KPMG

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS AND AFFILIATE

Consolidated Financial Statements and
Supplementary Information

December 31, 2016

(With Independent Auditors’ Report Thereon)

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
Golden Rain Foundation of Laguna Woods:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Golden Rain Foundation of Laguna Woods and Affiliate (the Company), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden Rain Foundation of Laguna Woods and Affiliate as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information included in schedule 3 on future major repairs and replacements be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplementary information included in schedule 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Irvine, California
April 12, 2017

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Balance Sheet

December 31, 2016

Assets		
Current assets:		
Cash and cash equivalents (note 3)	$	9,224,648
Accounts receivable and interest receivable		958,291
Receivable from Laguna Woods Mutual No. Fifty		14,704
Operating supplies		1,020,672
Income tax receivable (note 9)		630,918
Prepaid expenses and deposits		791,399
Total current assets		12,640,632
Restricted cash and investments (note 3)		22,089,785
Property and equipment, net (note 4)		52,789,308
Community facilities held in trust, net (note 5)		12,238,441
Intangible assets, net (note 6)		374,586
Total assets	$	100,132,752
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued expenses	$	4,553,770
Amounts payable to VMS for accrued compensation		3,455,935
Payables to Laguna Woods Mutuals (note 11)		1,533,807
Deferred income (note 7)		901,914
Mortgage loan payable (note 8)		661,533
Total current liabilities		11,106,959
Total liabilities		11,106,959
Equity:		
Members’ equity in Golden Rain Foundation of Laguna Woods		76,613,213
Noncontrolling interests in consolidated trust (note 13)		12,412,580
Total equity		89,025,793
Total liabilities and equity	$	100,132,752

See accompanying notes to consolidated financial statements.

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Statement of Operations

Year ended December 31, 2016

Revenue:	
Assessments:	
Operating	$ 26,486,855
Additions to restricted funds (note 3)	3,209,472
Total assessments	29,696,327
Other revenues:	
Trust facilities fees (note 3)	2,235,000
Golf	1,441,510
Recreational fees	429,266
Additional occupant fee	126,462
Charges for services to mutuals	2,152,267
Rental income	673,212
Merchandise sales	253,293
Broadband services	4,349,389
Interest income	388,052
Miscellaneous	324,782
Total other revenue	12,373,233
Total revenue	42,069,560
Expenses:	
Amounts paid to VMS for compensation	21,880,983
Operating materials and supplies	1,911,997
Community events	336,348
Utilities and telephone	2,251,538
Fuel and oil	443,229
Legal fees	769,563
Professional fees	896,639
Equipment rental	186,739
Repairs and maintenance	1,541,147
Interest expense	47,229
Income taxes (note 9)	34,218
Property and sales taxes	94,649
Insurance	1,193,427
Cable programming fees	4,457,588
Non capitalized reserve expenditures	148,825
Depreciation and amortization	5,297,386
Merchant fees	114,443
Uniforms	116,129
Other	424,278
Total expenses	42,146,355
Net loss	$ (76,795)

See accompanying notes to consolidated financial statements.

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Statement of Comprehensive Income

Year ended December 31, 2016

Net loss	$	(76,795)
Other comprehensive income (loss):		
Unrealized loss on available-for-sale investments arising during the year:		
Unrealized holding losses arising during the period		(127,510)
Comprehensive income		(204,305)
Comprehensive loss:		
Comprehensive loss attributable to noncontrolling interest (note 13)		(376,829)
Comprehensive income attributable to Members of Golden Rain Foundation	$	172,524

See accompanying notes to consolidated financial statements.

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Statement of Changes in Equity

Year ended December 31, 2016

		Members' equity	Noncontrolling interest	Total equity
Balance, December 31, 2015	$	76,440,689	12,789,409	89,230,098
Net income (loss)		300,034	(376,829)	(76,795)
Unrealized loss on available-for-sale investments, net		(127,510)	—	(127,510)
Balance, December 31, 2016	$	76,613,213	12,412,580	89,025,793

See accompanying notes to consolidated financial statements.

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidated Statement of Cash Flows

Year ended December 31, 2016

Cash flows from operating activities:		
Net loss	$	(76,795)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization		5,297,386
Amortization of investment premium and discount, net		58,918
Change in operating assets and liabilities:		
Accounts receivable and interest receivable		265,829
Operating supplies		47,822
Prepaid expenses and deposits		(13,369)
Accounts payable and accrued expenses		2,612,017
Amounts payable to VMS for accrued compensation		311,034
Receivables from/payables to Laguna Woods Mutuals, net		2,041,205
Income tax receivable		(630,918)
Income tax payable		(41,202)
Deferred income		420,394
Net cash provided by operating activities		10,292,321
Cash flows from investing activities:		
Maturities of held-to-maturity investments		2,995,920
Proceeds from principal payments and maturities of available-for-sale investments		2,136,306
Purchases of available-for-sale investments		(2,257,937)
Deposits to restricted funds, net		3,592,820
Purchases of property and equipment		(11,656,042)
Net cash used in investing activities		(5,188,933)
Cash flows from financing activities:		
Payment on mortgage loan		(721,720)
Net cash used in financing activities		(721,720)
Net increase in cash and cash equivalents		4,381,668
Cash and cash equivalents at beginning of year		4,842,980
Cash and cash equivalents at end of year	$	9,224,648
Supplemental disclosure of cash flow information:		
Cash paid during the year:		
Income taxes	$	693,000
Interest		47,229

See accompanying notes to consolidated financial statements.

(1) Organization

(a) General

Golden Rain Foundation of Laguna Woods (the Foundation or GRF), a nonprofit mutual benefit corporation, operates and maintains certain community and corporate facilities within Laguna Woods Village, Laguna Woods, California (the Village), a housing development consisting of 12,736 residential units (manors), and various community facilities. There are three corporate members of the Foundation: United Laguna Woods Mutual (6,323 manors), Third Laguna Hills Mutual (6,102 manors), and Laguna Woods Mutual No. Fifty (311 manors), collectively, the Laguna Woods Village housing mutuals (the Mutuals). The individual Mutual's members have a right appurtenant to their membership in the Mutuals to the use of facilities owned or held in trust by the Foundation.

Golden Rain Foundation of Laguna Hills Trust (the Trust) was established to hold title to various community facilities for the benefit of the Mutuals. Each Mutual owns a beneficial interest in the Trust in proportion to the amount originally contributed to the Trust by the Mutual (trusteed sums). The Foundation is the trustee for the Trust and operates and maintains the community facilities held by the Trust. As the Foundation administers the Trust, its assets and activities, and the Mutuals own a beneficial interest in the Trust, without voting control, such beneficial interests represent a noncontrolling interest in the equity of the Trust, and is presented separately in the accompanying consolidated financial statements. See further disclosures at note 13.

The consolidated financial statements include the accounts of the Foundation and the Trust (collectively referred to herein as the Company).

GRF is an owner 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 (see note 11).

(b) Assessments and Management Fees

The Foundation receives monthly assessments from the Mutuals for certain services. It charges the individual owners directly for other specific services. The members of the Mutuals were assessed the following amounts for their proportionate share of GRF's costs during 2016:

		Assessment per manor per month
GRF – shared operating expenses	$	173
GRF – contribution to restricted funds		21

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. All significant transactions and balances between the consolidated entities have been eliminated in the accompanying consolidated financial statements.

(b) Comprehensive Income

Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income*, establishes standards for the reporting and display of comprehensive income. Comprehensive income is defined as all changes in an entity's equity except changes resulting from transactions with owners. It differs from net income in which certain items currently recorded to equity would be part of comprehensive income. Changes in accumulated other comprehensive income was as follows for 2016:

		Unrealized losses on securities, net
Ending balance, December 31, 2015	$	(204,435)
Net current period other comprehensive loss		(127,510)
Ending balance, December 31, 2016	$	(331,945)

(c) Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. The total balance of cash and cash equivalents at December 31, 2016 is $9,224,648, which includes $942,942 of money market funds.

(d) Investments and Restricted Cash and Investments

Investments are accounted for under the provisions of ASC Topic 320, *Investments – Debt and Equity Securities*. This standard requires the Company to classify and account for investments in equity securities that have readily determinable fair values and for all debt securities into three categories: (1) debt securities that the Company has the positive intent and the ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost; (2) debt and equity securities that are bought and held principally for the purpose of selling them in the near-term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings; and (3) debt and equity securities not classified as held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a component of comprehensive income.

The Company restricts a portion of monthly assessments to finance reserves set aside and reported as restricted funds on the accompanying consolidated balance sheet. Disbursements from these funds may be made only in accordance with the purpose established. Interest income earned on these funds was generally retained within the respective fund in 2016. Additions to the funds are determined each year as outlined in the annual business plan approved by the Company.

(e) Fair Value Measurements

The Company applies the provisions of ASC Topic 820, *Fair Value Measurement* (ASC 820), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized at fair value or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 3).

(f) Future Major Repairs and Replacements

A study was conducted by the Company in 2016 to estimate the remaining useful lives and current replacement costs of certain major components of corporate and community facilities. This study also considered future replacement costs of these certain major components of corporate and community facilities based on the estimated useful lives, assuming a 2.5% inflation factor. The board of directors has a policy to plan additional reserve contributions over the remaining useful lives of those assets based on an annual analysis of the adequacy of the reserve funds. Under the assumption that certain buildings would not be completely replaced within the next 30 years, replacement funds also provide for major repair or replacement of those corporate and community facilities. Actual replacement costs when expended may vary from the estimated future expenditures considered in the reserve analysis, and the variations may be material. If additional monies are needed, the Company has the right to adjust the monthly assessment, impose special assessments, or delay expenditures, as appropriate.

(g) Operating Supplies

Operating supplies are stated at cost on an average-cost basis, which is not in excess of market value. Operating supplies include materials for landscape, plumbing, paint, maintenance, and other supplies necessary to operate and maintain services for the Village.

(h) Property and Equipment

Depreciation of property and equipment is computed on the straight-line method over the following estimated useful lives:

Buildings and improvements	2–40 years
Furniture, vehicles, and other equipment	1–33 years
Cable television system	10–11 years

(Continued)

(i) 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 2016, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

(j) Interest Income

Interest earned on investments, if any, held by the Foundation is allocated to the reserve and contingency fund balances based on their respective proportion of the equity balance in each fund.

Interest earned on investments, if any, held by the Trust is allocated to the individual Mutuals based on their respective proportion of the equity balance in the Trust.

(k) Income Taxes

The Foundation files as a homeowners' association in accordance with Internal Revenue Code (IRC) Section 528. As such, federal and state income taxes was provided on the excess of nonexempt function revenue over nonexempt function expenses for the year ended December 31, 2016.

The Foundation provides for income taxes in accordance with ASC Topic 740, *Income Taxes* (ASC 740). ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more likely than not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. ASC 740 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. Management believes that no uncertain tax positions requiring further accrual or disclosure existed at December 31, 2016. The open years for federal and state tax assessments are 2013-2016 for federal and 2012-2016 for California.

The Trust is treated as a grantor trust for income tax purposes. Grantor trusts are not taxed at the trust level, rather the trust's income and deductions flow through to the grantor and are included on the grantor's income tax return. The Foundation is the Trustee of the Trust and the Mutuals are the grantors. The Trust generates depreciation expense which is then included on the income tax returns for the Mutuals each year.

(l) Concentration of Credit Risk

The Company had cash balances of $8,281,706 and restricted cash balances of $5,299,019 at December 31, 2016 maintained in a commercial bank and consisted of cash on deposit and money market accounts. At December 31, 2016, 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 Company also maintained a money market fund in the amount of $942,942 at December 31, 2016 that were Securities Investor Protection Corporation insured up to a maximum of $500,000 per institution.

(m) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

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

The Company's restricted cash and investments are presented as follows on the accompanying consolidated balance sheet at December 31, 2016:

Restricted cash	$	5,299,019
Available for sale (at fair value):		
U.S. Treasury notes		6,763,252
GNMAs		5,180,925
Corporate bonds		4,846,589
Total restricted cash and investments at fair value	$	22,089,785

The Company follows the provisions of ASC 820 for fair value measurements of assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.
- The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement.

The Company's cash and cash equivalents and restricted cash and investments that are measured at fair value on a recurring basis as reflected on the accompanying consolidated balance sheet at December 31, 2016 are summarized as follows:

		Level 1	Level 2	Total
Assets:				
Cash and cash equivalents	$	9,224,648	—	9,224,648
Restricted cash and investments:				
Restricted cash		5,299,019	—	5,299,019
Available for sale:				
U.S. Treasury notes		—	6,763,252	6,763,252
Government National Mortgage Association securities (GNMAS)		—	5,180,925	5,180,925
Corporate bonds		—	4,846,589	4,846,589
Total restricted cash and investments		5,299,019	16,790,766	22,089,785
Total cash and cash equivalents, and restricted cash and investments	$	14,523,667	16,790,766	31,314,433

For the valuation of U.S. Treasury notes, GNMAs, and corporate bonds, the Company used significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date of December 31, 2016, which are classified as Level 2 in the fair value hierarchy. There were no significant transfers into or out of Levels 1, 2, or 3 for the year ended December 31, 2016.

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At December 31, 2016:					
Available for sale	$	17,122,712	146,641	(478,587)	16,790,766

(Continued)

Investments as of December 31, 2016 have the following scheduled maturities:

Available for sale		Amortized cost	Estimated fair value
One to five years	$	9,135,909	9,264,395
Five to ten years		3,582,097	3,446,781
More than ten years		4,404,706	4,079,590
	$	17,122,712	16,790,766

The Company determines realized gains and losses based on the specific-identification method. The Company had no realized gains or losses on available-for-sale investments in 2016.

Restricted cash and investments consist of the following reserve funds:

		Facilities fund	Equipment fund	Trust facilities fee fund	Trust improvement fund	Contingency fund	Total
Balances, December 31, 2015	$	15,728,678	6,753,453	5,532,342	174,139	554,711	28,743,323
Mutuals' assessments		1,681,152	1,375,488			152,832	3,209,472
Net investment income and other contributions		174,015	80,999	2,314,010	—	7,016	2,576,040
Expenditures		(32,399)	(1,359,581)	1,026	—	225	(1,390,729)
Construction in progress		(9,244,256)	(1,013,862)	(68,483)	—	—	(10,326,601)
Loan payments		(721,720)	—	—	—	—	(721,720)
Balances, December 31, 2016	$	7,585,470	5,836,497	7,778,895	174,139	714,784	22,089,785

(a) Facilities Fund

The facilities fund was established to provide funds for replacements and improvements of both corporate and community facilities and provide for the principal repayments of certain long-term debt obligations (note 8). Monthly assessments for the facilities fund were included in restricted funds assessments in the accompanying consolidated statement of operations.

(b) Equipment Fund

The equipment fund was established to provide funds for the replacement of existing capital equipment and the acquisition of new capital equipment. Monthly assessments for the equipment fund were included in restricted funds assessments in the accompanying consolidated statement of operations.

(c) Trust Facilities Fee Fund

The trust facilities fee fund was established to maintain and improve the recreational and amenities available to all residents within Laguna Woods Village. This fee is a fixed amount, as determined periodically by the Trustee of the Golden Rain Foundation Trust.

(d) Trust Improvement Fund

The trust improvement fund was established to provide for additions, improvements, and replacements of major components of community facilities held by the Trust.

(e) Contingency Fund

The contingency fund is used for the repair or replacement of Foundation or Trust assets damaged by uninsured or unexpected disasters in addition to providing for unanticipated significant expenditures not otherwise identified in the business plan.

(4) Property and Equipment

Property and equipment are recorded at cost and consist of the following at December 31, 2016:

Land	$	3,236,749
Land improvements		17,796,037
Buildings and improvements		43,095,425
Furniture, vehicles, and other equipment		31,010,058
Cable television system		15,971,562
		111,109,831
Less accumulated depreciation and amortization		(62,653,703)
		48,456,128
Construction in progress		4,333,180
Total property and equipment, net	$	52,789,308

(5) Community Facilities Held in Trust

Community facilities held in trust are recorded at cost and consist of the following at December 31, 2016:

Land	$	7,535,113
Land improvements		9,001,706
Buildings and improvements		19,334,726
		35,871,545
Less accumulated depreciation and amortization		(23,633,104)
Total community facilities, net	$	12,238,441

(6) Intangible Assets

Intangible assets consist of the following as of December 31, 2016:

Water reclamation facility	$	87,967
Cable television system – management rights		557,506
Logo		18,080
		663,553
Less accumulated depreciation and amortization		(288,967)
Total intangible assets, net	$	374,586

(a) Water Reclamation Facility

During 2012, the El Toro Water District (ETWD) agreed to reimburse the Company for the net book value of the water reclamation facility that was originally constructed for the exclusive use of the Village with funds from its facilities fund. At the end of 2012, the net book value of the reclamation facility was $432,565 and the Company received a payment from ETWD of $344,598, which resulted in a remaining asset value of $87,967 at December 31, 2012. This reclamation facility asset was used until the end of 2016, the projected completion date of the ETWD Recycled Water System Expansion Project, and was amortized until then. At the end of 2016, this remaining reclamation facility asset was fully amortized with the exception of a recycled water discharge pipe, which will continue to serve only the Village and will be amortized over its remaining useful life.

(b) Cable Television System – Management Rights

During 2012, Connexion Technologies (Connexion), the company that provided cable management services since December 31, 2009, for the Company's cable television system servicing the Laguna Woods Village community, filed for bankruptcy in the United States Bankruptcy Court for the District of Delaware. As part of the bankruptcy, management rights per the December 31, 2009 agreement were to be sold through the bankruptcy court via auction. On June 13, 2012, the Company was the highest bidder and reacquired the management contract. The Company paid a total of $598,773 for the Cable Television System contract and recorded $557,506 of the purchase price as an intangible asset at December 31, 2012. The Cable Television System contract is being amortized over the remaining life of the contract, which is scheduled to end in 2024.

(7) Deferred Income

Deferred income represents advance payments for products or services that are to be delivered in the future. At December 31, 2016, the Company had a deferred income liability of $901,914 relating to items such as prepaid cable services and advertising, clubhouse rental reservations, ticket sales for future events, and funds on deposit for resale corrections not yet completed.

(8) Mortgage Loan Payable

During 2002, the Company entered into a loan agreement for $9,500,000 as permanent financing for the Community Center. The note is collateralized by the building and land and matures in November 2017. This note is payable in monthly principal installments plus interest. A portion of the loan, $7,000,000, has a fixed rate of interest at 5.71%. The remaining $2,500,000 was financed at a floating interest rate which has ranged from 1.21% to 1.73%. The total outstanding balance was $661,533 at December 31, 2016.

Future minimum payments, excluding interest, under long-term debt obligations at December 31, 2016 are as follows:

	Mortgage loan payable
Year ending December 31:	
2017	$ 661,533
	$ 661,533

(9) Income Tax Provision

The provision for income taxes for the year ended December 31, 2016 consists of the following:

State taxes – current	$ (1,052)
Federal taxes – current	35,270
Total taxes	$ 34,218

At December 31, 2016, the Company has no net operating loss carry forwards available to offset future federal unrelated business taxable income. The Company is considered a homeowner’s association for federal and state tax purposes and is taxed on its nonexempt function net income at a rate of 30% for federal taxes and 8.84% for state taxes. The Company’s nonexempt function income is from commercial and other services provided to nonmembers. At December 31, 2016 the estimated income tax receivable was $630,918.

(10) Commitments and Contingencies

The Company is involved in various legal matters arising in the normal course of business. Although the results of these legal matters cannot be predicted with certainty, management believes that the final outcome of such matters will not have a material adverse effect on the Company’s consolidated financial position.

The Company holds letters of credit from Bank of America, totaling $300,000, in relation to the Company’s workers’ compensation policy.

(Continued)

(11) Related Parties

As discussed in note 1, the Mutuals are members of GRF and GRF is an owner of VMS, all related entities. The accompanying consolidated financial statements include assessments from the Mutuals for operating expenses and reserve contributions as well as a payable due to the Laguna Woods Mutuals for $1,533,807. The accompanying consolidated financial statements also include amounts paid and owed to VMS for compensation and related costs.

(12) Workers' Compensation Insurance

The Company has a workers' compensation insurance policy under a retrospective rating program. In addition to the basic premium, the Company is responsible for the first $200,000 of each loss. At December 31, 2016, the estimated workers' compensation insurance obligation was $917,859 and is included in amounts payable to VMS for accrued compensation in the accompanying consolidated balance sheet.

(13) Mutuals' Beneficial Interest in the Trust

The Mutuals have a beneficial interest in the Trust, which holds certain community facilities in trust for the Mutuals. The Mutuals' beneficial interest is calculated based on the Mutuals' "trusteed sums," defined as the original contribution amounts as stated in the trust agreement.

As of and for the year ended December 31, 2016, the Mutuals own an undivided interest in the Trust as follows, which is recorded in the respective Mutual financial statements:

		United Laguna Woods Mutual	Third Laguna Hills Mutual	Laguna Woods Mutual No. Fifty	Total
Trust's equity, December 31, 2015	$	6,624,179	5,888,476	276,754	12,789,409
Change in net assets of the Trust		(217,958)	(138,715)	(20,156)	(376,829)
Trust's equity, December 31, 2016	$	6,406,221	5,749,761	256,598	12,412,580

(14) Pension Plans

Village Management Services, Inc. makes contributions to two union-sponsored, multiemployer defined-benefit pension plans (covering most union employees) in accordance with a negotiated labor contract between VMS and the labor union. In the event either this plan is terminated or VMS withdraws from the plan, VMS may be required to contribute additional amounts under the provisions of the Employee Retirement Income Security Act of 1974. Such amounts would be reimbursed by the Foundation and the Mutuals. However, no such termination of or withdrawal from the plan is currently contemplated.

During 2016, VMS sponsored a 401(k) plan covering all eligible employees. Employee contributions to the plan are at the participants' discretion. In 2016, VMS made matching contributions into the plan for eligible nonunion employee participants. The Mutuals and the Foundation are not responsible for the management or ultimate funding of the 401(k) plan beyond the agreed-upon annual contributions.

Amounts contributed by VMS to these plans in 2016 and reimbursed by the Foundation were $220,096 for the defined-benefit pension plan and $173,704 for the 401(k) plan.

With a change in the management company from Professional Community Management, Inc. (PCM) to VMS on December 23, 2015, there was no change in the defined benefit pension plans covering union employees. The PCM sponsored 401(k) Plan covering all eligible employees stayed in effect through the end of 2015. Absent any action by the employee, account balances remained in the PCM sponsored plan with no further contributions allowed. On January 1, 2016, VMS sponsored a new 401 (k) plan with employee contributions and employer match (if employee is eligible) starting with the pay period beginning March 28, 2016. Employees had the option to open a new account under the VMS sponsored 401 (k) plan and rollover balances from the PCM sponsored plan.

(15) Subsequent Events

Subsequent events have been evaluated through April 12, 2017, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Schedule 1

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS AND AFFILIATE

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

December 31, 2016

Assets		**Foundation**	**Trust**	**Total**
Cash and cash equivalents	$	9,224,648	—	9,224,648
Accounts receivable and interest receivable		958,291	—	958,291
Receivables from Laguna Woods Mutuals		14,704	—	14,704
Operating supplies		1,020,672	—	1,020,672
Income tax receivable		630,918	—	630,918
Prepaid expenses and deposits		791,399	—	791,399
Restricted funds		21,915,646	174,139	22,089,785
Property and equipment, net		52,789,308	—	52,789,308
Community facilities, net		—	12,238,441	12,238,441
Intangible assets, net		374,586	—	374,586
	$	87,720,172	12,412,580	100,132,752
Liabilities and Equity				
Liabilities:				
Accounts payable and accrued expenses	$	4,553,770	—	4,553,770
Amounts payable to VMS for accrued compensation		3,455,935	—	3,455,935
Payables to Laguna Woods Mutuals		1,533,807	—	1,533,807
Deferred income		901,914	—	901,914
Mortgage loan payable		661,533	—	661,533
Total liabilities		11,106,959	—	11,106,959
Equity:				
Members' equity in Golden Rain Foundation Laguna Woods		76,613,213	—	76,613,213
Noncontrolling interests in consolidated trust		—	12,412,580	12,412,580
Total equity		76,613,213	12,412,580	89,025,793
	$	87,720,172	12,412,580	100,132,752

See accompanying independent auditors' report.

Schedule 2

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Consolidating Statement of Operations – Golden Rain Foundation and
Golden Rain Foundation Trust

December 31, 2016

	Foundation	Trust	Total
Revenue:			
Assessments:			
Operating	$ 26,486,855	—	26,486,855
Additions to restricted funds	3,209,472	—	3,209,472
Total assessments	29,696,327	—	29,696,327
Other revenues	12,373,233	—	12,373,233
Total revenue	42,069,560	—	42,069,560
Expenses:			
Amounts paid to VMS for compensation	21,880,983	—	21,880,983
Operating materials and supplies	1,911,997	—	1,911,997
Community events	336,348	—	336,348
Utilities and telephone	2,251,538	—	2,251,538
Fuel and oil	443,229	—	443,229
Legal fees	769,563	—	769,563
Professional fees	896,639	—	896,639
Equipment rental	186,739	—	186,739
Repairs and maintenance	1,541,147	—	1,541,147
Interest expense	47,229	—	47,229
Income taxes	34,218	—	34,218
Property and sales taxes	94,649	—	94,649
Insurance	1,193,427	—	1,193,427
Cable programming/copyright/franchise	4,457,588	—	4,457,588
Non capitalized reserve expenditures	148,825	—	148,825
Depreciation and amortization	4,920,557	376,829	5,297,386
Other	654,850	—	654,850
Total expenses	41,769,526	376,829	42,146,355
Net income (loss)	$ 300,034	(376,829)	(76,795)

See accompanying independent auditors' report.

Schedule 3

GOLDEN RAIN FOUNDATION OF LAGUNA WOODS
AND AFFILIATE

Future Major Repairs and Replacements

December 31, 2016

(Unaudited)

The Company conducted a study in 2016, to estimate the remaining useful lives and current replacement costs of major components. of corporate and community facilities of the Foundation and the Trust, respectively. The estimates were determined from past experience and from information obtained from certain contractors. Certain land improvements, buildings, and building improvements were excluded from the study and are excluded from the table, as these items are expected to last the life of the community or to be maintained from operating funds. The assumption is that certain buildings would not be completely replaced within the next 30 years.

The following table is based on the Board's study of common property:

Consolidated funds of the Foundation and the Trust

Major components	Estimated useful lives (years)	Estimated remaining useful lives (years)	Estimated current replacement costs	Estimated funding requirement, December 31, 2016	Allocation of fund balances as of December 31, 2016
Land, buildings, and improvements	9–70	7–40	$ 108,508,000	47,480,511	15,538,504
Equipment	1–33	0–14	35,331,000	23,434,000	5,836,497
			$ 143,839,000	70,914,511	21,375,001

Because the reserve study is a projection, the estimated lives and costs of components will likely change over time depending on a variety of factors such as (i) future inflation rates, (ii) levels of maintenance applied by future boards, unknown defects in materials that may lead to premature failures, remaining useful lives, etc. As a result, some components may cost less at the time of replacement while others may cost more. To adequately plan for future expenditures, the Board has adopted via resolution a 30-Year Funding Plan that projects contributions to and disbursements from the reserves over the next thirty years, without falling below a minimum threshold in the reserve balance.

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

See accompanying independent auditors' report.