

Golden Rain Foundation and The Trust
Consolidated Financial Statements and
Supplementary Information
December 31, 2021 and 2020
(With Independent Auditors' Report Thereon)



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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Golden Rain Foundation
Seal Beach, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Golden Rain Foundation and the Trust (the "Foundation"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of revenues and expenses by segment, changes in membership interest and trust equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Golden Rain Foundation and the Trust as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

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


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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The by segment information on Consolidated Statement of Revenues and Expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property on page 18 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP
Los Angeles, California
March 28, 2022

Golden Rain Foundation and the Trust
Consolidated Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets:		
Cash and cash equivalents	\$ 314,281	\$ 225,784
Investments (Note 3)	439,121	79,149
Receivables	575,672	658,193
Inventory of maintenance supplies	449,042	406,894
Prepaid expenses (Note 2)	705,311	664,255
Total Current Assets	2,483,427	2,034,275
Designated Deposits (Note 3)	15,927,965	15,325,932
Notes Receivable - Membership Fee	76,004	69,517
Community Facilities Held in Trust, net (Note 4)	16,603,141	15,292,627
Total Assets	\$ 35,090,537	\$ 32,722,351

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

Golden Rain Foundation and the Trust
Consolidated Balance Sheets
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 535,473	\$ 669,543
Accrued expenses	622,447	599,956
Unearned income	36,496	109,922
Accrued legal settlement	-	550,000
Project commitments (Note 2)	963,816	541,926
Security deposits collected	53,096	11,575
Total Liabilities	<u>2,211,328</u>	<u>2,482,922</u>
Equity		
Equity in Contingency Operating Fund	1,000,000	1,000,000
Equity in Replacement Reserves	11,741,022	10,771,397
Equity in Capital Improvement Fund	2,184,105	2,991,161
Beneficial Interest in Trust Assets	17,857,696	14,889,115
Total Beneficial Interest in Trust	<u>32,782,823</u>	<u>29,651,673</u>
Membership Interest		
Membership certificates of 844 shares at \$200 par value, and 5,764 shares at \$250 par value, authorized, issued and outstanding	<u>1,609,800</u>	<u>1,609,800</u>
Additional paid in capital	<u>20,107,884</u>	<u>20,107,884</u>
Assets contributed to the Golden Rain Foundation Trust	<u>(15,466,032)</u>	<u>(15,538,338)</u>
Excess income (loss) before Trust Assets depreciation and amortization	<u>1,118,521</u>	<u>602,940</u>
Depreciation and amortization (Note 2)	<u>(7,273,787)</u>	<u>(6,194,530)</u>
Total Equity	<u>32,879,209</u>	<u>30,239,429</u>
Total Liabilities and Equity	<u>\$ 35,090,537</u>	<u>\$ 32,722,351</u>

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

Golden Rain Foundation and the Trust
Consolidated Statements of Revenues and Expenses By Segment
For the Years Ended December 31, 2021 and 2020

	Operations		Maintenance Services		Management Services		Golden Rain News		All Segments	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Income:										
Net Billings from Mutuals	\$ 11,352,659	\$ 11,404,241	\$ 1,301,545	\$ 1,267,015	\$ 44,405	\$ 44,405	\$ 433,600	\$ 262,714	\$ 13,132,209	\$ 12,978,375
Advertising Income	-	-	-	-	-	-	613,071	569,289	613,071	569,289
Rental - Onsite Sales Office	696,771	539,841	-	-	-	-	-	-	696,771	539,841
Rental - Health Care Center	660,000	660,000	-	-	-	-	-	-	660,000	660,000
Income From Superwire	89,430	78,304	-	-	-	-	-	-	89,430	78,304
Other Rental Income	81,583	74,178	-	-	-	-	-	-	81,583	74,178
Interest Income	43,824	176,139	-	-	-	-	-	-	43,824	176,139
Interest Income Allocation	(64,517)	(222,211)	-	-	-	-	-	-	(64,517)	(222,211)
SRO Labor Cost Recovery	-	-	1,357,232	1,137,087	-	-	-	-	1,357,232	1,137,087
Materials Recovery	40,495	32,868	1,237,960	1,027,312	-	-	-	-	1,278,455	1,060,180
Other Income	758,438	687,467	-	-	-	-	582	23,021	759,020	710,488
Subtotal	13,658,683	13,430,827	3,896,737	3,431,414	44,405	44,405	1,047,253	855,024	18,647,078	17,761,670
Replacement Reserve Funding	(500,000)	(1,300,000)	-	-	-	-	-	-	(500,000)	(1,300,000)
Total Income	13,158,683	12,130,827	3,896,737	3,431,414	44,405	44,405	1,047,253	855,024	18,147,078	16,461,670
Operating Expenses:										
Salaries and Benefits (Note 5)	6,433,965	6,294,226	2,448,977	2,264,066	-	-	481,767	478,849	9,364,709	9,037,141
Materials and Supplies	427,392	318,323	66,664	59,361	-	-	157,691	177,469	651,747	555,153
COVID -19 Expenses	37,795	65,740	-	-	-	-	-	-	37,795	65,740
Utilities and Trash Hauling	581,144	484,476	19,403	16,589	-	-	6,017	5,625	606,564	506,690
Insurance Premiums	616,100	539,829	-	-	-	-	16,029	15,479	632,129	555,308
Professional Services	495,409	439,830	-	-	-	-	9,459	9,503	504,868	449,333
Contract Services	147,552	136,627	636	1,496	-	-	119,131	118,576	267,319	256,699
Maintenance	2,169,467	2,140,684	13,845	29,845	44,405	44,405	14,947	18,937	2,242,664	2,233,871
Recreation - Entertainment	50,331	35,398	-	-	-	-	-	-	50,331	35,398
Permits and Licenses	36,779	19,166	252	161	-	-	-	-	37,031	19,327
Income Tax	-	800	-	-	-	-	-	-	-	800
Miscellaneous	1,283,039	928,556	75,561	150,084	-	-	1,359	15,505	1,359,959	1,094,145
Materials Pass Through Expenses	39,906	32,868	1,233,535	1,016,257	-	-	-	-	1,273,441	1,049,125
Total Expenses	12,318,879	11,436,523	3,858,873	3,537,859	44,405	44,405	806,400	839,943	17,028,557	15,858,730
Excess Income (Loss) before Trust Assets Depreciation	839,804	694,304	37,864	(106,445)	-	-	240,853	15,081	1,118,521	602,940
Depreciation of Assets held in Trust	(1,055,545)	(1,000,938)	(20,394)	(20,287)	-	-	(3,318)	(4,436)	(1,079,257)	(1,025,661)
Net Income (Loss)	\$ (215,741)	\$ (306,634)	\$ 17,470	\$ (126,732)	\$ -	\$ -	\$ 237,535	\$ 10,645	\$ 39,264	\$ (422,721)

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

Golden Rain Foundation and the Trust
Consolidated Statements of Changes in Membership Interest and Trust Equity
For the Years Ended December 31, 2021 and 2020

	Membership Interest	Additional Net Paid-In Capital	Transfers to Trust	Total Mutuals' Beneficial Interest In Trust Assets	Excess Income Before Depreciation and Amortization	Accumulated Depreciation and Amortization	Total
Balance at January 1, 2020	\$ 1,609,800	20,107,884	(15,459,532)	26,111,535	(103,139)	(5,168,868)	\$ 27,097,679
Membership Fees	-	-	-	2,365,826	-	-	2,365,826
Fund Earnings (net of taxes)	-	-	-	222,211	-	-	222,211
Funding from Assessments	-	-	-	1,300,000	-	-	1,300,000
Expenditures from Equity Reserves	-	-	-	(2,525,590)	-	-	(2,525,590)
Trust Asset Additions	-	-	-	1,798,885	-	-	1,798,885
Transfers	-	-	-	300,000	-	-	300,000
Excess Income and Transfers over Direct Operating Expenses	-	-	-	-	602,940	-	602,940
Depreciation	-	-	-	-	-	(1,025,661)	(1,025,661)
Excess Income Allocation to the Mutuals	-	-	-	-	103,139	-	103,139
Donation	-	-	(78,806)	78,806	-	-	-
Balance at December 31, 2020	1,609,800	20,107,884	(15,538,338)	29,651,673	602,940	(6,194,530)	30,239,429
Membership Fees	-	-	-	2,885,214	-	-	2,885,214
Fund Earnings (net of taxes)	-	-	-	65,437	-	-	65,437
Funding from Assessments	-	-	-	500,000	-	-	500,000
Expenditures from Equity Reserves	-	-	-	(3,294,582)	-	-	(3,294,582)
Trust Asset Additions	-	-	-	3,047,387	-	-	3,047,387
Transfers	-	-	-	-	-	-	-
Excess Income and Transfers over Direct Operating Expenses	-	-	-	-	1,118,521	-	1,118,521
Depreciation	-	-	-	-	-	(1,079,257)	(1,079,257)
Excess Income Allocation to the Mutuals	-	-	-	-	(602,940)	-	(602,940)
Donation	-	-	72,306	(72,306)	-	-	-
Balance at December 31, 2021	<u>\$ 1,609,800</u>	<u>\$ 20,107,884</u>	<u>\$ (15,466,032)</u>	<u>\$ 32,782,823</u>	<u>\$ 1,118,521</u>	<u>\$ (7,273,787)</u>	<u>\$ 32,879,209</u>

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

Golden Rain Foundation and The Trust
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net Income	\$ 39,264	\$ (422,721)
Adjustments to reconcile net Income to net cash provided by (used in) operating activities		
Depreciation	1,079,257	1,025,661
Loss on sale of fixed assets	4,170	26,665
Decrease (Increase) in receivables	82,521	(44,354)
(Increase) decrease in inventory of maintenance supplies	(42,148)	12,416
(Increase) in prepaid expenses	(41,056)	(174,484)
(Increase) in notes receivable	(6,487)	(27,133)
(Decrease) increase in accounts payable	(134,070)	246,490
Increase (decrease) in accrued expenses	40,091	(268,663)
(Decrease) increase in unearned income	(73,426)	4,587
(Decrease) in accrued legal settlement	(550,000)	-
Increase in security deposits collected	41,521	900
Net cash provided by operating activities	439,637	379,365
Cash flows from investing activities:		
(Increase) of investments and designated deposits	(962,005)	(1,672,562)
Proceeds from the sale of fixed assets	7,040	8,000
Acquisition of fixed assets, excluding construction in progress	(1,209,024)	(1,841,795)
Construction in progress for community facilities	(1,209,558)	(514,724)
Net cash (used in) investing activities	(3,373,547)	(4,021,081)
Cash flows from financing activities:		
Funding of equity reserves	3,450,651	4,188,037
Release from reserve funds	174,695	(846,263)
Excess income allocation to Mutuals	(602,940)	103,139
Net cash provided by financing activities	3,022,406	3,444,913
Increase (decrease) in cash and cash equivalents	88,497	(196,803)
Cash and cash equivalents at beginning of year	225,784	422,587
Cash and cash equivalents at end of year	\$ 314,281	\$ 225,784
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	\$ -	\$ 17,750

See accompanying independent auditors' report.
The notes are an integral part of these consolidated financial statements.

Golden Rain Foundation and the Trust
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(1) Nature of Operations

The Golden Rain Foundation (the "Foundation"), a Non Profit Mutual Benefit Corporation, operates and maintains the community facilities within a cooperative housing project consisting of 6,482 cooperative units and 126 condominium units known as Seal Beach Leisure World. The housing project is owned by sixteen corporations (the "Mutuals") whose stockholders are also members of the Foundation. The sole purpose for the existence of the Foundation is to provide management, accounting and maintenance services to the Mutuals and to care for the community facilities. The Foundation's Board of Directors (the "Board") consists of representatives from each of the Mutuals.

(2) Summary of Significant Accounting Policies

A. Basis of Presentation

The consolidated financial statements include the accounts of the Foundation and the Golden Rain Foundation Trust (the "Trust"). The Trust holds all the Community Facilities Held in Trust for the benefit of the Mutuals and is managed by the Foundation. The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the standards promulgated by the Financial Accounting Standards Board.

B. Transfer of Foundation Assets

Beginning with 2015, the Foundation's assets were transferred into the Trust and have been consolidated for financial reporting purposes. The intention of this change was to provide reporting that accurately represents the Foundation's operations. Prior to 2015, depreciation expense was incorporated in the annual operating budget. Consequently, the funding amount set aside for the replacement of fixed assets has been based on historical cost. Beginning in 2015, the Foundation established a replacement reserve fund (reserves) to finance future major repairs and replacements of major components and fixed assets. Funding is achieved through shareholder contributions through monthly assessments specifically designated for reserve funding as determined by the annual operating budget. The funding amount is based on current replacement cost. Consequently, the balance in depreciation and amortization in the equity component of these consolidated financial statements (page 4) is cumulative from year 2015 and forward.

C. Revenue Recognition

The Foundation has adopted Accounting Standards Update No. 2014-09, *Revenues from Contracts with Customers* ("ASC 606") effective January 2019, refer to Note 9. The Foundation disaggregates its revenue streams by type of service into three major categories that depict the nature, amount, timing, and uncertainty of revenues and related cash flows. The following depicts each revenue stream:

- Net billings from Mutuals represents the monthly assessment that the Foundation charges to the Mutuals for providing the bundled services of operating and maintaining the Foundation and the community facilities. The Foundation recognizes this revenue stream on a monthly basis as the Mutuals are assessed amounts based on approved budgets.
- Advertising income represents revenues earned from advertising and promotion in the Foundation's publications and/or from displays throughout the community or at community events. The Foundation provides advertising services either as a standalone service or as a bundled product with different deliverable obligations.
- Rental revenues from Onsite Sales and Health Care Center represent rental revenue for space pursuant to lease agreements with unrelated service providers to the community. Depending on lease specifications, rental revenue is either fixed or variable based on volume of activity.
- Maintenance service revenue relates to revenues recognized for providing services directly to the Mutuals' shareholders such as repairs and replacement of shareholders' appliances or services provided to a Mutual specific property.

Golden Rain Foundation and the Trust
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(2) Summary of Significant Accounting Policies (Continued)

C. Revenue Recognition (Continued)

- Other income relates to incidental revenue earned by the Foundation as part of services provided to the Mutuals or community shareholders, such as recovered costs from stock certificate preparation, utility payment processing, purchasing processing and community entertainment events, parking fines, guest pass income, copy fees, membership identification card replacement fees, notary fees, passport photo fees, library fines, permit fees, donations, cafe commissions and revenue from the sale of extra cable services over the basic cable service. Additionally, the Foundation derives certain revenues such as interest income and facilitation income from a telecom provider.

Generally, due to the nature of its revenues, the Foundation recognizes revenues as services are provided over time and its obligations are complete from express or implied contracts. Unearned income and prepaid deposits are contract liabilities consisting of advance payments on account by shareholders.

D. Operating Costs

The Foundation is a non profit corporation and it is intended that all of its operating costs be recovered from the Mutuals. All operating costs are charged to the Mutuals by the Foundation in the year incurred. Budgeted costs are apportioned and billed monthly to the Mutuals on the basis of the number of units in each Mutual. Should the actual operating expenses exceed the actual operating income, the net excess expenses will be billed to the Mutuals based on the number of units per Mutual. Net excess income shall be eliminated in accordance with Foundation Policy 40-5528-1. Total consolidated operating income exceeded total operating costs by \$1,118,521 and \$602,940 in 2021 and 2020, respectively, (before Trust assets depreciation). Consolidated excess income before Trust assets depreciation for 2021 was \$839,804 for Trust operations and a net income of \$278,717 for Golden Rain Foundation operations.

In 2021, all of the 2020 consolidated excess income before Trust assets depreciation was transferred to the Mutuals.

E. Inventory of Maintenance Supplies

Inventory consists primarily of maintenance supplies to repair or replace property held by the Mutuals and the community facilities that the Trust holds for the Mutuals. Inventory is stated at cost, determined on a first-in, first-out basis, which approximates market value.

F. Prepaid Expenses

Prepaid expenses include insurance premiums paid in advance for future period coverage of \$614,560 and other prepaid expenses.

G. Fixed Assets and Community Facilities

Fixed assets and community facilities held in trust by the Foundation are capitalized at cost and are being depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 50 years.

H. Project Commitments

Project commitments represent outstanding balances due to contractors for reserve and replacement work or for capital improvement work that is in process or has been completed, but not paid in full as of the balance sheet date. The total cost of these project commitments have been reflected in the current year's reserve activities.

As of December 31, 2021, project commitments were \$963,816.

I. Future Major Repairs and Replacements

The Foundation's governing documents require that funds be set aside for the addition, replacement and repair of Trust property. The Foundation also maintains and funds reserves for disasters and for the cost of liability insurance deductibles. These reserves are reported on the accompanying consolidated balance sheets as Designated Deposits.

Golden Rain Foundation and the Trust
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(2) Summary of Significant Accounting Policies (Continued)

J. Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash, demand and savings deposits in banks, and securities and certificates of deposit maturing within 90 days of the original purchase date. Amounts reported as deposits and investments designated for a specific purpose do not meet the definition of cash and cash equivalents.

K. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These assumptions and estimates can affect the reported amounts of consolidated assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of changes in members' equity during the reporting period. Actual results could differ from those estimates.

L. Concentration of Credit Risk

The Foundation's cash is maintained in two commercial banks. Cash maintained at US Bank consists of demand deposits, certificates of deposit ("CD"), and money market accounts. US Bank has a "Secured Deposit" program that provides insurance in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. The Foundation's US Bank accounts are fully covered by this program. Cash maintained at Morgan Stanley Bank consists of money market and certificates of deposit ("CD") from other financial institutions. Cash in the money market and CDs totals \$5,100,677 which exceeds the FDIC insured amount by \$1,205,656.

M. Advertising

Advertising costs are charged to operations when incurred and are included in operating expenses. The Foundation did not incur any advertising expense for the years ended December 31, 2021 and 2020.

N. Income Taxes

For reporting purposes, the Foundation may file under the general corporation rules, which uses a graduated rate or under Internal Revenue Code Section 528 that provide for a single tax rate. The option that produces the most favorable return is the one ultimately selected for filing. Under both methodologies, the taxable income is based on nonmember income and interest from invested funds. Provision is made, if necessary, for any applicable tax liability.

The Foundation adopted the provisions of FASB ASC Number 740-10, Accounting for Uncertainty in Income Taxes. FASB ASC Number 740-10 changes the accounting for uncertainty in income taxes by creating a new framework for how organizations should recognize, measure, present and disclose uncertain tax positions in their financial statements. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax positions will more likely than not (>50%) be sustained upon the technical merits of the position. In accordance with FASB ASC Number 740-10, the Foundation adopted a policy to recognize penalties and interest resulting from these uncertainties in the period in which they are incurred as operating expenses.

The Foundation has analyzed tax positions taken for filing with the Internal Revenue Service and the California Franchise Tax Board. The Foundation believes that income tax filing positions will be sustained upon examination, and does not anticipate any adjustments that would result in a material adverse affect on the Foundation's financial condition, results of operation, or cash flows. Accordingly, the Foundation has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at December 31, 2021.

The Foundation recognizes deferred taxes for refundable payments and tax credits that are available to offset future taxable income. As of December 31, 2021, the Foundation has recognized a deferred tax asset of \$10,000 which is grouped with prepaid expenses on the consolidated balance sheet.

Golden Rain Foundation and the Trust
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

(2) Summary of Significant Accounting Policies (Continued)

O. Executive Director Resignation

In December 2021, the Foundation's Executive Director voluntarily resigned to pursue other career opportunities. The Board interviewed four executive search firms before hiring the Bridge Group, LLC (BG), a subsidiary of Mercer, on December 23, 2021. In January 2022, BG began sourcing and screening candidates. By mid-April 2022, BG will identify four candidates for the Board and management team to interview. The Board and management team will select a new Executive Director by early June 2022. The management team will consist of the Human Resources Director, Director of Finance, Mutual Administration Director, Community Facilities Director, Security Services Director, and Recreation Director.

P. Recently Issued Accounting Standards

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases, while leaving presentation of lease expense in the statement of income largely unchanged. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting which lessors must apply to sales-type and direct financing leases. In June 2020, FASB approved the delay of the effective date of ASU 2016-02, which is now effective for the Foundation's fiscal years beginning after December 15, 2021. The Foundation will be evaluating the effects of the new standard.

Q. Subsequent Events

Date of Management's Review - Subsequent events have been evaluated through March 28, 2022, the date that these consolidated financial statements were available to be issued.

(3) Designated Deposits and Investments

Investments and deposits are recorded on the consolidated balance sheets at December 31, 2021 and 2020 as follows:

	<u>2021</u>	<u>2020</u>
Investments	\$ 439,121	\$ 79,149
Designated deposits and investments	<u>15,927,965</u>	<u>15,325,932</u>
	<u>\$ 16,367,086</u>	<u>\$ 15,405,081</u>

Golden Rain Foundation and the Trust
Notes to Consolidated Financial Statements
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(3) Designated Deposits and Investments (Continued)

The Board, at its discretion, has designated resources to be set aside to provide for the activities indicated below. The cost of these designated deposits at December 31, 2021 and 2020 are as follows:

	2021	2020
Contingency Operating Fund - Designated for unbudgeted or unanticipated events or shortfalls in anticipated revenues. Deposits to the Trust Contingency Operating Fund are made from excess income in accordance with Policy 40-5528-1.	\$ 1,000,000	\$ 1,000,000
Replacement Reserve Fund - Designated for future maintenance and replacement of major components/assets that the Foundation is required to maintain in accordance with California Civil Code. Use and expenditures of reserve funds are governed by Policy 40-5520-1. The Replacement Reserve Fund is funded by contributions collected through monthly assessment and from a percentage of the Membership Fee and Renter Fee (Mutual 17 only) in accordance with Policy 40-5061-2. Additional funding may result through surplus operational funds from the preceding fiscal year in accordance with Policy 40-5528-1 and in accordance with the Civil Code.	11,780,045	11,238,577
Capital Improvement Fund - Designated for new purchases (not replacement) of equipment and/or assets upon Trust property or used in the maintenance of Trust property or in the performance of Foundation duties under the management agreement with the Mutual. The Capital Improvement Fund is funded from a percentage of the Membership Fee and Renter Fee (Mutual 17 only) in accordance with Policy 40-5061-2. The Membership or Renter fees are charged one time upon the closing or rental of a unit to allow for access and use of Trust facilities and Foundation activities.	3,147,920	3,087,355
	\$ 15,927,965	\$ 15,325,932

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(4) Community Facilities Held in Trust

Fixed assets, which are made up of property and equipment required to manage the Foundation's operations, also include the community facilities, land parcels, utilities, streets, and medical and recreational buildings which are held by the Trust for the benefit of the Mutuals.

A summary of the community facilities held by the Trust at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 999,091	\$ 999,091
Infrastructure	17,581,544	17,155,804
Building and improvements	12,926,763	12,637,497
Fixtures and equipment	<u>7,153,328</u>	<u>6,883,307</u>
Subtotal	38,660,726	37,675,699
Less accumulated depreciation	(24,362,966)	(23,478,895)
Construction in progress	<u>2,305,381</u>	<u>1,095,823</u>
Community Facilities Held in Trust, net	<u>\$ 16,603,141</u>	<u>\$ 15,292,627</u>

Total community facilities represent amounts invested in the community facilities by the Mutuals, which are equal, except for Mutuals Nos. Sixteen and Seventeen, to values attributed to the community facilities by the Federal Housing Administration historically. The original contribution of Mutual Sixteen to the Trust was based on the cost of its off-site improvements and utilities, plus an allocated share of the cost of recreational and other community facilities. The original contribution of Mutual Seventeen to the Trust was based on its allocated share of the then current fair market value, as determined by the Foundation, attributed to the original community facilities purchased by that Mutual. The future interests of the Mutuals in the subsequent Trust additions have been allocated to each Mutual in proportion to the Mutual's number of units compared to all units in the project.

(5) Employees' Retirement Plan

Effective January 1, 2000, the Employees' Retirement Plan was amended from a defined contribution money purchase plan to a 401(k) plan. Employees with 1,000 hours of service with the Foundation continue to be eligible. Participants are able to contribute from 1% to 100% of their compensation. Employer matching is 50% of the employees' contribution up to 8% of their compensation. The vesting period for the employer's match is set by statute at 100% after three years of service. Contributions made to the Plan by the Foundation amounted to \$146,946 and \$147,483 in 2021 and 2020, respectively.

(6) Commitments and Other Rental Activity

A. Commitments

The Foundation has three operating lease agreements for equipment expiring August 2022, September 2022, and June 2024. Future minimum payments under these non-cancelable leases are as follows:

Year ending December 31,	
2022	56,077
2023	38,243
2024	<u>19,836</u>
	<u>\$ 114,157</u>

Rent expense under the operating lease was \$61,498 for the year ended December 31, 2021.

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(6) Commitments and Other Rental Activity (Continued)

B. Other rental activity

The Foundation, as Trustee, leases the onsite real estate sales office to an unrelated service provider. Rental income is calculated based on a percentage of onsite sales generated by the service provider, with a minimum guaranteed \$10,300 per month. The lease agreement expires on December 31, 2024. Either party can terminate the lease upon 180 days notice without penalty.

The Foundation, as Trustee, rents the health care center to OptumCare. Rental income received from the health care center equals \$55,000 per month. The lease agreement expires on September 30, 2023. Either party can terminate the lease upon 180 days notice without penalty.

The Foundation, as Trustee, rents land or office space to various Foundation clubs and organizations, NuVision Credit Union, Superwire Telecom Inc. and Care Ambulance under separate agreements. The income received from the clubs and organizations, at \$1 per term, was \$12 for the year ending December 31, 2021. The leases expire at various dates, including two multi-year leases expiring December 31, 2024 and April 30, 2025. The income received from NuVision Credit Union was \$18,000 for the same period. The lease agreement expires on November 7, 2022. The income received from Superwire Telecom Inc. was \$1,500 per month plus 5% of the gross revenues collected by Superwire Telecom Inc. from project shareholders. This agreement expires on December 31, 2022. The income received from Care Ambulance was \$36,631 for the year ended 2021. The lease agreement expires on May 31, 2025.

Future minimum rental income based on existing leases is estimated as follows:

Year ending December 31,	
2022	840,644
2023	651,633
2024	156,633
2025	15,264
	\$ 1,664,174

Income received from the rental of community facilities was \$1,602,609 and \$1,414,115 in 2021 and 2020, respectively.

(7) Related party transactions

The Board of the Foundation consists of members that are also members of the Mutuals. A significant portion of the revenues are derived from assessments and other billings from the Mutuals.

At December 31, 2021, receivables from the Mutuals for services and various reimbursed expenses totals \$328,513.

(8) Contingencies

The Foundation may be party to various claims and legal proceedings from a range of matters that arise in the normal course of business operations. Management has evaluated all such claims and has determined that these matters would not have a material adverse effect on these consolidated financial statements. The Foundation was a defendant in two claims scheduled for mediation proceedings subsequent to year-end, refer to Note 11.

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(9) Adoption of ASC 606

The Foundation has adopted ASC 606. The adoption of this standard has not had a significant impact on the Foundation's revenue recognition, operations or beginning equity.

Net billings from Mutuals, which represents fees assessed on a monthly basis to the Mutuals, are fixed and determinable based on the Foundation's operating budget approved by the Foundation's and Mutuals' board of directors. Net billings are earned as the Foundation satisfies its performance obligations by transferring the promised services or deliverables to the Mutuals and their shareholders. A service or deliverable is transferred to the Mutual or its shareholders when, or as, the Mutuals and/or shareholder obtains control of that service or deliverable. In the case of Net billings, the Mutual and/or shareholder obtains control of the Foundation's bundle of services provided on a monthly basis as the Foundation operates and maintains the Foundation and the community facilities. Generally, the Foundation does not have remaining performance obligations related to occupancy income or does not incur costs to obtain or fulfill its contractual obligations with the shareholders.

The Foundation fulfills its obligations under advertising contracts by varying deliverables and over different time spans depending on the express terms of its contracts. Based on management's analysis, the Foundation's past revenue recognition policies were consistent with the Foundation policies effective January 1, 2019 of bifurcating bundled services, determining a fair value for each deliverable, and recognizing revenues as the different deliverables are fulfilled by the Foundation. Typically, the different deliverables relate to providing advertising outlets to its customers across different channels such as print, billboard, display, etc. Advertising revenues are recognized as services are delivered across the channels using the relative fair value of such services over total contract consideration.

The Foundation earns rental revenues pursuant to lease agreements which specify space utilization as the sole obligation of the Foundation. Onsite Sales revenues are earned based on volume of sales generated from an unrelated realtor group, while Health Care Center revenues are fixed. Onsite rental revenues are calculated on a monthly basis and are constrained through the end of that time period as sales could be generated throughout the month. At month end, the amount earned from Onsite Sales is fixed, determinable and collectible, and therefore recognized by the Foundation. Health Care Center revenues are fixed and earned over time and are recognized on a monthly basis.

Maintenance service revenues are recognized as services of maintenance and repairs are provided to either the Mutual owned property or shareholders of Mutuals for services specifically provided to the shareholders. The Foundation recognizes revenues as service orders are completed and there is evidence of order signoff by the service recipient. Warranty costs associated with services provided are negligible.

Based on management's analysis, the Foundation's past revenue recognition policies were consistent with Foundation policies effective January 1, 2019 of recognizing revenue from each stream over time, typically monthly, as services are provided to shareholders pursuant to Foundation obligations. Except as noted for advertising contracts, the Foundation does not have remaining performance obligations related to its revenues as of December 31, 2021 or 2020.

The Foundation typically does not have obligations for returns or refunds, or has negligible obligations associated with warranties. The timing of the Foundation's revenue recognition may differ from the timing of payment by its customers. The Foundation records a receivable when revenue is recognized prior to receipt of fees and the Foundation has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Foundation records prepaid monthly dues revenue until the performance obligations are satisfied.

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(10) COVID-19 Impact

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. There have been mandates from Federal, State, and local authorities requiring forced closures of non-essential businesses and limited person-to-person contact. Management continuously evaluates the impact of this outbreak on their daily operations and their community, noting the services they provide are generally not impacted. Management of the Foundation has taken steps in response to COVID-19 events.

Safety measures have been implemented to reduce the spread of COVID-19. All staff and members of the community have been instructed to practice social distancing and to wear face coverings where people are gathered. Personal protection equipment (PPE) is made available to staff and guests. Staff reporting to work remain in their respective work groups and conduct business with other departments via telephone, email, Zoom and interoffice mail. Business offices have been closed to walk-in visitors except for appointments only to control the number of individuals in the buildings at one time. Guests visiting any office building must wear a face covering and answer favorably to a self-assessment questionnaire relating to their exposure to COVID-19 before admittance. Signs encouraging everyone to wear face coverings, wash hands often and practice social distancing have been placed around the community to bring awareness of the severity of COVID-19. The Foundation staff may not report to work if they experience COVID-19 symptoms or have been exposed to someone who tested positive. The Foundation provides accommodations to staff in the event they are required to work from home. Staff who identify themselves as "at-risk" are given the option to take a leave of absence from work to shelter in place based on the guidelines set forth by the Centers of Disease Control (CDC) and local healthcare authorities. Dedicated custodial staff disinfect daily, touch areas of office buildings and community facilities throughout the day. Office buildings are thoroughly disinfected in the evenings. Custodians are also available on demand, as requested by staff.

All Board, committee and other types of meetings have been held virtually, allowing attendees to participate or observe the meetings in a safe environment. Community amenities have been closed, such as the clubhouses, golf course, fitness center, amphitheater, Mission Park and Veteran's Plaza, with certain intermittent reopenings and closures. All amenities were closed on March 18, 2020. The active outdoor activity of golf was opened under strict public health and safety guidelines from May 25, 2020 through June 26, 2020, then closed on June 27, 2020. Active outdoor amenities of golf, Mission Park (pickleball) and Veterans plaza (outdoor exercise and dance) were opened under strict public health and safety policies as approved by Orange County Health Authority from August 3, 2020 through November 25, 2020, then closed on November 26 2020. Subsequent to year-end, these outdoor active areas were reopened once again on January 27, 2021 per the approved action of the Board. All areas are under strict use restrictions and being monitored for compliance to health and safety policies. The Foundation provides daily communication to its members via LW Live emails and weekly via *LW Weekly* newspaper.

The Foundation had been working with OptumCare and the County of Orange to assist in the administration of the COVID-19 vaccination. Total expenses incurred for the 2021 vaccination clinic were \$37,795.

Equipment and software subscriptions were purchased to implement video conferencing and virtual meetings. Plexiglass partitions, wash stations, signs, stickers, PPE, disinfectant, hand sanitizer and other materials were purchased to provide safety in the community. Total expenses incurred in 2020 for these items were \$65,740.

COVID-19 has affected businesses such as consultants, manufacturers, suppliers, and carriers whose services the Foundation relies upon. As a result, the pool renovation project was delayed due to additional efforts in obtaining architectural designs. Additionally, lead times have become longer for replacement appliance orders, thus maintaining replacement stock has been a major challenge.

The Foundation will continue to monitor the fluid situation and make further changes as the need arises.

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(11) Subsequent Events

In March 2022, upon conclusion of mediation proceedings, it was determined that the Foundation would pay a settlement to resolve a plaintiff's claim. The settlement will be covered by the Foundation's insurance policy. The Foundation will only be obligated to pay their \$10,000 deductible, therefore, no additional liability was recorded as of December 31, 2021.

Separately, in April 2022, the Foundation is scheduled to participate as a defendant in mediation. The Foundation, along with counsel, continue to analyze potential outcomes and costs related to the claim. However, the resolution of the mediation proceedings is not yet estimable or determinable, and therefore no additional liability was recorded as of December 31, 2021.

Golden Rain Foundation and the Trust
 Supplementary Information Regarding Funds for Future Repairs
 (Unaudited)
 December 31, 2021

While preparing the annual operating budget, the Board reviews the conditions and assumptions regarding the common interest of the Foundation. This review consists of updating the replacement cost and remaining useful life of the Foundation's common interest property. This data is used to develop reserve requirements using the formula set forth in Civil Code 5570 (b) (4). Except as noted below the Board expects to finance all replacements through regular assessments to the shareholders. Accordingly, the Board does not plan any special assessments.

Fund	Estimated Remaining Life	Current Replacement Cost	Reserve Required	Balance Est Beg Bal	Annual Contribution	Per Unit Per Month
Replacement Reserves	1 - 30+	\$ 21,860,650	\$ 11,012,683	\$ 9,782,274	\$ 500,000	\$ 6.31

Based on the method of calculation in paragraph (4) of subdivision (b) of Section 5570, the estimated required amount to be in the reserve fund, the projected fund balance of those years, taking into account only assessments approved and the other known revenues, and the percentage funded at the end of each of the next five years is:

Year	Required Funding	Projected Fund Bal.	% Funded
12/31/2022	\$ 10,972,458	\$ 9,503,210	86.60%
12/31/2023	\$ 10,064,503	\$ 8,394,506	83.40%
12/31/2024	\$ 10,904,101	\$ 8,989,018	82.40%
12/31/2025	\$ 10,326,038	\$ 8,162,327	79.00%
12/31/2026	\$ 8,752,410	\$ 6,578,675	75.20%

This financial representation set forth in this summary is based on the best estimates of the Board at this time and is further predicated on the Board maintaining the current Reserve Funding Plan.

See accompanying independent auditors' report.

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