

# A G E N D A

## AUDIT COMMITTEE

### REGULAR MEETING

TUESDAY, APRIL 26, 2016, AT 11:00 AM \*  
BOARD ROOM – GATEWAY COMPLEX

1. CALL TO ORDER: Paul Rosenzweig, Chairman
2. ROLL CALL: Rosenzweig, Cutter, Haley, Neff, Olson, and Solloway
3. APPROVAL OF REPORT OF OCTOBER 6, 2015 (Attachment)
4. RESIDENTS' FORUM  
  
The Audit Committee will follow Rossmoor custom and limit comments to 3 minutes.
5. CHAIRMAN'S REPORT
6. CORRESPONDENCE AND ANNOUNCEMENTS
7. UNFINISHED BUSINESS  
  
Review 2015 audited financial statements. (Attachment)
8. NEW BUSINESS  
  
None
9. OTHER BUSINESS
10. ADJOURNMENT
11. NEXT MEETING: TBA

PR/kv  
cc: GRF Board

\* Pending conclusion of the Finance Committee meeting.

AUDIT COMMITTEE REPORT  
 REGULAR MEETING  
 MONDAY, OCTOBER 6, 2015, AT 9:00 A.M.

A regular meeting of the Audit Committee was convened by the Chairman, Paul Rosenzweig, at 9:00 a.m. on Tuesday, October 6, 2015, in the Fairway Room at Creekside Clubhouse.

Present, in addition to the Chairman, were, David L. Cutter, Mary K. Neff, Devon L. Olson, Sherwin L. Schwartz, and Sheldon Solloway. Kenneth W. Haley was excused. Also attending were Jenise Gaskin, Scott Taylor, and Bob Houston, partners at Burr Pilger Mayer. Attendance

There were no speakers during the Residents' Forum. Residents' Forum/

The report of the Committee's meeting held on May 11, 2015, was approved. Report

The Chairman noted that the Committee had to elect a vice chairman. Mr. Schwartz agreed to reprise his role and was unanimously elected. Approved/ Vice Chairman

The Committee then reviewed the draft reports of the Golden Rain Foundation 401(k) Retirement Plan and the Pension Plan for Employees of Golden Rain Foundation of Walnut Creek for December 31, 2014, with Ms. Gaskin. Minor changes were recommended and agreed to, and the final reports will be delivered to Mr. Chakoff before the GRF Board's October meeting. Elected/ GRF Retirement Plan & Pension Plan

Mr. Taylor then led the discussion of the Audit Plan for the year ending December 31, 2015, and the proposed fees, including one for a separate income tax return (1041) for the Trust. BPM Audit Plan & Fees

Ms. Gaskin, Mr. Taylor, and Mr. Houston then left the meeting.

The Committee then discussed the continuing retention of Burr Pilger Mayer for 2015. Following the discussion, it was unanimously decided to: Recom- mendment Re. Audit Proposal

"Recommend that the Board accept the audit proposal from Burr Pilger Mayer to perform an examination of the financial statements of the GRF and the Trust, as well as the financial statements of the employees' Pension Plan and the 401(k) Plan and to prepare the necessary income tax returns for GRF and the Trust for the year ending December 31, 2015, for a proposed base fee of \$93,000 and authorize the CFO to execute the Engagement Letter."

for 2015

There being no further business to come before the Committee, the meeting was Adjourn-  
adjourned at 10:40 a.m. ment



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Paul Rosenzweig, Chairman  
Audit Committee

PR/kv

**GOLDEN RAIN FOUNDATION**

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**COMBINED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

December 31, 2015 and 2014

DRAFT 4/19/16

## GOLDEN RAIN FOUNDATION

## C O N T E N T S

	<b>Page(s)</b>
Independent Auditors' Report	1–2
Financial Statements:	
Combined Balance Sheets	3
Combined Statements of Revenues and Expenses	4
Combined Statements of Changes in Net Assets	5
Combined Statements of Comprehensive Loss	6
Combined Statements of Cash Flows	7
Notes to Combined Financial Statements	8–19
Supplementary Information:	
Independent Auditors' Report on Supplementary Information	20
Combining Balance Sheet	21
Combining Statement of Revenues and Expenses	22
Divisional Balance Sheet	23
Divisional Statement of Revenues and Expenses	24

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Golden Rain Foundation and Trustee of Trust Estate  
Walnut Creek, California

We have audited the accompanying combined financial statements of the Golden Rain Foundation and Trust Estate, which comprise the combined balance sheets as of December 31, 2015 and 2014, and the related combined statements of revenues and expenses, changes in net assets, comprehensive loss, and cash flows for the years then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Golden Rain Foundation and Trust Estate as of December 31, 2015 and 2014, 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.

Board of Directors  
Golden Rain Foundation and Trust Estate

### **Emphasis of Matter - Prior Period Restatement**

As discussed in Note 8 to the combined financial statements, certain balances pertaining to the year ended December 31, 2014 were restated as a result of the recording of membership transfer fees as a direct increase to net assets instead of revenue. Our opinion is not modified with respect to that matter.

E. Palo Alto, California  
April XX, 2016

DRAFT 4/19/16

## GOLDEN RAIN FOUNDATION

## COMBINED BALANCE SHEETS

December 31, 2015 and 2014

ASSETS	2015	2014
		<i>Restated</i>
Cash	\$ 5,279,992	\$ 3,355,824
Accounts receivable, net	539,537	510,979
Deferred rent receivable	347,874	380,141
Inventories	477,165	517,437
Notes receivable	375,112	292,846
Property and equipment, net	47,342,165	49,734,696
Other assets, net	158,163	292,561
	<u>54,520,008</u>	<u>55,084,484</u>
Total assets	<u>\$ 54,520,008</u>	<u>\$ 55,084,484</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 859,121	\$ 1,030,946
Accrued payroll and benefits	1,630,894	1,593,622
Bank loans	13,890,785	14,851,179
Pension liability	11,226,492	9,962,618
	<u>27,607,292</u>	<u>27,438,365</u>
Total liabilities	27,607,292	27,438,365
Net assets for the benefit of Walnut Creek Mutual Entities:		
Unrestricted net assets [including accumulated adjustment to pension benefit obligation of (\$13,984,416) and (\$12,720,542) at December 31, 2015 and 2014, respectively]	<u>26,912,716</u>	<u>27,646,119</u>
Total liabilities and net assets	<u>\$ 54,520,008</u>	<u>\$ 55,084,484</u>

The accompanying notes are an integral part of these combined financial statements.



**GOLDEN RAIN FOUNDATION**  
**COMBINED STATEMENTS OF REVENUES AND EXPENSES**

For the years ended December 31, 2015 and 2014

	2015	2014
		<i>Restated</i>
Revenues from Walnut Creek Mutual Entities	\$ 28,163,441	\$ 28,055,539
Other revenues:		
Services - community facilities	2,482,771	2,416,922
Newspaper	946,479	965,113
Medical center lease revenue	581,131	581,131
Noncommunity facilities services	352,224	439,308
Financial income	20,012	16,894
Other income	76,431	83,223
Total other revenues	4,459,048	4,502,591
Total revenues	32,622,489	32,558,130
Expenses:		
Employee compensation	18,694,832	19,591,114
Operations and maintenance	10,996,968	10,473,156
Administrative	1,922,918	1,873,544
Interest	708,758	544,455
Other	224,205	177,173
Total expenses, less depreciation and amortization	32,547,681	32,659,442
Revenues in excess of expenses, less depreciation and amortization	74,808	(101,312)
Depreciation and amortization	3,410,337	3,043,538
Expenses in excess of revenues	\$ (3,335,529)	\$ (3,144,850)

The accompanying notes are an integral part of these combined financial statements.

**GOLDEN RAIN FOUNDATION**  
**COMBINED STATEMENTS OF CHANGES IN NET ASSETS**  
For the years ended December 31, 2015 and 2014

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	Total
Net assets, December 31, 2013	\$ 31,089,427
Membership transfer fees (Restated)	3,437,000
Comprehensive income:	
Expenses in excess of revenues (Restated)	(3,144,850)
Adjustment to pension benefit obligation	(3,735,458)
Net assets, December 31, 2014	27,646,119
Membership transfer fees	3,866,000
Comprehensive income:	
Expenses in excess of revenues	(3,335,529)
Adjustment to pension benefit obligation	(1,263,874)
Net assets, December 31, 2015	\$ 26,912,716

DRAFT 4/19/16

The accompanying notes are an integral part of these combined financial statements.

**GOLDEN RAIN FOUNDATION**  
**COMBINED STATEMENTS OF COMPREHENSIVE LOSS**  
For the years ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u> <i>Restated</i>
Expenses in excess of revenues	\$ (3,335,529)	\$ (3,144,850)
Other comprehensive loss:		
Adjustment to pension benefit obligation	<u>(1,263,874)</u>	<u>(3,735,458)</u>
Total comprehensive loss	<u>\$ (4,599,403)</u>	<u>\$ (6,880,308)</u>

DRAFT 4/19/16

The accompanying notes are an integral  
part of these combined financial statements.

## GOLDEN RAIN FOUNDATION

## COMBINED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> <i>Restated</i>
Cash flows from operating activities:		
Expenses in excess of revenues	\$ (3,335,529)	\$ (3,144,850)
Adjustments to reconcile expenses in excess of revenues to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,410,337	3,043,538
Loss on sale of property and equipment	4,670	108,204
Adjustment to pension benefit obligation	(1,263,874)	(3,735,458)
Change in operating asset and liability accounts:		
Accounts receivable, net and deferred rent receivable	3,709	(33,756)
Inventories	40,272	25,892
Other assets, net	117,271	(168,478)
Accounts payable and accrued expenses, accrued payroll and benefits and pension liability	<u>1,129,321</u>	<u>2,166,808</u>
Net cash provided by (used in) operating activities	<u>106,177</u>	<u>(1,738,100)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,006,450)	(1,124,296)
Change in notes receivable	(82,266)	(31,259)
Proceeds from sale of property and equipment	<u>1,101</u>	<u>21,866</u>
Net cash used in investing activities	<u>(1,087,615)</u>	<u>(1,133,689)</u>
Cash flows from financing activities:		
Net proceeds from line of credit	-	1,300,000
Payments on bank loans	(960,394)	(670,686)
Proceeds from membership transfer fees	<u>3,866,000</u>	<u>3,437,000</u>
Net cash provided by financing activities	<u>2,905,606</u>	<u>4,066,314</u>
Net increase in cash	1,924,168	1,194,525
Cash, beginning of year	<u>3,355,824</u>	<u>2,161,299</u>
Cash, end of year	<u>\$ 5,279,992</u>	<u>\$ 3,355,824</u>
Supplemental cash flow disclosures:		
Interest paid	<u>\$ 708,758</u>	<u>\$ 696,818</u>
Property and equipment acquisitions in accounts payable	<u>\$ 27,500</u>	<u>\$ 5,208</u>

The accompanying notes are an integral part of these combined financial statements.

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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**1. Organization**

The Golden Rain Foundation of Walnut Creek is organized under California general nonprofit corporations law as a nonprofit mutual benefit corporation. The Golden Rain Foundation is the trustee of the Golden Rain Foundation of Walnut Creek Trust (the "Trust" or "Trust Estate"). The Trust was created to provide services and community facilities to the approximately 9,500 residents of the community commonly known as Rossmoor of Walnut Creek, California ("Rossmoor").

The community facilities consist of roads, on and off-site improvements and recreational and service facilities and are held in the Trust for 18 mutual corporations (the "Mutual Entities") as the beneficiaries of the Trust. The Mutual Entities consist of associations as defined by California Civil Code §4080, each of which manage common interest developments as defined by California Civil Code §4100, including 3 stock cooperatives, 14 condominium associations and 1 planned unit development. The common interest developments are owned by the Mutual Entities and their respective individual members.

Authorized occupants of the common interest developments are members of the Golden Rain Foundation. All functions of the Golden Rain Foundation are governed by a Board of Directors elected by the Golden Rain Foundation members.

**2. Summary of Significant Accounting Policies*****Accounting Responsibility***

The Golden Rain Foundation handles all accounting functions for both the Trust and the general operating activities of Golden Rain Foundation as trustee.

***Financial Statement Presentation***

The financial statements include all accounts of the Golden Rain Foundation, including its Mutual Operations division and all accounts of the Trust. Accounting principles applicable to business enterprises are used to account for the Golden Rain Foundation transactions and balances. Accounting principles applicable to trusts are used to account for the transactions and balances of the Trust.

***Cash***

For purposes of the combined statements of cash flows, cash includes all cash balances and highly liquid investments with an original maturity of three months or less at the date of purchase.

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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**2. Summary of Significant Accounting Policies, continued*****Accounts Receivable***

Accounts receivable of the Golden Rain Foundation are stated at the amount management expects to collect from balances outstanding at year-end, and consist of amounts due from the Mutual Entities for resident services, management services, newspaper advertising, and from John Muir Medical Center. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of December 31, 2015 and 2014, the Golden Rain Foundation had an allowance for doubtful accounts of \$1,000. During the years ended December 31, 2015 and 2014, the Golden Rain Foundation had bad debt expenses of \$1,400 and \$0, respectively. Accounts receivable of the Trust Estate are stated at the amount management expects to collect from balances outstanding at year-end, and consist primarily of amounts due from the lessor of the John Muir Medical Center.

***Notes Receivable***

The Golden Rain Foundation has notes receivable related to the financing of membership transfer fees (see additional information in Note 9).

***Inventories***

Inventories of the Golden Rain Foundation consist of operating supplies and are stated at cost, as determined on the first-in, first-out method, or market.

***Property and Equipment***

Purchased property and equipment of both the Golden Rain Foundation and the Trust Estate are stated at cost, net of accumulated depreciation, and are depreciated on the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years. Contributed assets are recorded at their fair value at the date of contribution. Capital additions and improvements that enhance or extend the useful life of an asset are capitalized, whereas repairs and maintenance expenses are expensed as incurred. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the Golden Rain Foundation and the Trust Estate, using their best estimates and projections, review for impairment the carrying value of long-lived identifiable assets to be held and used in the future. The Golden Rain Foundation and the Trust Estate will record impairment losses when determined. Capital assets that have not been placed into service are reflected in construction in progress and depreciation does not begin until the date the asset is placed into service.

***Other Assets***

Other assets includes prepaid expenses, deposits on purchases, and capitalized loan and contract costs. Prepaid expenses are expensed when used and capitalized loan and contract costs are amortized over the life of the loan or contract.

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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**2. Summary of Significant Accounting Policies, continued*****Membership Transfer Fees***

Membership transfer fees generally occur as a result of a change of membership in the Golden Rain Foundation and are recorded as an addition to unrestricted net assets in the Combined Statements of Changes in Net Assets (see Note 8).

***Fair Value Measurements***

Fair value is defined 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. In determining fair value, Golden Rain Foundation uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is broken down into three levels based on observability of valuation inputs as follows:

*Level 1* – Quoted prices in active markets for identical assets or liabilities.

*Level 2* – Inputs are obtained from readily available pricing sources for comparable instruments.

*Level 3* – Valuation inputs are obtained without observable market value and require a high level of judgment to determine fair value.

***Use of Estimates***

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassifications***

Certain reclassifications have been made to the 2014 combined financial statement presentation to correspond to the current year's format. Total net assets and expenses in excess of revenues are unchanged due to these reclassifications.

**3. Revenue**

The Golden Rain Foundation operates, improves and maintains the Trust Estate's facilities and assists management of various Mutual Entities in the operation and maintenance of their residential properties. An operating budget and operations fees of the Golden Rain Foundation trustee are approved annually by the Board of Directors. Operations fees are recognized as revenue monthly as the fees are earned. The majority of the Mutual Entities contract with the Golden Rain Foundation to provide management services. The Board of Directors periodically approves distributions to Mutual Entities of accumulated revenues in excess of expenses and such distributions are accounted for as a charge to net assets in the Combined Statements of Changes in Net Assets. Other revenues of the Golden Rain Foundation are derived from service fees to members, golf revenues and sales of newspaper advertising, and are recognized as revenue as work is completed and advertisements are published. Lease revenue is derived from contracts related to the medical center and Creekside café (see Note 13).

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 4. Income Tax Status

The Golden Rain Foundation is a California nonprofit, nonstock, corporation which is treated as a taxable corporation for federal and California state income tax purposes. However, because it is a membership organization, it is subject to the special rules of Section 277 of the Internal Revenue Code. Under Section 277, the Golden Rain Foundation is subject to federal and state income taxes whenever its nonmember revenue, consisting primarily of investment income, exceeds nonmember expenses and also when its membership revenue exceeds membership expenses. Net membership losses cannot be used to reduce net nonmember income; however, such losses may be carried over indefinitely to reduce future net membership income and amounted to approximately \$49,003,638 and \$46,213,000 at December 31, 2015 and 2014, respectively. Membership transfer fees are treated as contributions to capital, thus are not taxable revenues.

The Golden Rain Foundation has evaluated its current tax positions and has concluded that as of December 31, 2015 and 2014, the Golden Rain Foundation does not have significant uncertain tax positions for which a reserve would be necessary. There have been no related tax penalties or interest related to uncertain tax positions, which would be classified as tax expense in the combined statements of revenues and expenses. A number of the Golden Rain Foundation's tax returns remain subject to examination by taxing authorities. These open tax returns include December 31, 2011 and later years.

## 5. Property and Equipment

Property and equipment at December 31, 2015 and 2014 consist of the following:

	2015	2014
Golden Rain Foundation:		
Building improvements	\$ 27,606	\$ 27,606
Furniture and equipment	991,951	1,155,488
Transportation equipment	570,870	608,269
Computer equipment	203,625	203,625
	<u>1,794,052</u>	<u>1,994,988</u>
Less accumulated depreciation	<u>(1,791,522)</u>	<u>(1,991,078)</u>
Property and equipment, net	<u>\$ 2,530</u>	<u>\$ 3,910</u>
Depreciation expense	<u>\$ 1,380</u>	<u>\$ 1,940</u>
Trust Estate:		
Land and land improvements	\$ 28,769,624	\$ 28,823,580
Buildings	22,335,900	22,331,996
Building improvements	30,314,856	30,380,934
Furniture and equipment	7,207,944	6,638,220
Construction in progress	533,872	205,691
	<u>89,162,196</u>	<u>88,380,421</u>
Less accumulated depreciation	<u>(41,822,561)</u>	<u>(38,649,635)</u>
Property and equipment, net	<u>\$ 47,339,635</u>	<u>\$ 49,730,786</u>
Depreciation expense	<u>\$ 3,391,830</u>	<u>\$ 3,024,472</u>

Continued



## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 6. Retirement Plans

The Golden Rain Foundation sponsors a noncontributory (employer-sponsored) defined benefit pension plan and one defined contribution pension plan and contributes to a multi-employer union-sponsored retirement benefit plan.

Under the provisions of Accounting Standards Codification (“ASC”) 715, *Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans*, the projected benefit obligation is also required to be valued as of the Golden Rain Foundation’s fiscal year-end. The Golden Rain Foundation’s adjustment to its minimum liability at December 31, 2015 and 2014 is \$1,263,874 and \$3,735,458, respectively, and is reported in the combined statements of comprehensive (loss) income. By definition, the adjustment is not an income or expense but rather represents the gains or losses and prior service costs or credits that arose during the period. The accumulated adjustment to the pension benefit obligation included in comprehensive loss at December 31, 2015 and 2014 is (\$13,984,416) and (\$12,720,542), respectively.

The defined benefit plan is noncontributory and provides benefits based on each covered employee’s years of service and highest five-year average compensation out of the last ten years of employment. The Golden Rain Foundation’s funding policy is to make at least the minimum annual contributions recommended by the plan’s actuary. Expected contributions in 2016 are \$1,025,000. The plan’s funded status, assumptions, and cost at December 31, 2015 and 2014 are as follows:

	2015	2014
Obligations and funded status:		
Projected benefit obligation	\$ 52,695,984	\$ 53,049,241
Plan assets at fair value	41,469,492	43,086,623
Funded status	<u>\$ (11,226,492)</u>	<u>\$ (9,962,618)</u>
Accumulated benefit obligation	<u>\$ 50,488,882</u>	<u>\$ 50,591,517</u>
Employer contributions	<u>\$ 1,025,000</u>	<u>\$ 2,415,800</u>
Benefits paid	<u>\$ 2,338,699</u>	<u>\$ 2,247,452</u>
Amounts recognized in the balance sheet consist of:		
Pension liability	<u>\$ (11,226,492)</u>	<u>\$ (9,962,618)</u>
Amounts recognized in the combined statements of revenues and expenses consist of:		
Net periodic pension cost per actuary	<u>\$ 1,107,389</u>	<u>\$ 573,699</u>

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 6. Retirement Plans, continued

*Components of Net Periodic Pension Cost*

The net periodic pension cost for pension benefits for 2015 and 2014 includes the following components:

	2015	2014
Service cost	\$ 952,588	\$ 859,555
Interest cost	1,955,063	2,097,350
Expected return on plan assets	(3,377,564)	(3,263,606)
Amortization of net loss	1,577,302	880,400
Net periodic benefit cost	<u>\$ 1,107,389</u>	<u>\$ 573,699</u>

The following actuarial assumptions were used in accounting for the plan:

	2015	2014
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.00%	3.75%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:		
Discount rate	3.75%	4.50%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In estimating that rate, appropriate consideration is given to the returns being earned by the plan assets in the fund and rates of return expected to be available for reinvestment, and a building block method. The expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate).

All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 6. Retirement Plans, continued

*Components of Net Periodic Pension Cost*, continued

The exact expected return derived using the building block method will vary from year to year; however, as the rate is a long-term assumption, it remains constant as long as it remains within a reasonable range.

The percentage of the fair value of total plan assets held as of December 31, 2015 and 2014 (the measurement date) by asset category is as follows:

	2015		2014	
Equity securities	\$ 31,060,738	75%	\$ 30,643,345	71%
Debt securities	10,406,130	25%	12,443,278	29%
Total	\$ 41,466,868	100%	\$ 43,086,623	100%

The plan assets consisted of \$36,959,566 and \$37,777,936 Level 2 assets and \$4,507,302 and \$5,308,687 Level 3 assets for the years ended December 31, 2015 and 2014, respectively. Level 3 assets consist of Immediate Participation Guarantee Contracts and are valued based on a market value formula approach that uses the Barclays Capital U.S. Aggregate Index, which was developed by MassMutual. The change in value of Level 3 assets was (\$801,385) and (\$459,702) for the years ended December 31, 2015 and 2014, respectively and represented the net cash flows activity at contract settlement. Significant unobservable inputs primarily consisted of the assumed interest rate of 1.25% and the experience rate of 3.74%.

The plan's investment strategy utilizes several different asset classes with varying risk/return characteristics. The returns of the asset classes are not expected to move in tandem, which allow the plan to take part in different parts of the global economic cycle. The following guidelines are used to determine the asset mix with respect to plan assets:

Account	Range
Mid-Cap Growth	4% to 7%
Mid-Cap Value	4% to 7%
Small Growth	4% to 7%
Small Value	4% to 7%
Foreign Large Blend	13% to 19%
Intermediate Term Bond	15% to 25%
Large Growth	16% to 25%
Large Value	16% to 25%
Stable Value	15% to 25%

Prohibited investments include those specifically prohibited by the Employee Retirement Income Security Act of 1974. In addition, investment activity in the following is prohibited: municipal or tax exempt securities, short sales, margin purchases, commodities, securities of the trustee of investment manager, its parents or subsidiaries, and unregistered or restricted stock.

No plan assets are expected to be returned to the Golden Rain Foundation during 2016.

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

## 6. Retirement Plans, continued

*Components of Net Periodic Pension Cost*, continued

Estimated future annual benefit payments consist of:

2016	\$ 2,888,408
2017	2,970,130
2018	3,090,521
2019	3,142,902
2020	3,094,330
2021 - 2025	16,032,216

The defined contribution plan is a 401(k) profit sharing plan. Substantially all employees, other than those covered by a collective bargaining unit, which has not negotiated inclusion, are eligible to participate. The Golden Rain Foundation provides a certain level of matching contributions on salary deferrals. Expense under these plans for 2015 was \$104,098 and for 2014 was \$89,170.

*Multi-Employer Plan*

Golden Rain Foundation contributes to a multi-employer defined benefit pension plan under a collective bargaining agreement that covers its union-represented employees. This plan is not administered by the Golden Rain Foundation. The risks of participating in this multi-employer plan differ from those of single-employer plans in that assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. The Multi-employer Pension Plan Amendments Act of 1980 (the "Act") significantly increased the pension responsibilities of participating employers. If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers. If Golden Rain Foundation chooses to stop participating in the multiemployer plan, then it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The term of the current collective bargaining agreement covers the period between August 1, 2009 through July 31, 2018, with a provision to continue in successive years unless affirmatively terminated or amended. Golden Rain Foundation's maximum contribution exposure is limited to no more than 80% of the total pension contribution rate, with any excess being borne by the employee. As of July 1, 2014, Golden Rain Foundation's per employee pension contribution was \$7.26/hour. That amount remained \$7.26/hour as of July 1, 2015. If Employer's pension contribution is less than 80% of the total required pension contribution, Golden Rain Foundation agrees to increase its pension contribution by up to a maximum of \$0.50/hour. The pension plan trustee has informed Golden Rain Foundation that the plan status for the 2015 plan year, which runs through May 31, 2016, was endangered which equates to a Pension Protection Act zone status of yellow. Plans in the yellow zone are between 65% and 80% funded. A Funding Improvement Plan has been adopted by the trustee.

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

**7. Concentrations**

The Golden Rain Foundation maintains cash with one major financial institution. The balances held by the bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash on deposit normally exceeds federally insured limits. The Golden Rain Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Approximately 40% of the Golden Rain Foundation's employees are covered by a multi-year collective bargaining agreement which expires in July 2018.

**8. Prior Period Restatement**

During the year ended December 31, 2015, membership transfer fees were recorded as a direct increase to net assets rather than as revenues, resulting in a decrease of revenues and revenues over expense for the year ended December 31, 2014. The correction was made to properly reflect membership transfer fees from a change in membership in the Golden Rain Foundation as an increase in unrestricted net assets. Also, a correction was made to the prior year financial statements that resulted in the restatement of the following balances for year ending December 31, 2014 as follows:

	As of December 31, 2014		
	Balance Previously Reported	Adjustment	Balances Corrected and Restated
Revenue	\$ 3,437,000	\$ (3,437,000)	\$ -
Revenues over (under) expenses	\$ 292,150	\$ (3,437,000)	\$ (3,144,850)
Net cash provided by (used in) operating activities	\$ 1,698,900	\$ (3,437,000)	\$ (1,738,100)
Net cash provided by financing activities	\$ 629,314	\$ 3,437,000	\$ 4,066,314

**9. Notes Receivable**

Notes receivable are for membership transfer fees that have been financed over seven years with an annual interest rate of 5% for the years ended December 31, 2015 and 2014. The unsecured notes receivable balances as of December 31, 2015 and 2014 are \$375,112 and \$292,846, respectively.

**10. Contingencies**

The Golden Rain Foundation is subject to certain legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any liability with respect to these actions will not materially affect the combined financial statements. Also, refer to contingent liability of multi-employer plan in Note 6.

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

**11. Commitments**

Purchase commitments related to various Trust Estate renovation and expansion projects approximated \$0 and \$30,597 at December 31, 2015 and 2014, respectively. Additionally, see Note 12 for outstanding bank loan commitments.

**12. Bank Loans**

At December 31, 2013, the Golden Rain Foundation was obligated under a non-revolving line of credit with a balance payable of \$6,800,000. In July 2014, the Golden Rain Foundation refinanced this line of credit with the bank, converting the obligation into a term loan. The new term loan requires monthly principal payments of \$45,000 plus interest at a fixed interest rate equal to 4.94%. The term loan matures on June 10, 2029. At December 31, 2015 and 2014, \$7,290,000 and \$7,830,000 of principal is payable on the loan, respectively. Interest of \$152,391 and loan fees of \$45,380 were capitalized in the year ended December 31, 2014. No interest or loan fees were capitalized in the year ended December 31, 2015. The loan fees are being amortized over the term of the loan.

Additionally, the Golden Rain Foundation is obligated under a term note, which requires monthly payments of \$62,446, including interest at a fixed interest rate equal to 4.75%. The note matures on June 7, 2027. At December 31, 2015 and 2014, \$6,600,785 and \$7,021,179, respectively, are payable on the note.

The Golden Rain Foundation's term notes mature as follows:

Years ending December 31:	
2016	\$ 980,248
2017	1,002,818
2018	1,025,605
2019	1,049,515
2020	1,073,970
Thereafter	<u>8,758,629</u>
	<u>\$ 13,890,785</u>

These bank loans include financial covenants that require the Trust to maintain a Debt Service Coverage Ratio ("DSC Ratio") of at least 2:00:1:00. A DSC Ratio is defined as net operating income divided by debt service. Due to a decision to re-characterize membership transfer fees in fiscal year 2015, membership transfer fees were recorded at December 31, 2015 and 2014 as a direct increase to net assets rather than revenues, resulting in an increase to expenses in excess of revenues. The bank provided the Golden Rain Foundation a waiver for this covenant and in March 2016, the bank amended the loan covenants to define the DSC Ratio as the ratio of earnings before interest, taxes, depreciation and amortization plus transfer fees, to debt service. Repayment of the bank loans will be primarily from Golden Rain Foundation membership transfer fees. The notes are collateralized by a Blanket UCC securities agreement, which includes all inventories, chattel paper, accounts receivable, equipment, and general intangible assets of the Golden Rain Foundation. In addition, term loans are secured by a mortgage on the medical center (see Note 13).

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

**13. Medical Center**

In August 2005, the Golden Rain Foundation entered into a non-cancelable operating lease with a third party to lease the medical center premises that expires in July 2020. The lease includes one 5-year renewal term and purchase options at fair market value during the fifth and tenth years of the lease term. The lease requires the lessee to pay all executory costs such as property taxes, maintenance and insurance. The lease has a base rent of \$40,490 per month for the first full year with stated annual increases of 2.5% each August through the end of the lease term. ASC 840, *Accounting for Leases*, requires that leases with such stated increases record rents under a straight-line method. Total rental income under the straight-line and cash basis methods was \$581,131 and \$613,111, respectively, in 2015, and \$581,131 and \$598,157, respectively, in 2014. The Golden Rain Foundation had deferred rent receivable of \$347,874 and \$380,141 as of December 31, 2015 and 2014, respectively.

In addition, during 2005, the Golden Rain Foundation incurred initial direct costs related to the origination of the lease of \$223,897, which has been capitalized and included in other assets on the combined balance sheet. The costs are to be amortized straight-line over the life of the lease. Amortization expense for the years ended December 31, 2015 and 2014 was \$15,353 and \$15,353, respectively.

Future minimum annual rental income on a cash and straight-line basis required under the lease and future amortization for the years ending December 31, are as follows:

	<u>Cash Basis</u>	<u>Straight-Line</u>	<u>Amortization</u>
2016	\$ 628,438	\$ 581,131	\$ 47,307
2017	644,150	581,131	63,019
2018	660,253	581,131	79,122
2019	676,760	581,131	95,629
2020	400,474	337,677	62,797
	<u>\$ 3,010,075</u>	<u>\$ 2,662,201</u>	<u>\$ 347,874</u>

As of December 31, 2015, the cost (including land, building and other capitalized costs) and accumulated depreciation of the leased medical center consist of:

Cost	\$ 2,374,123
Accumulated depreciation	<u>(2,076,696)</u>
	<u>\$ 297,427</u>

**14. Related Party Transactions**

The Golden Rain Foundation maintains accounting records and performs administrative work for most of the Walnut Creek Mutual Entities (the "Mutuals"), related parties. As of December 31, 2015 and 2014, the Trust Estate had \$404,812 and \$334,472 of accounts receivable from the Mutuals, respectively. Revenues from the Mutuals were \$28,163,441 and \$28,055,539 for the years ended December 31, 2015 and 2014, respectively.

Continued

## GOLDEN RAIN FOUNDATION

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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**15. Subsequent Events**

The Golden Rain Foundation has evaluated subsequent events through April ~~XX~~, 2016, the date the combined financial statements were available to be issued, and there were no subsequent events requiring recognition or disclosure.

DRAFT 4/19/16



**SUPPLEMENTARY INFORMATION**

DRAFT 4/19/16

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

Board of Directors  
Golden Rain Foundation and Trustee of Trust Estate  
Walnut Creek, California

We have audited the combined financial statements of the Golden Rain Foundation and Trust Estate as of and for the year ended December 31, 2015, and our report thereon dated April XX 2016, which expressed an unmodified opinion on those combined financial statements, appears on pages 1–2. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining balance sheet and statement of revenues and expenses and the divisional balance sheet and statement of revenues and expenses are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

E. Palo Alto, California  
April XX, 2016

## GOLDEN RAIN FOUNDATION

## COMBINING BALANCE SHEET

December 31, 2015

	Golden Rain Foundation	Trust Estate	Combined
<b>ASSETS</b>			
Cash	\$ 2,829,529	\$ 2,450,463	\$ 5,279,992
Accounts receivable, net	509,837	29,700	539,537
Deferred rent receivable	-	347,874	347,874
Due from/(to) related party	(18,000)	18,000	-
Inventories	477,165	-	477,165
Notes receivable	-	375,112	375,112
Property and equipment, net	2,530	47,339,635	47,342,165
Other assets, net	22,908	135,255	158,163
	<u>22,908</u>	<u>135,255</u>	<u>158,163</u>
Total assets	<u>\$ 3,823,969</u>	<u>\$ 50,696,039</u>	<u>\$ 54,520,008</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 721,987	\$ 137,134	\$ 859,121
Accrued payroll and benefits	1,630,894	-	1,630,894
Bank loans	-	13,890,785	13,890,785
Pension liability	11,226,492	-	11,226,492
	<u>11,226,492</u>	<u>-</u>	<u>11,226,492</u>
Total liabilities	13,579,373	14,027,919	27,607,292
Net assets for the benefit of Walnut Creek Mutual Entities:			
Unrestricted net assets (deficit) [including accumulated to pension benefit obligation of (\$13,984,416) at December 31, 2015]	(9,755,404)	36,668,120	26,912,716
	<u>(9,755,404)</u>	<u>36,668,120</u>	<u>26,912,716</u>
Total liabilities and net assets	<u>\$ 3,823,969</u>	<u>\$ 50,696,039</u>	<u>\$ 54,520,008</u>

See Independent Auditors' Report on Supplementary Information.

**GOLDEN RAIN FOUNDATION**  
**COMBINING STATEMENT OF REVENUES AND EXPENSES**

For the year ended December 31, 2015

	<u>Golden Rain Foundation</u>	<u>Trust Estate</u>	<u>Eliminations</u>	<u>Combined</u>
Revenues from Walnut Creek Mutual Entities	<u>\$ 28,163,441</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,163,441</u>
Other revenues:				
Services - community facilities	2,482,771	119,045	(119,045)	2,482,771
Newspaper	946,479	-	-	946,479
Medical center lease revenue	-	581,131	-	581,131
Noncommunity facilities services	352,224	-	-	352,224
Financial income	11,744	20,012	(11,744)	20,012
Other income	62,330	407,529	(393,428)	76,431
	<u>3,855,548</u>	<u>1,127,717</u>	<u>(524,217)</u>	<u>4,459,048</u>
Total other revenues	<u>3,855,548</u>	<u>1,127,717</u>	<u>(524,217)</u>	<u>4,459,048</u>
Total revenues	<u>32,018,989</u>	<u>1,127,717</u>	<u>(524,217)</u>	<u>32,622,489</u>
Expenses:				
Employee compensation	18,694,832	-	-	18,694,832
Operations and maintenance	11,390,396	-	(393,428)	10,996,968
Administrative	2,041,963	-	(119,045)	1,922,918
Interest	-	720,502	(11,744)	708,758
Other	71,886	152,319	-	224,205
	<u>32,199,077</u>	<u>872,821</u>	<u>(524,217)</u>	<u>32,547,681</u>
Total expenses, less depreciation and amortization	<u>32,199,077</u>	<u>872,821</u>	<u>(524,217)</u>	<u>32,547,681</u>
Revenues in excess of expenses, less depreciation and amortization	(180,088)	254,896	-	74,808
Depreciation and amortization	<u>16,733</u>	<u>3,393,604</u>	<u>-</u>	<u>3,410,337</u>
Expenses in excess of revenues	<u>\$ (196,821)</u>	<u>\$ (3,138,708)</u>	<u>\$ -</u>	<u>\$ (3,335,529)</u>

See Independent Auditors' Report on Supplementary Information.

## GOLDEN RAIN FOUNDATION

## DIVISIONAL BALANCE SHEET

December 31, 2015

	<u>General Operations</u>	<u>Mutual Operations</u>	<u>Golden Rain Foundation</u>
<b>ASSETS</b>			
Cash	\$ 2,335,872	\$ 493,657	\$ 2,829,529
Accounts receivable, net	161,307	348,530	509,837
Due from/(to) related party	232,248	(250,248)	(18,000)
Inventories	200,707	276,458	477,165
Property and equipment, net	-	2,530	2,530
Other assets	4,787	18,121	22,908
	<u>4,787</u>	<u>18,121</u>	<u>22,908</u>
Total assets	<u>\$ 2,934,921</u>	<u>\$ 889,048</u>	<u>\$ 3,823,969</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 591,665	\$ 130,322	\$ 721,987
Accrued payroll and benefits	1,327,127	303,767	1,630,894
Pension liability	11,026,042	200,450	11,226,492
	<u>11,026,042</u>	<u>200,450</u>	<u>11,226,492</u>
Total liabilities	12,944,834	634,539	13,579,373
Net assets:			
Unrestricted net assets (deficit) [including accumulated adjustment to pension benefit obligation of (\$13,984,416) at December 31, 2015]	<u>(10,009,913)</u>	<u>254,509</u>	<u>(9,755,404)</u>
Total liabilities and net assets	<u>\$ 2,934,921</u>	<u>\$ 889,048</u>	<u>\$ 3,823,969</u>

See Independent Auditors' Report on Supplementary Information.

## GOLDEN RAIN FOUNDATION

## DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

For the year ended December 31, 2015

	<u>General Operations</u>	<u>Mutual Operations</u>	<u>Golden Rain Foundation</u>
Revenues from Walnut Creek Mutual Entities	\$ 18,975,154	\$ 9,188,287	\$ 28,163,441
Other revenues:			
Services - community facilities	2,482,771	-	2,482,771
Newspaper	946,479	-	946,479
Noncommunity facilities services	352,224	-	352,224
Financial income	11,744	-	11,744
Other income	62,330	-	62,330
Total other revenue	<u>3,855,548</u>	<u>-</u>	<u>3,855,548</u>
Total revenues	<u>22,830,702</u>	<u>9,188,287</u>	<u>32,018,989</u>
Expenses:			
Employee compensation	11,386,249	7,308,583	18,694,832
Operations and maintenance	10,024,319	1,366,077	11,390,396
Administrative	1,672,687	369,276	2,041,963
Other	71,886	-	71,886
Total expenses, less depreciation and amortization	<u>23,155,141</u>	<u>9,043,936</u>	<u>32,199,077</u>
Expenses in excess of revenues, less depreciation and amortization	(324,439)	144,351	(180,088)
Depreciation and amortization	<u>15,353</u>	<u>1,380</u>	<u>16,733</u>
Expenses in excess of revenues	<u>\$ (339,792)</u>	<u>\$ 142,971</u>	<u>\$ (196,821)</u>

See Independent Auditors' Report on Supplementary Information.