A G E N D A

AUDIT COMMITTEE

REGULAR MEETING
MONDAY, APRIL 2, 2018 AT 9:00 AM
DONNER ROOM – EVENT CENTER

1. CALL TO ORDER: Paul Rosenzweig, Chairman

2. ROLL CALL: Rosenzweig, Neff, Cutter, Solloway, Swanson, Walker, Yahng

3. RESIDENTS' FORUM

   The Audit Committee will follow Rossmoor custom and limit comments to 3 minutes.

5. APPROVAL OF REPORT OF NOVEMBER 13, 2017

6. CHAIRMAN'S REPORT

7. CORRESPONDENCE AND ANNOUNCEMENTS

8. UNFINISHED BUSINESS

   None

9. NEW BUSINESS

   Review 2017 draft GRF financial statements

10. OTHER BUSINESS

11. ADJOURNMENT

12. NEXT MEETING: TBA

cc: GRF Board

AUDIT COMMITTEE REPORT

REGULAR MEETING
MONDAY, NOVEMBER 13, 2017, 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 Monday, November 13, 2017, in the Fairway Room at Creekside Complex.

Attendance

Present, in addition to the Chairman, were David L. Cutter, Mary K. Neff, Sheldon Solloway, Alan W. Swanson, Dwight Walker, and Christopher T. Yahng. Also attending were Stephen D. Roath, Vice President, and Sue DiMaggio Adams, Director, GRF; Timothy O'Keefe, CEO; and Richard S. Chakoff, CFO. Also invited were Scott Taylor, Nate Farris, and Bob Houston of Burr Pilger Mayer (BPM).

Vice Chairman Elected/

There were several nominations for Vice Chairman, all without a second. Ms. Neff then volunteered to again serve as Vice Chairman and was unanimously elected.

Report Approved/

The report of the Committee's meeting held on October 19, 2017, was approved.

Discussion re. 2017 Audit Plan

Messrs. Taylor and Farris then led the Committee's discussion of BPM's 2017 Audit Plan presentation, with Mr. Houston covering the tax matters portion.

The BPM representatives left the meeting at 10:15 a.m.

Review of Audit and Tax Fees/

The Chairman and the Committee then reviewed the proposed Audit Fees schedule in the BPM presentation, with the CEO and CFO also participating.

Recommendation to GRB/

The Committee voted unanimously to recommend to the GRF Board that the proposed 2017 Audit and Tax returns fees, totaling $114,400, be accepted.

Adjournment

There being no additional matters, the meeting was adjourned at 10:45 a.m.

____
Paul Rosenzweig, Chairman
Audit Committee

PR/dr

Golden Rain Foundation

Combined Financial Statements and Supplementary Information

December 31, 2017 and 2016

GOLDEN RAIN FOUNDATION

CONTENTS

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, 2017 and 2016, and the related combined statements of revenues and expenses, changes in net assets, 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, 2017 and 2016, 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.

E. Palo Alto, California
April XX, 2018

GOLDEN RAIN FOUNDATION

COMBINED BALANCE SHEETS

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 2,693,706	$ 6,595,663
Accounts receivable, net	550,517	612,489
Deferred rent receivable	236,974	300,280
Inventories	446,943	491,243
Notes receivable	457,351	406,194
Property and equipment, net	52,797,424	45,858,798
Other assets, net	123,842	167,824
Total assets	$ 57,306,757	$ 54,432,491
LIABILITIES AND NET ASSETS		
Liabilities:		
Bank loans	$ 11,900,869	$ 12,910,562
Line of credit	2,400,000	-
Accounts payable and accrued expenses	2,122,781	1,009,587
Accrued payroll and benefits	1,644,463	1,697,913
Pension liability	7,701,350	11,524,234
Total liabilities	25,769,463	27,142,296
Net assets for the benefit of Walnut Creek Mutual Entities:		
Unrestricted net assets	31,537,294	27,290,195
Total liabilities and net assets	$ 57,306,757	$ 54,432,491

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, 2017 and 2016

	2017	2016
Revenues	$ 30,377,696	$ 28,670,760
Other revenues:		
Services - community facilities	2,385,695	2,411,032
Newspaper	976,348	936,552
Lease revenue	612,677	614,693
Noncommunity facilities services	229,153	336,600
Financial income	24,599	20,816
Other income, net	37,181	71,115
Total other revenues	4,265,653	4,390,808
Total revenues	34,643,349	33,061,568
Expenses:		
Employee compensation	19,943,968	19,233,096
Operations and maintenance	12,067,136	10,950,916
Administrative	2,146,375	2,106,980
Interest	605,617	666,243
Loss (gain) on disposal of property and equipment	334,631	(5,999)
Total expenses, before depreciation and amortization	35,097,727	32,951,236
(Expenses) in excess of revenue, revenue in excess of expenses, before depreciation and amortization	(454,378)	110,332
Depreciation and amortization	3,391,407	3,438,111
Expenses in excess of revenues	$ (3,845,785)	$ (3,327,779)

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, 2017 and 2016

	Total
Net assets, December 31, 2015	$ 26,912,716
Membership transfer fees	4,203,000
Mutual distributions	(200,000)
Comprehensive loss:	
Expenses in excess of revenues	(3,327,779)
Adjustment to pension benefit obligation	(297,742)
Total comprehensive loss	(3,625,521)
Net assets, December 31, 2016	27,290,195
Membership transfer fees	4,410,000
Mutual distributions	(140,000)
Comprehensive loss:	
Expenses in excess of revenues	(3,845,785)
Adjustment to pension benefit obligation	3,822,884
Total comprehensive loss	(22,901)
Net assets, December 31, 2017	$ 31,537,294

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
(Expenses) in excess of revenues	$ (3,845,785)	$ (3,327,779)
Adjustments to reconcile expenses in excess of revenues to net cash provided by operating activities:		
Depreciation and amortization	3,391,407	3,438,111
Loss/ (gain) on sale and disposal of property and equipment	334,631	(5,999)
Adjustment to pension benefit obligation	3,822,884	(297,742)
Change in operating asset and liability accounts:		
Accounts receivable, net and deferred rent receivable	125,278	(25,358)
Inventories	44,300	(14,078)
Other assets, net	26,855	(26,788)
Accounts payable and accrued expenses, accrued payroll and benefits and pension liability	(3,727,260)	480,124
Net cash provided by operating activities	172,310	220,491
Cash flows from investing activities:		
Purchases of property and equipment	(9,696,092)	(1,904,486)
Change in notes receivable	(51,157)	(31,082)
Proceeds from sale of property and equipment	12,675	7,971
Net cash used in investing activities	(9,734,574)	(1,927,597)
Cash flows from financing activities:		
Payments on bank loans	(1,009,693)	(980,223)
Proceeds from line of credit	2,400,000	-
Proceeds from membership transfer fees	4,410,000	4,203,000
Mutual distribution	(140,000)	(200,000)
Net cash provided by financing activities	5,660,307	3,022,777
Net (decrease) increase in cash	(3,901,957)	1,315,671
Cash, beginning of year	6,595,663	5,279,992
Cash, end of year	$ 2,693,706	$ 6,595,663
Supplemental cash flow disclosures:		
Interest paid	$ 605,617	$ 666,243
Non-cash investing activities:		
Property and equipment	$ 964,120	$ 35,103

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

1. Organization

The Golden Rain Foundation of Walnut Creek ("Golden Rain Foundation") is organized under California general nonprofit corporation's 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 9,700 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

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, 2017 and 2016, the Golden Rain Foundation had an allowance for doubtful accounts of $1,000. During the years ended December 31, 2017 and 2016, there were no bad debt expenses incurred. 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 lessee of the medical center premises.

Notes Receivable

The Golden Rain Foundation has notes receivable related to the financing of membership transfer fees (see additional information in Note 8).

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

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 additions 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.

Reclassification

Certain reclassification have been made to the 2016 financial statement presentation to correspond to the current year's format. Total net unrestricted assets remain 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. The majority of the Mutual Entities contract with the Golden Rain Foundation to provide management services. 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 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 primarily from contracts related to the medical center (see Note 13) and Creekside cafe.

Continued

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 $51,736,245 and $50,151,998 at December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2013 and later years.

5. Property and Equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

	2017	2016
Golden Rain Foundation:		
Building improvements	$ 27,606	$ 27,606
Furniture and equipment	637,164	865,706
Transportation equipment	340,056	434,817
Computer equipment	203,625	203,625
	1,208,451	1,531,754
Less accumulated depreciation	(1,208,451)	(1,530,604)
Property and equipment, net	$ -	$ 1,150
Depreciation expense	$ 1,150	$ 1,380
Trust Estate:		
Land and land improvements	$ 30,977,900	$ 29,567,052
Buildings	21,647,606	21,923,734
Building improvements	29,233,137	30,611,774
Furniture and equipment	8,452,603	8,002,143
Construction in progress	9,573,783	988,126
	99,885,029	91,092,829
Less accumulated depreciation	(47,087,605)	(45,235,181)
Property and equipment, net	$ 52,797,424	$ 45,857,648
Depreciation expense	$ 3,373,130	$ 3,419,604

Continued

6. Retirement Plans

The Golden Rain Foundation sponsors a noncontributory (employer-sponsored) defined benefit pension plan and a 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, 2017 and 2016 is $(3,822,884) and $297,742, respectively, and is reported in the combined statements of changes in net assets. 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, 2017 and 2016 is $(10,459,274) and $(14,282,158), 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. The expected contribution in 2018 is $1,025,000. The plan's funded status, assumptions, and cost at December 31, 2017 and 2016 are as follows:

	2017	2016
Obligations and funded status:		
Projected benefit obligation	$ 56,759,826	$ 54,891,972
Plan assets at fair value	49,058,476	43,367,738
Funded status	$ (7,701,350)	$ (11,524,234)
Accumulated benefit obligation	$ 54,453,984	$ 52,674,540
Employer contributions	$ 1,141,250	$ 1,025,000
Benefits paid	$ 2,643,443	$ 2,506,644
Amounts recognized in the balance sheet consist of:		
Pension liability	$ (7,701,350)	$ (11,524,234)
Amounts recognized in the combined statements of revenues and expenses consist of:		
Net periodic pension cost per actuary	$ 1,313,145	$ 1,558,195

Continued

6. **Retirement Plans**, continued

Components of Net Periodic Pension Cost

The net periodic pension cost for pension benefits for 2017 and 2016 includes the following components:

	2017	2016
Service cost	$ 809,504	$ 836,356
Interest cost	2,118,697	2,067,889
Expected return on plan assets	(3,172,653)	(3,038,977)
Amortization of net loss	1,557,597	1,692,927
Net periodic benefit cost	$ 1,313,145	$ 1,558,195

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

	2017	2016
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	3.70%	4.00%
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	4.00%	4.00%
Expected return on plan assets	7.50%	7.50%
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

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, 2017 and 2016 (the measurement date) by asset category is as follows:

	2017		2016	
Equity securities	$ 39,006,913	80%	$ 32,885,372	76%
Debt securities	10,051,563	20%	10,482,366	24%
Total	$ 49,058,476	100%	$ 43,367,738	100%

The plan assets consisted of $45,535,106 and $39,721,965 Level 2 assets and $3,523,370 and $3,645,773 Level 3 assets for the years ended December 31, 2017 and 2016, 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. The change in value of Level 3 assets was $(122,403) and $(861,529) for the years ended December 31, 2017 and 2016, 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 2018.

Continued

6. **Retirement Plans**, continued

Components of Net Periodic Pension Cost, continued

Estimated future annual benefit payments consist of:

2018	$ 3,261,060
2019	$ 3,329,575
2020	$ 3,288,019
2021	$ 3,264,769
2022	$ 3,411,353
2023–2027	$ 17,405,781

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 2017 was $159,737 and for 2016 was $138,904.

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, 2015, Golden Rain Foundation's per employee pension contribution was $7.26/hour. That amount increased to $8.96/hour as of July 1, 2016. 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 2016 plan year, which runs through May 31, 2017, 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

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 35% of the Golden Rain Foundation's employees are covered by a multi-year collective bargaining agreement which expires in July 2018.

8. 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, 2017 and 2016. The unsecured notes receivable balances as of December 31, 2017 and 2016 are $457,351 and $406,194, respectively.

9. 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.

10. Commitments

Purchase commitments related to certain Trust Estate renovation and expansion projects approximated $938,000 and $0 at December 31, 2017 and 2016, respectively. Additionally, see Note 11 and Note 12 for outstanding bank loan commitments.

11. Bank Loans

Golden Rain Foundation is obligated under a term note, which requires monthly 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, 2017 and 2016, $6,210,000 and $6,750,000 of principal is payable on the loan, respectively. 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, 2017 and 2016, $5,690,869 and $6,160,562, respectively, are payable on the note.

Continued

11. Bank Loans, continued

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

Years ending December 31:	
2018	$ 1,018,788
2019	1,049,511
2020	1,073,967
2021	1,100,889
2022	1,128,506
Thereafter	6,529,208
	$ 11,900,869

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. 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. December 31, 2017, Golden Rain Foundation is in compliance for all loan covenants. 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).

12. Line of Credit

On May 1, 2017, Golden Rain Foundation entered into a non-revolving line of credit with a total commitment of $8 million and a balance payable at December 31, 2017 of $2,400,000. This line of credit will mature May 10, 2033. The line of credit carries an interest rate of 5.11% and requires monthly interest only payments during draw period, which extends to May 10, 2018. Thereafter the line of credit will convert to a term loan with principal and interest payments due monthly. The line of credit requires the Trust maintain a DSC Ratio of at least 2:00:1:00 The DSC Ratio is defined as the ratio of earnings before interest, taxes, depreciation and amortization plus transfer fees, to debt service. As of December 31, 2017, Golden Rain Foundation is in compliance with all debt covenants and the line of credit is secured by the deed of trust on the medical center (see Note 13).

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. 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 $580,844 and $644,150, respectively, in 2017, and $580,844 and $628,439, respectively, in 2016. The Golden Rain Foundation had deferred rent receivable of $236,974 and $300,280 as of December 31, 2017 and 2016, respectively.

Continued

13. Medical Center, continued

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, which terminates July 2020. Amortization expense was $15,353 for the years ended December 31, 2017 and 2016.

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:

	Cash Basis	Straight-Line	Amortization
2018	$ 660,253	$ 580,844	$ 79,409
2019	676,760	580,844	95,916
2020	400,474	338,825	61,649
	$ 1,737,487	$ 1,500,513	$ 236,974

As of December 31, 2017, 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	(2,111,348)
	$ 262,775

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, 2017 and 2016, the Golden Rain Foundation had $553,806 and $479,529 of accounts and notes receivable from the Mutuals, respectively. Revenues from the Mutuals were $27,908,285 and $27,797,956 for the years ended December 31, 2017 and 2016, respectively.

15. Subsequent Events

The Golden Rain Foundation has evaluated subsequent events through April XX, 2018, the date the combined financial statements were available to be issued. Other than the item disclosed below, nothing has occurred outside the normal course of business operations that requires disclosure or recognition as of December 31, 2017.

Supplementary Information

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, 2017, and our report thereon dated April XX, 2018, which expressed an unmodified opinion on those combined financial statements, appears on page 1. 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, 2018

Golden Rain Foundation

Combining Balance Sheet

December 31, 2017

	Golden Rain Foundation	Trust Estate	Combined
ASSETS			
Cash	$ 2,467,379	$ 226,327	$ 2,693,706
Accounts receivable, net	453,786	96,731	550,517
Deferred rent receivable	-	236,974	236,974
Due from/(to) related party	(108,040)	108,040	-
Inventories	446,943	-	446,943
Notes receivable	-	457,351	457,351
Property and equipment, net	-	52,797,424	52,797,424
Other assets, net	29,562	94,280	123,842
Total assets	$ 3,289,630	$ 54,017,127	$ 57,306,757
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	$ 889,245	$ 1,233,536	$ 2,122,781
Accrued payroll and benefits	1,644,463	-	1,644,463
Bank loans	-	11,900,869	11,900,869
Line of credit	-	2,400,000	2,400,000
Pension liability	7,701,350	-	7,701,350
Total liabilities	10,235,058	15,534,405	25,769,463
Net assets for the benefit of Walnut Creek			
Contributed capital	4,718,899	27,979,230	32,698,129
Accumulated (deficit) equity	(1,205,053)	10,503,492	9,298,439
Accumulated other comprehensive loss	(10,459,274)	-	(10,459,274)
Mutual Entities:			
Unrestricted net assets (deficit)	(6,945,428)	38,482,722	31,537,294
Total liabilities and net assets	$ 3,289,630	$ 54,017,127	$ 57,306,757

See Independent Auditors' Report on Supplementary Information.

Golden Rain Foundation

Combining Statement of Revenues and Expenses

For the year ended December 31, 2017

	Golden Rain Foundation	Trust Estate	Eliminations	Combined
Revenues	$ 30,377,696	$ -	$ -	$ 30,377,696
Other revenues:				
Services - community facilities	2,385,695	149,242	(149,242)	2,385,695
Newspaper	976,348	-	-	976,348
Lease revenue	-	612,677	-	612,677
Noncommunity facilities services	229,153	-	-	229,153
Financial income	167	24,432	-	24,599
Other income, net	23,912	13,269	-	37,181
Total other revenues	3,615,275	799,620	(149,242)	4,265,653
Total revenues	33,992,971	799,620	(149,242)	34,643,349
Expenses:				
Employee compensation	19,943,968	-	-	19,943,968
Operations and maintenance	12,067,136	-	-	12,067,136
Administrative	2,295,617	-	(149,242)	2,146,375
Interest	-	605,617	-	605,617
Loss on disposal of fixed assets	-	334,631	-	334,631
Total expenses, before depreciation and amortization	34,306,721	940,248	(149,242)	35,097,727
Expenses in excess of revenues before depreciation and amortization	(313,750)	(140,628)	-	(454,378)
Depreciation and amortization	1,150	3,390,257	-	3,391,407
Expenses in excess of revenues	$ (314,900)	$ (3,530,885)	$ -	$ (3,845,785)

See Independent Auditors' Report on Supplementary Information.

Golden Rain Foundation

Divisional Balance Sheet

December 31, 2017

	General Operations	Mutual Operations	Golden Rain Foundation
ASSETS			
Cash	$ 2,087,949	$ 379,430	$ 2,467,379
Accounts receivable, net	175,030	278,756	453,786
Due from/(to) related party	186,866	(294,906)	(108,040)
Inventories	157,774	289,169	446,943
Other assets, net	14,064	15,498	29,562
Total assets	$ 2,621,683	$ 667,947	$ 3,289,630
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	$ 828,586	$ 60,659	$ 889,245
Accrued payroll and benefits	1,335,031	309,432	1,644,463
Pension liability	7,500,900	200,450	7,701,350
Total liabilities	9,664,517	570,541	10,235,058
Net assets:			
Unrestricted net assets (deficit)	(7,042,834)	97,406	(6,945,428)
Total liabilities and net assets	$ 2,621,683	$ 667,947	$ 3,289,630

See Independent Auditors' Report on Supplementary Information.

GOLDEN RAIN FOUNDATION

DIVISIONAL STATEMENT OF REVENUES AND EXPENSES

For the year ended December 31, 2017

	General Operations	Mutual Operations	Golden Rain Foundation
Revenues	$ 20,861,145	$ 9,516,551	$ 30,377,696
Other revenues:			
Services - community facilities	2,385,695	-	2,385,695
Newspaper	976,348	-	976,348
Noncommunity facilities services	229,153	-	229,153
Financial income	167	-	167
Other income, net	23,912	-	23,912
Total other revenue	3,615,275	-	3,615,275
Total revenues	24,476,420	9,516,551	33,992,971
Expenses:			
Employee compensation	12,060,146	7,883,822	19,943,968
Operations and maintenance	10,861,539	1,205,597	12,067,136
Administrative	1,907,619	387,998	2,295,617
Total expenses, before depreciation and amortization	24,829,304	9,477,417	34,306,721
Expenses in excess of revenues, before depreciation and amortization	(352,884)	39,134	(313,750)
Depreciation and amortization	-	1,150	1,150
Expenses in excess of revenues	$ (352,884)	$ 37,984	$ (314,900)

See Independent Auditors' Report on Supplementary Information.