:

	2020	2019
Cash and cash equivalents	\$ 2,520,519	2,731,180
Receivables	1,719,097	1,445,309
Income tax receivable	—	46,377
Other current assets	2,859,369	2,483,748
Restricted funds and investments	24,509,316	21,895,591
Property and equipment, net	59,109,271	58,814,798
Community facilities, net	10,850,965	11,185,066
Intangible assets, net	189,781	235,982
Total assets	\$ 101,758,318	98,838,051
Accounts payable and accrued liabilities	\$ 5,741,894	6,019,484
Payables to Laguna Woods Mutuals	1,333,179	2,056,698
Deferred income	471,840	613,419
Income tax payable	546,062	—
Total liabilities	8,092,975	8,689,601
Members' equity in Golden Rain Foundation of Laguna Woods	82,640,239	78,789,245
Noncontrolling interest in consolidated trust	11,025,104	11,359,205
Total equity	93,665,343	90,148,450
Total liabilities and equity	\$ 101,758,318	98,838,051
United Laguna Woods Mutual's 49.65% interest in Golden Rain Foundation of Laguna Woods	\$ 41,028,127	39,116,237

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

(j) Concentration of Credit Risk

The Mutual had cash balances of \$355,151 and \$496,640 and restricted cash of \$3,348,045 and \$1,663,242 at December 31, 2020 and 2019, respectively, maintained in a commercial bank and consisting of cash on deposit. At December 31, 2020 and 2019, all noninterest-bearing deposit

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Notes to Financial Statements

December 31, 2020 and 2019

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 also maintained a money market fund of \$224,971 and \$132,387 at December 31, 2020 and 2019, 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 \$1,292,361 and \$1,207,814 utilizing a rate of 7% as of December 31, 2020 and 2019, 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.

(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 of this report, Mutual operations have largely returned to normal levels.

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Notes to Financial Statements

December 31, 2020 and 2019

(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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Restricted cash and cash equivalents	\$ 3,348,045	1,663,242
Restricted investments:		
Available for sale (at fair value):		
Index funds	15,207,055	14,695,657
Total restricted investments at fair value	15,207,055	14,695,657
Held to maturity (at amortized cost):		
U.S. Treasury notes	1,999,972	1,992,808
Total restricted investments at amortized cost	1,999,972	1,992,808
Total restricted cash and restricted investments	\$ 20,555,072	18,351,707

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.

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Notes to Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019 are as follows:

	2020		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 580,122	—	580,122
Investments and restricted cash:			
Restricted cash	3,348,045	—	3,348,045
Available for sale:			
Index funds	15,207,055	—	15,207,055
Total investments and restricted cash	18,555,100	—	18,555,100
Total cash and cash equivalents, and investments and restricted cash	\$ 19,135,222	—	19,135,222
	2019		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 629,027	—	629,027
Investments and restricted cash:			
Restricted cash	1,663,242	—	1,663,242
Available for sale:			
Index funds	14,695,657	—	14,695,657
Total investments and restricted cash	16,358,899	—	16,358,899
Total cash and cash equivalents, and investments and restricted cash	\$ 16,987,926	—	16,987,926

In November 2019 the Board of Directors approved a revised Investment Policy allowing bond holdings at investment grade ratings and directing the Mutual's Investment Manager to convert individual holdings of U.S. Treasury notes, GNMA's, 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 \$15,207,055 and \$14,695,657 at December 31, 2020 and 2019.

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Notes to Financial Statements

December 31, 2020 and 2019

Investments held to maturity comprise U.S. Treasury notes, totaling \$1,999,972 and \$1,992,808, respectively, and are carried at cost at December 31, 2020 and 2019. Fair value of such investments total \$1,999,972 and \$1,992,808 as of December 31, 2020 and 2019, respectively, and would be considered Level 2 in the fair value hierarchy.

The Mutual's investments are classified as either available for sale or held to maturity and are summarized as follows:

		<u>Purchase/ amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Estimated fair value</u>
At December 31, 2020:					
Available for sale	\$	14,866,266	1,025,187	(684,398)	15,207,055
Held to maturity		1,999,972	—	—	1,999,972
		<u>Purchase/ amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Estimated fair value</u>
At December 31, 2019:					
Available for sale	\$	14,683,539	12,118	—	14,695,657
Held to maturity		1,992,808	—	—	1,992,808

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

<u>Available for sale</u>		<u>2020</u>	<u>2019</u>
Realized gain	\$	108,824	101,075
Realized (loss)		(78,923)	(386,936)
Realized (loss) available for sale, net	\$	<u>29,901</u>	<u>(285,861)</u>

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Notes to Financial Statements

December 31, 2020 and 2019

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

	Replacement funds	Contingency fund	Total
Balances, December 31, 2018	\$ 19,052,343	2,661,010	21,713,353
Member assessments	11,229,648	1,138,140	12,367,788
Net investment income and other contributions	104,125	21,257	125,382
Expenditures	(13,129,903)	(2,724,913)	(15,854,816)
Balances, December 31, 2019	17,256,213	1,095,494	18,351,707
Member assessments	11,534,670	758,760	12,293,430
Net investment income and other contributions	575,543	36,507	612,050
Expenditures	(9,170,735)	(1,531,380)	(10,702,115)
Balances, December 31, 2020	\$ 20,195,691	359,381	20,555,072

(a) Replacement Reserve Funds

Replacement funds were established in amounts deemed prudent by the board of directors. Such funds are to be used for replacement of equipment and structural elements of the mutual property. Monthly member assessments for the replacement funds were included in restricted funds member assessments in the accompanying statements of operations.

(b) Contingency Fund

The contingency fund was established in the 2009 business plan as a consolidation of two other reserves, the general operating fund and the unappropriated expenditures fund. This fund is used for the repair or replacement of mutual assets damaged by uninsured or unexpected disasters in addition to providing for unanticipated significant expenditures not otherwise identified in the business plan. Monthly member assessments for the contingency fund were included in restricted funds member assessments in the accompanying statements of operations.

(4) Income Taxes

The Mutual is a cooperative housing association taxable as a regular corporation for income tax purposes. The (benefit)/provision for income taxes for the years ended December 31, 2020 and 2019 consists of the following:

	2020	2019
Federal taxes:		
Current	\$ 441	(14,930)
State taxes:		
Current	(707)	999
Total	\$ (266)	(13,931)

UNITED LAGUNA WOODS MUTUAL

Notes to Financial Statements

December 31, 2020 and 2019

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are presented below:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
IRC Section 277 loss carryforwards	\$ 4,395,355	4,395,355
Federal and state net operating losses	<u>1,913,535</u>	<u>2,198,947</u>
Total gross deferred tax assets	6,308,890	6,594,302
Less valuation allowance	<u>(5,928,890)</u>	<u>(6,214,302)</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 prior years a full valuation allowance was assessed against the Patronage net operating loss carryovers.

The valuation allowance for deferred tax assets as of December 31, 2020 and 2019 was \$5,928,890 and \$6,214,302. The net change in the total valuation allowance for the years ended December 31, 2020 and 2019 was an increase (decrease) of \$(285,412) and \$939,235, 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, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Mutual has member loss carryforwards pursuant to Internal Revenue Code Section 277 of \$20,930,264 and \$20,930,264, respectively, available to offset future net member income. These carryforward amounts have no expiration dates.

At December 31, 2020 and 2019, the Mutual had net operating loss carryforwards pursuant to Internal Revenue Code Section 382 of \$9,134,688 and \$10,471,176, respectively. These carryforwards expire in 2033 to 2035.

Income tax expense was computed by applying the U.S. federal income tax rate of 21% for both December 31, 2020 and 2019.

UNITED LAGUNA WOODS MUTUAL

Notes to Financial Statements

December 31, 2020 and 2019

(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.

(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 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 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 2020 and 2019 and reimbursed by the Mutual were \$361,809 and \$376,433 for the defined-benefit pension plan and \$61,200 and \$51,767, respectively, for the 401(k) plan.

(9) Asset Retirement Obligation

The following schedule summarizes asset retirement obligation activities for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,207,814	1,128,798
Accretion expense	84,547	79,016
Ending balance	<u>\$ 1,292,361</u>	<u>1,207,814</u>

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Notes to Financial Statements

December 31, 2020 and 2019

(10) Malware Attack

The Mutual, along with Golden Rain Foundation 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.

(11) Subsequent Events

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

SUPPLEMENTARY INFORMATION

Schedule 1

UNITED LAGUNA WOODS MUTUAL

Future Major Repairs and Replacements

December 31, 2020

(Unaudited)

The Mutual contracted a study in 2020 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, 2020
Concrete repairs and replacement	1	0	\$ 150,000	150,000
CDS Asphalt seal coat	1	0	40,000	40,000
CDS Asphalt resurface/repairs and replacement	25	0 to 29	9,456,500	4,246,600
Roofs – built-up	0 to 25	0 to 28	25,561,500	7,991,580
Roofs – comp shingle	40	2 to 33	12,867,000	4,722,525
Roofs – tile	40	23 to 33	5,972,000	1,750,675
Infrastructure/buildings	1 to 30	0 to 9	3,776,200	3,422,340
Carport siding renovation	35	11 to 21	1,414,000	777,714
Manor components	1	0 to 9	2,992,350	2,766,350
Lighting & electrical	1 to 20	0 to 11	1,844,000	1,519,000
Laundry rooms	1 to 25	0 to 10	343,450	306,066
Off cycle decking	1	0 to 1	508,000	131,000
Prior to painting	1	0 to 1	1,588,700	960,500
Interior & exterior painting	1	0 to 1	3,238,800	2,136,800
Walls, fencing, railing & gates	1	0	205,800	205,800
Grounds & miscellaneous	1 to 15	0 to 12	4,445,800	2,686,860
Building structures	1	0	683,800	683,800
Plumbing	1	0 to 5	4,438,600	3,188,600
			<u>\$ 79,526,500</u>	<u>37,686,210</u>
Replacement funds balance as of December 31, 2020 (note 3)				\$ 20,195,691

The Board voted to contribute \$11,534,670 to the replacement funds in 2020. The contribution is included in the 2020 member assessments at \$152.02 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.