

LAGUNA WOODS MUTUAL NO. FIFTY



The Towers

Laguna Woods, California 92637

May 2021

Dear Member:

Enclosed for your review is a copy of the condensed audited financial statements for Laguna Wood Mutual No. Fifty, as of December 31, 2020. These statements have been audited by Newman and Associates, Inc., an independent auditing firm.

The auditors have expressed an unqualified opinion on the financial statements, meaning that the information fairly presents, in all material respects, the financial condition of the Mutual.

If you would like a copy of the full report, including supplementary information and footnotes, you may obtain a copy from the Administration Office either in person or by calling 949-434-5610.

On behalf of the Board of Directors,

A handwritten signature in cursive script that reads 'Ryna Rothberg'. The signature is fluid and elegant, with a prominent initial 'R'.

Ryna Rothberg
Board President
Laguna Woods Mutual No. Fifty

**LAGUNA WOODS MUTUAL NO. FIFTY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**



NEWMAN
Certified Public Accountant, PC

LAGUNA WOODS MUTUAL NO. FIFTY
FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

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Independent Auditor's Report

To the Board of Directors of Laguna Woods Mutual No. Fifty

We have audited the accompanying financial statements of Laguna Woods Mutual No. Fifty (the "Association"), which comprise the balance sheet as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laguna Woods Mutual No. Fifty as of December 31, 2020 and 2019, and results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America

Emphasis of Matter - Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements, are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Repairs and Replacements on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Newman Certified Public Accountant, PC.

Newman Certified Public Accountant, PC

Carlsbad, California

April 13, 2021

LAGUNA WOODS MUTUAL NO. FIFTY
BALANCE SHEET
December 31, 2020 and 2019

	2020	2019
Assets		
Current assets		
Assessments receivable	\$ 960,861	\$ 832,179
Allowance for doubtful accounts	(687,975)	(498,341)
Other receivables	6,471	8,156
Prepaid Taxes	3,008	-
Prepaid expenses	116,873	90,436
Deposits	150,000	150,000
Total current assets	549,238	582,430
Restricted cash, cash equivalents and investments	1,398,149	1,403,324
Rental property, improvements and equipment, cost	515,272	515,272
Less accumulated depreciation	(515,272)	(515,272)
Rental property, improvements and equipment, net	-	-
Beneficial interest in Golden Rain Foundation of Laguna Hills Trust	238,142	237,743
Non-controlling interest in Golden Rain Foundation of Laguna Woods	2,017,990	1,890,942
Total assets	\$ 4,203,519	\$ 4,114,439
Liabilities and Members' Equity		
Liabilities		
Accounts payable and accrued expenses	\$ 450,193	\$ 879,704
Prepaid assessments and deposits	422,265	202,702
Income taxes payable	-	4,684
Contract Liabilities (assessments received in advance - restricted funds)	2,894,470	2,961,829
Loan payable	1,829,026	1,966,350
Total liabilities	5,595,954	6,015,269
Members' equity		
Unrestricted fund	(1,392,435)	(1,900,830)
Total liabilities and members' equity	\$ 4,203,519	\$ 4,114,439

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENTS OF MEMBER'S EQUITY
For the Years Ended December 31, 2020 and 2019

	2020	2019
Revenues		
Member assessments		
Operating assessments	\$ 6,458,229	\$ 6,479,311
Golden Rain Foundation of Laguna Woods restricted funds	89,568	89,568
Restricted funds	1,242,116	1,259,632
Total member assessments	7,789,913	7,828,511
Other revenue		
Interest income	29,208	46,971
Multiple resident charges	229,922	262,345
Rental income	765,822	900,688
Food services	33,402	107,011
Income tax refund	169,452	-
Miscellaneous income	168,954	273,245
Total other revenue	1,396,760	1,590,260
Total revenues	9,186,673	9,418,771
Expenses		
Direct Mutual operating expenses	4,622,272	4,628,727
Expenses from restricted funds	961,528	1,164,882
Food service	2,561,375	2,969,313
Housekeeping	923,796	726,451
Income tax provision	20,492	21,013
	9,089,463	9,510,386
Net surplus (deficit) before other changes	97,210	(91,615)
Other changes:		
Unrealized gain (loss) in interest in Golden Rain Foundation of Laguna Woods	127,048	7,342
Loss from beneficial interest in Golden Rain Foundation of Laguna Hills Trust	399	14,024
Net surplus (deficit)	\$ 224,657	\$ (70,249)

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net surplus (deficit)	\$ 224,657	\$ (70,249)
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale investments	24,923	19
Comprehensive income (loss)	<u>\$ 249,580</u>	<u>\$ (70,230)</u>

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENTS OF MEMBER'S EQUITY
For the Years Ended December 31, 2020 and 2019

	<u>Memberships</u>		<u>Changes</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>		<u>Members'</u>
				<u>Equity</u>
Members' equity, December 31, 2018	311	\$ 139,950	\$ (2,549,517)	\$ (2,409,567)
Net surplus (deficit)			(70,249)	(70,249)
Prior period adjustment			(11,687)	(11,687)
Change in accounting principle			590,673	590,673
Members' equity, December 31, 2019	311	139,950	(2,040,780)	(1,900,830)
Net surplus (deficit)			224,657	224,657
Prior period adjustment			283,738	283,738
Members' equity, December 31, 2020	<u>311</u>	<u>\$ 139,950</u>	<u>\$ (1,532,385)</u>	<u>\$ (1,392,435)</u>

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENT OF CASHFLOWS
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net surplus (deficit)	\$ 97,210	\$ (91,615)
Adjustments to reconcile surplus(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities		
Loss on beneficial interest in Golden Rain Foundation of Laguna Woods	(399)	(24,449)
Unrealized gain in voting interest in Golden Rain Foundation of Laguna Woods	(127,048)	(7,342)
Changes in operating assets and liabilities		
Assessments receivable	(128,682)	(283,132)
Allowance for doubtful accounts	189,634	63,410
Other receivables	1,685	(1,896)
Prepaid expenses	(26,437)	(73,458)
Prepaid income taxes	(3,008)	-
Accounts payable and accrued expenses	(429,511)	243,190
Prepaid assessments and deposits	219,563	33,291
Income taxes payable	(4,684)	(15,575)
Contract Liabilities (assessments received in advance - restricted funds)	(67,359)	(638,029)
Net cash provided(used) by operating activities	<u>(376,246)</u>	<u>(703,990)</u>
Cash flows from investing activities:		
Purchases of available-for-sale investments	(159,652)	(159,652)
Proceeds from available-for-sale investments	265,347	265,347
Deposits to (withdrawals from) restricted funds	402,700	414,729
Net cash provided by (used in) investing activities	<u>508,395</u>	<u>520,424</u>
Cash flows from financing activities:		
Loan repayments	(137,324)	(142,813)
Net cash provided by (used in) financing activities	<u>(137,324)</u>	<u>(142,813)</u>
Net increase(decrease) in cash and cash equivalents	(5,175)	(326,379)
Cash and cash equivalents at beginning of year	1,403,324	1,729,703
Cash and cash equivalents at end of year	<u>\$ 1,398,149</u>	<u>\$ 1,403,324</u>
Supplemental Disclosure		
Income taxes paid	<u>\$ 23,500</u>	<u>\$ 27,360</u>
Interest paid	<u>\$ 82,506</u>	<u>\$ 87,687</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

LAGUNA WOODS MUTUAL NO. FIFTY
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

1. Organization

Laguna Woods Mutual No. Fifty (the “Mutual”) was incorporated in 1969 as a nonprofit mutual benefit corporation under the laws of California, for the purposes of managing, operating, maintaining and preserving residential condominium development for the mutual benefit of its members.

The Mutual consists of 311 residential units and is part of Laguna Woods Village, Laguna Woods, California (the “Village”), a common interest development of 12,736 homes and community facilities. The Mutual is a corporate member of Golden Rain Foundation of Laguna Woods (“GRF”), which is a nonprofit mutual benefit corporation. Mutual members are afforded the right to use facilities owned or held in trust by GRF in accordance with their membership in the Mutual. As trustee, GRF holds title to community facilities in trust for the benefit of all the mutual associations in the Village (the “Village Mutuals”).

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Mutual maintains its financial records on the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

Revenue Recognition

Revenue is recorded when services are provided. Any amounts collected in advance are recorded as prepaid assessments and deposits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Assessments and Assessments Receivable

Mutual members are subject to monthly assessments to provide funds for the Mutual’s operating expenses, future capital acquisitions, and major repairs and replacements. Assessments Receivable represent fees due from owners. The Mutual’s governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner’s unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner’s other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Mutual has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Mutual records an allowance for doubtful accounts to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old. For the years ended December 31, 2020 and 2019, the Mutual recorded allowance for doubtful accounts totaling \$687,975 and \$498,341 respectively.

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Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Improvements and Equipment

The Mutual depreciates the cost of improvements and equipment on the straight-line method over estimated useful lives of 5 to 40 years.

Cash and Cash Equivalents

Cash and cash equivalents include the Mutual's cash, checking accounts, money market funds and investments with original maturities of 90 days or less.

Investments and Restricted Cash and Investments

ASC 320, Investments – Debt and Equity Securities, requires the Mutual to classify its investments in equity securities that have readily determinable fair values and for all debt securities into three categories:

1. Debt securities the Mutual intends and has the ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost;
2. Debt and equity securities bought and sold primarily 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 net income;
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 net income, and reported in other comprehensive income.

The Mutual restricts a portion of member assessments to finance reserves set aside and reported as restricted funds. Disbursements from the restricted funds may be made only in accordance with the established purpose of those funds.

Fair Value Measurements

Under ASC 820, Fair Value Measurements for fair value measurements of financial assets and financial liabilities, and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at a measurement date.

Contract Liabilities (assessments received in advance – restricted funds)

The Mutual recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance – restricted funds) is recorded when the Mutual has the right to receive payment in advance of satisfaction of performance obligations related to restricted fund assessments.

Interest in Golden Rain Foundation of Laguna Woods and Golden Rain Foundation of Laguna Hills Trust

The Mutual holds an approximate 2.4% interest in GRF based on the non-Trust net assets of GRF, which reflects the influence the Mutual exercises over GRF through its voting interest in accordance with ASC 323 – Investments – Equity Method and Joint Ventures. The interest totaled \$2,017,990 and \$1,890,942 as of December 31, 2020 and 2019, respectively.

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The Mutual holds a beneficial interest in Golden Rain Foundation of Laguna Hills Trust (the “GRF Trust”), which holds certain community facilities in trust for the Village Mutuals. The beneficial interest is defined as the original contribution amounts stated in the Trust agreement (the “trusteed sums”). The Mutual’s beneficial interests were \$238,142 and \$237,743 as of December 31, 2020 and 2019 respectively.

The Mutual’s interest in the Golden Rain Foundation and Golden Rain Foundation Trust consist of its ownership of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,520,519	\$ 2,731,180
Accounts receivable and interest receivable	1,719,097	1,215,126
Other current assets	2,859,369	2,760,308
Restricted funds	24,509,316	21,895,591
Property and equipment, net	59,109,271	58,814,798
Community facilities, net	10,850,965	11,185,066
Intangible assets, net	189,781	235,982
Total assets	<u>\$ 101,758,318</u>	<u>\$ 98,838,051</u>
Accounts payable and accrued expenses	\$ 7,621,135	\$ 8,076,182
Deferred income	471,840	613,419
Total liabilities	<u>8,092,975</u>	<u>8,689,601</u>
Members’ equity in Golden Rain Foundation		
Laguna Woods	82,640,239	78,789,245
Noncontrolling interests in consolidated trust	11,025,104	11,359,205
Total equity	<u>93,665,343</u>	<u>90,148,450</u>
Total liabilities and equity	<u>\$ 101,758,318</u>	<u>\$ 98,838,051</u>
Laguna Woods Mutual No. Fifty’s 2.4% interest in Golden Rain Foundation of Laguna Woods	<u>\$ 2,017,990</u>	<u>\$ 1,890,942</u>

Concentration of Credit Risk

The Mutual maintains bank accounts and certificates of deposit with various financial institutions. The balances in these accounts may occasionally exceed FDIC federally insured limits of \$250,000.

Subsequent Events

Subsequent events have been evaluated through April 13, 2021, which is the date the financial statements were available to be issued.

LAGUNA WOODS MUTUAL NO. FIFTY
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

3. Cash and Cash Equivalents and Restricted Cash and Investments

	December 31,	
	2020	2019
Restricted cash	\$ 483,588	\$ 500,661
Available for sale - at fair value		
U.S. Treasury Notes	412,598	537,715
GNMAs	501,963	364,948
	\$ 1,398,149	\$ 1,403,324

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 quotes 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 levels of hierarchy are as follows:

1. Level 1 inputs are quoted prices in active markets for identical investments that the entity has the ability to access at the measurement date.
2. Level 2 inputs are inputs other than quoted prices included in Level 1, that are observable for the investment, either directly or indirectly.
3. Level 3 inputs are unobservable inputs for the investment.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement. The Mutual's cash and cash equivalents and restricted cash and investments that are measured at fair value on a recurring basis are as follows:

	December 31, 2020		
	Level 1	Level 2	Total
Restricted cash and investments			
Restricted cash	\$ 483,588		\$ 483,588
Available for sale			
U.S. Treasury Notes		412,598	412,598
GNMAs		501,963	501,963
Total restricted cash and investments	\$ 483,588	\$ 914,561	\$ 1,398,149

	December 31, 2019		
	Level 1	Level 2	Total
Restricted cash and investments			
Restricted cash	\$ 500,661		\$ 500,661
Available for sale			
U.S. Treasury Notes		537,715	537,715
GNMAs		364,948	364,948
Total restricted cash and investments	\$ 500,661	\$ 902,663	\$ 1,403,324

The Mutual did not hold any held-to-maturity investments as of December 31, 2020 and 2019.

LAGUNA WOODS MUTUAL NO. FIFTY
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

The Mutual's investments in restricted funds are classified as available-for-sale and are summarized below:

	December 31, 2020			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale	\$ 914,561	\$ 10,659		\$ 925,220

	December 31, 2019			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale	\$ 902,663	\$ 19		\$ 902,682

To value its investments, the Mutual uses significant other observable inputs, including dealer market prices for comparable investments as of the valuation date, or December 31, 2020 and 2019, and are therefore classified as Level 2 securities in the fair value hierarchy. No significant transfers into or out of Level 3 occurred during the years ended December 31, 2020 and 2019.

Investments as of December 31, 2020 and 2019 have maturity schedules as follows:

	December 31, 2020	
Available for sale	Amortized Cost	Estimated fair value
1 to 5 years	\$ 467,681	\$ 473,719
5 to 10 years	258,717	259,258
More than 10 years	188,163	192,243
	\$ 914,561	\$ 925,220

	December 31, 2019	
Available for sale	Amortized Cost	Estimated fair value
1 to 5 years	\$ 537,714	\$ 541,158
5 to 10 years	237,137	232,900
More than 10 years	127,812	128,624
	\$ 902,663	\$ 902,682

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Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

Restricted cash and investments consist of the following reserve funds:

	Contract Liabilities (assessments received in advance - restricted funds)						Total
	Replacement	General	Capital	Preventive	Facilities	Contingency	
	Fund	Equipment	Equipment	Maintenance	Renovation		
Balance at December 31, 2018	\$ 2,385,276	\$ 93,590	\$ 495,782	\$ 357,674	\$ 183,496	\$ 84,040	\$ 3,599,858
Reallocations	(512,197)					512,197	-
Member assessments	962,258					249,999	1,212,257
Investment income	46,971						46,971
Expenditures	(1,164,882)					(732,375)	(1,897,257)
Balance at December 31, 2019	1,717,426	93,590	495,782	357,674	183,496	113,861	2,961,829
Reallocations/prior period adjustments	(109,821)					(29,821)	(139,642)
Member assessments	1,042,116					200,000	1,242,116
Investment income	29,208						29,208
Expenditures	(1,199,041)						(1,199,041)
Balance at December 31, 2020	\$ 1,479,888	\$ 93,590	\$ 495,782	\$ 357,674	\$ 183,496	\$ 284,040	\$ 2,894,470

4. Future Major Repairs and Replacements

The Mutual's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations. The board of directors conducted a reserve study in 2020, to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on this study.

The Mutual is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Mutual has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

The Mutual has established the following specific funds:

Replacement Fund

Replacement funds have been established to provide funds for the replacement of roofs, asphalt surfaces, elevators and selected equipment that were in place and included in the cost of manors purchased by initial members. Member assessments for the replacement funds are included in the restricted funds member assessments in the statements of operations.

LAGUNA WOODS MUTUAL NO. FIFTY
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

General Equipment Fund

The general equipment depreciation fund was established to provide funds to replace existing equipment.

Capital Equipment Fund

The capital equipment fund provides funds to purchase additional equipment.

Preventive Maintenance fund

The preventive maintenance fund was created to provide funds for preventative maintenance of buildings, including painting and waterproofing of buildings, carports and balconies.

Facilities Renovation Fund

The facilities renovation fund was established to provide improvements to common property.

Contingency Fund

The contingency fund was established for the repair or replacement of Mutual assets damaged by uninsured or unexpected disasters in addition to providing for unanticipated significant expenditures not identified in the business plan.

5. FASB ASC 606 New Accounting Guidelines Implementation

The Financial Accounting Standards Board (FASB) issued ASC 606 guidance, Revenue from Contracts with Customers, effective January 1, 2019, which superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition. The Association has presented the attached financial statements in accordance with FASB ASC 606. Assessments attributed to the Operating Fund are recognized in the period earned. Assessments allocated to the Replacement Fund are recognized as revenue only when there are replacement fund expenditures, and to the extent the replacement fund expenditures exceed replacement fund interest income.

The cumulative balance of Replacement Fund assessments that have not been recognized as income are accumulated as deferred replacement fund assessments and presented as Contract Liabilities (Assessments received in advance - Replacement fund) on the Balance Sheet. Deferred replacement fund assessments are increased by unrecognized replacement fund assessments and decreased as replacement fund assessments are recognized as revenue in the Statement of Revenue and Expenses and Changes in Fund Balances.

Contract Liabilities (Assessments received - in advance - replacement fund) as of January 1, 2020	\$ 2,961,829
Assessments budgeted for Replacement Fund	1,242,116
Recognized Replacement Fund assessments	(1,181,359)
Adjustment and transfer to/from contract liabilities	(128,116)
Contract Liabilities (Assessments received - in advance - replacement fund) as of December 31, 2020	<u>\$ 2,894,470</u>

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Notes to Financial Statements
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6. Income Taxes

Common Interest Realty Associations are generally taxed either as a qualifying Internal Revenue Code (IRC) Section 528 homeowners' association or as a regular corporation subject to the special provisions of IRC Section 277 for membership organizations. For the current year, the Mutual is filing Form 1120 for its federal income tax return. The income tax filing determination is assessed for each tax year and only pertains to the tax year being evaluated.

IRC Section 277 requires that the Mutual separates all of its income and expense activity between three categories: membership, nonmembership and capital. Taxable income includes excess membership income that has not been deferred by a valid Revenue Ruling 70-604 election, and net nonmember income, such as: interest income, other investment income, manor rental revenue, cell tower rental, merchandise revenue and other nonmember sourced income. Certain expenses were allocated to offset a portion of the Mutual's gross nonmember income. The Form 1120 tax rate is 21%.

The Mutual is also required to file California's Form 100 income tax return subject to California Revenue & Taxation Code sections 24405 and 24437 for its state income tax return. The Form 100 tax rate is 8.84%.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Mutual and recognize a tax liability if the Mutual has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Mutual and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Mutual is subject to routine audits by taxing jurisdictions. The Internal Revenue Service and the California Franchise Tax Board can examine the Mutual's income tax returns generally up to three years and four years, respectively. There are currently no audits in progress for any tax period.

The Mutual is considered a homeowners' association for federal and state income tax purposes; and is liable for tax on non-member income sources. Non-member income sources include interest earned on investments, manor rental revenue, cell tower rental, merchandise revenue. The income tax provision consists of the following for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Federal taxes - current	\$ 15,100	\$ 14,368
State taxes - current	5,392	6,635
	<u>\$ 20,492</u>	<u>\$ 21,003</u>

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For the Years Ended December 31, 2020 and 2019

7. Pension Plans

In accordance with a negotiated labor contract between the Association's management company and a labor union, the management company contributes to two union-sponsored, multiemployer defined benefit pension plans. Should the plan be terminated, or the management company withdraw from the plan, the management company may be required to contribute additional amounts to the plan. Such amounts would be reimbursable by GRF and the Village Mutuals.

During 2020, the management company sponsored a 401(k) plan covering all eligible employees. Employee contributions to the plan are at the participant's discretion. During 2020, the management company contributed to the plan for eligible non-union employees. The Village Mutuals and GRF are not responsible for the management or funding of the 401(k) plan beyond agreed-upon annual contributions. The Mutual reimbursed Association for contributions to the plans totaling \$59,118 and \$45,074 for the years ended December 31, 2020 and 2019.

8. Due Between Funds

As of December 31, 2020, the balance of unfunded reserves totaled \$1,607,817. Options available to the Board of Directors and members to repay the liability include increasing assessments, levying a special assessment, obtaining a loan, decreasing expenditures or effectively accounting for the interfund liability as an equity transfer.

9. Loan Payable

On May 26, 2017, the Association entered into a loan agreement with Pacific Western Bank to borrow up to \$2,200,000 to finance a central plant building automation system and energy management system. As of December 31, 2018, the Association had drawn \$2,193,373 from the loan. The loan carries a fixed interest rate of 4.6%. For the first twelve months of the loan, monthly interest only charges will be paid by the Association. Beginning June 26, 2018, the Association will commence monthly principal and interest payments of \$19,984 until the maturity date on May 26, 2030. Estimated principal repayments are as follows:

2021	157,882
2022	165,300
2023	173,067
2024	181,197
2025	189,711
Thereafter	<u>961,869</u>
Total	<u>\$ 1,829,026</u>

10. Contingencies

From time to time, the Mutual has claims made against it that result from normal operations. The Mutual's Board of Directors believes that it has adequate legal defense and insurance for potentially adverse legal consequences, and that the results of such contingencies will not have a material adverse impact on the mutual.

LAGUNA WOODS MUTUAL NO. FIFTY
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

11. Commitments

The Mutual entered into a contractual agreement with Sodexo America LLC in October 2016 to manage and operate the Mutual's dining services. The current agreement terminates on December 31, 2021. In 2016, the Mutual deposited \$150,000 of working capital funds with Sodexo.

12. COVID 19

The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. In the United States, the federal and state governments have implemented enhanced screenings, quarantine requirements, and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus began causing business disruptions domestically beginning in 2019 that are anticipated to continue for the foreseeable future. The extent of the impact of the COVID-19 pandemic on the Association's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact of the COVID-19 pandemic on overall demand for the Association's services and the ability of owners to pay assessments, all of which are highly uncertain and cannot be predicted.

SUPPLEMENTARY INFORMATION

LAGUNA WOODS MUTUAL NO. FIFTY
STATEMENT OF EXPENSES
For the Years Ended December 31, 2020 and 2019

Direct Mutual Operating Expenses

	<u>2020</u>	<u>2019</u>
Buildings and maintenance	\$ 1,341,262	\$ 1,558,979
Towers administration	1,263,686	1,231,709
Master association fee	767,299	787,414
COVID-19	25,831	-
Electricity	309,156	332,061
Natural gas	73,345	82,898
Water and sewer	164,527	143,831
Trash	23,330	9,529
Professional fees	278,823	342,910
Rental unit costs	12,358	47,097
Property insurance	362,655	92,299
Total direct Mutual operating expenses	<u>\$ 4,622,272</u>	<u>\$ 4,628,727</u>

LAGUNA WOODS MUTUAL NO. FIFTY
FUTURE MAJOR REPAIRS AND REPLACEMENTS
For the Years Ended December 31, 2020 and 2019

The Mutual's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated September 24, 2020, to estimate the remaining useful lives and the replacement costs of the components of common property, except for certain land improvements, buildings and building improvements for which major repair and replacement funds are not provided, due to such items being expected to last the life of the community, or to be maintained by funds from the general operating or preventive maintenance funds. Replacement costs were based on the estimated costs to repair or replace the common property components on the date of the study. Estimated current costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair and replacement.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives	Estimated current replacement costs
Roof and decks	1-10	\$ 1,261,100
Structure	0-30	420,050
Paint	3-9	2,240,700
Mechanical, plumbing, electrical	0-36	5,805,350
Kitchen	0-29	509,600
Flooring	1-26	380,800
Landscape and hardscape	0-19	717,650
Recreation facilities	0-29	931,900
Miscellaneous	0-17	104,900
Contingency		56,985
		\$ 12,429,035
Other Assumptions:		
Interest rate		1.00%
Inflation rate		1.77%