

VanDerPol and Company

A Professional Accountancy Corporation

151 Kalmus Drive, #M-3A, Costa Mesa, California 92626

(714) 437-1025, FAX (714) 437-5900

September 16, 2024

Ladera Ranch Maintenance Corporation
c/o FirstService Residential California, LLC
15241 Laguna Canyon Road
Irvine, California 92618

To the Board of Directors:

Enclosed you will find the final version of the financial statements for Ladera Ranch Maintenance Corporation. These statements should be distributed to the owners, in their **entirety**. If you should have any questions, please contact our office for further explanation.

Again, it has been a pleasure providing service for your Association.

Sincerely,



VanDerPol and Company
A Professional Accountancy Corporation

Enclosures

LADERA RANCH MAINTENANCE CORPORATION
AUDITED FINANCIAL STATEMENTS
MAY 31, 2024

LADERA RANCH MAINTENANCE CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Ladera Ranch Maintenance Corporation

Opinion

We have audited the accompanying financial statements of Ladera Ranch Maintenance Corporation, which comprise the balance sheet as of May 31, 2024, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ladera Ranch Maintenance Corporation as of May 31, 2024, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ladera Ranch Maintenance Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ladera Ranch Maintenance Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property on pages 19-21 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Van Der Pol and Company

VANDERPOL AND COMPANY
A Professional Accountancy Corporation

Costa Mesa, California

September 5, 2024

LADERA RANCH MAINTENANCE CORPORATION
BALANCE SHEET
AS OF MAY 31, 2024

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents [Note 2]	\$ 971,978	\$ 547,776	\$ 1,519,754
Cash and cash equivalents - Special Benefit Areas [Note 2]	1,043,209	310,542	1,353,751
Member accounts receivable, less allowance for doubtful collection of \$170,000 [Note 3]	221,787	--	221,787
Investments [Note 11]	2,334,495	9,780,374	12,114,869
Investments - Special Benefit Areas [Note 11]	940,676	5,972,597	6,913,273
Vehicles, less accumulated depreciation of \$306,909	3,965	--	3,965
Accrued interest receivable	11,959	92,225	104,184
Accrued interest receivable - Special Benefit Areas	11,697	16,984	28,681
Other receivables	2	--	2
Prepaid expenses and other assets	119,864	--	119,864
Due (to)/from fund	<u>(484,358)</u>	<u>484,358</u>	<u>--</u>
Total Assets	<u><u>\$ 5,175,274</u></u>	<u><u>\$ 17,204,856</u></u>	<u><u>\$ 22,380,130</u></u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 579,783	\$ 224,793	\$ 804,576
Accounts payable - Special Benefit Areas	152,305	7,914	160,219
Prepaid assessments	665,346	--	665,346
Deferred revenue [Note 16]	1,527,232	--	1,527,232
Net commercial/retail liability [Note 10]	71,258	--	71,258
Custom lot/architectural refundable deposits [Note 8]	290,149	--	290,149
Deposits held - clubhouse	7,050	--	7,050
Contract liabilities [Note 4]	<u>--</u>	<u>15,578,826</u>	<u>15,578,826</u>
Total Liabilities	3,293,123	15,811,533	19,104,656
FUND BALANCES [Note 15]	<u>1,882,151</u>	<u>1,393,323</u>	<u>3,275,474</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 5,175,274</u></u>	<u><u>\$ 17,204,856</u></u>	<u><u>\$ 22,380,130</u></u>

See independent auditors' report and accompanying notes to financial statements.

LADERA RANCH MAINTENANCE CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2024

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments - Master	\$ 11,671,407	\$ 4,470,616	\$ 16,142,023
Special Benefit Area assessments [Pages 17 and 18]	4,877,879	2,273,722	7,151,601
Apartment assessments	959,322	--	959,322
Commercial/retail area assessments	303,045	--	303,045
High speed data revenue	2,677,492	--	2,677,492
Sports Park sponsorship	255,000	--	255,000
Investment income - Master	44,396	379,735	424,131
Investment income - Special Benefit Areas [Pages 17 and 18]	44,965	258,602	303,567
Other income	463,747	--	463,747
Bad debt recovery [Pages 17 and 18, Note 3] - Special Benefit Areas	9,203	--	9,203
Other income - Special Benefit Areas [Pages 17 and 18]	12,060	--	12,060
	<u>21,318,516</u>	<u>7,382,675</u>	<u>28,701,191</u>
Total Revenues			
MASTER EXPENSES:			
Utilities	900,687	--	900,687
Facilities:			
Facility staff	2,705,310	--	2,705,310
Avendale Village Club	165,958	172,647	338,605
Flintridge Club	137,970	127,835	265,805
Oak Knoll Club	177,482	153,493	330,975
Covenant Hills Village Club	108,341	72,558	180,899
Terramor Village Club	144,325	316,869	461,194
Land maintenance	4,827,529	1,473,982	6,301,511
Parks, fields, and plunges	1,026,352	2,000,226	3,026,578
Other common area maintenance	1,861,092	153,006	2,014,098
Patrol service	619,761	--	619,761
Administrative:			
Insurance	154,484	--	154,484
Management	490,491	--	490,491
Professional fees	328,312	--	328,312
Other administrative expenses	470,953	--	470,953
Bad debt expense	20,576	--	20,576
Depreciation expense	35,050	--	35,050
Corporate and retail centers	324,972	--	324,972
Bulk data services: High speed data	2,213,788	--	2,213,788
SPECIAL BENEFIT AREA EXPENSES:			
Utilities [Pages 17 and 18]	677,731	--	677,731
Common area expenses [Pages 17 and 18]	3,806,736	2,273,722	6,080,458
Administrative [Pages 17 and 18]	173,375	--	173,375
	<u>21,371,275</u>	<u>6,744,338</u>	<u>28,115,613</u>
Total Expenses			
EXCESS OF REVENUES OVER/(UNDER) EXPENSES	(52,759)	638,337	585,578
Beginning Fund Balances [Note 15]	<u>1,934,910</u>	<u>754,986</u>	<u>2,689,896</u>
Ending Fund Balances [Note 15]	<u>\$ 1,882,151</u>	<u>\$ 1,393,323</u>	<u>\$ 3,275,474</u>

See independent auditors' report and accompanying notes to financial statements.

LADERA RANCH MAINTENANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2024

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities			
Excess of revenues over/(under) expenses	\$ (52,759)	\$ 638,337	\$ 585,578
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:			
Depreciation	35,050	--	35,050
Increase in member accounts receivable	(30,336)	--	(30,336)
Increase in accrued interest receivable	(6,142)	(25,111)	(31,253)
(Increase)/decrease in accrued interest receivable - Special Benefit Areas	(2,155)	36,911	34,756
Decrease in other receivables	32,441	--	32,441
Increase in prepaid expenses and other assets	(24,909)	--	(24,909)
Increase/(decrease) in accounts payable and accrued expenses	(193,645)	51,910	(141,735)
Decrease in accounts payable - Special Benefit Areas	(87,058)	(49,801)	(136,859)
Increase in prepaid assessments	5,405	--	5,405
Increase in deferred revenue	1,527,232	--	1,527,232
Decrease in net commercial/retail liability	(7,569)	--	(7,569)
Decrease in custom lot/architectural refundable deposits	(134,450)	--	(134,450)
Decrease in contract liabilities	--	(305,158)	(305,158)
Change in due to/(from) fund	559,107	(559,107)	--
Net cash provided/(used) by operating activities	<u>1,620,212</u>	<u>(212,019)</u>	<u>1,408,193</u>
Cash flows from investing activities			
Acquisition of certificates of deposit	(2,564,000)	(9,952,000)	(12,516,000)
Maturity of certificates of deposit	1,500,000	11,575,000	13,075,000
Maturity of U.S. Treasury bills	139,121	248,430	387,551
Acquisition of mutual funds	(711,171)	(3,222,971)	(3,934,142)
Maturity of mutual funds	78,225	1,688,631	1,766,856
Net cash provided/(used) by investing activities	<u>(1,557,825)</u>	<u>337,090</u>	<u>(1,220,735)</u>
Net increase in cash	62,387	125,071	187,458
Cash at beginning of year	<u>1,952,800</u>	<u>733,247</u>	<u>2,686,047</u>
Cash at end of year	<u>\$ 2,015,187</u>	<u>\$ 858,318</u>	<u>\$ 2,873,505</u>

See independent auditors' report and accompanying notes to financial statements.

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 1. ORGANIZATION

Ladera Ranch Maintenance Corporation [the Corporation] is a statutory homeowners association which was organized as a non-profit public benefit corporation in May 1998. The Corporation, which is located in Orange County, California, serves as a master association covering approximately 4,000 acres. The purpose of the Corporation is primarily to maintain, preserve and control the defined common areas of this master planned residential community. Certain owners also pay additional assessments for separate maintenance costs referred to as "special benefit areas" which are known as Slope 1, Slope 2, Front Yard, Covenant Hills, and Christopher Homes. The Corporation includes 6,807 units and 1,286 apartment units [which are billed on a 3:1 ratio].

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Accounting - The books and records for the Corporation are maintained on a modified accrual basis of accounting. For these financial statements, adjustments have been made at May 31, 2024 to convert the Corporation's records to the full accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

Capitalization Policy and Depreciation - In accordance with industry standards, the Corporation has not capitalized in the financial statements the common area real property acquired at its inception from the developer. Replacements and improvements to the real property which are directly associated with the units are also not capitalized. They are instead charged directly to either the Operating Fund or the Replacement Fund in the period they are incurred.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful life using the straight-line method of depreciation. During the year ended May 31, 2024, there were no significant personal property additions.

Fund Accounting - The Corporation's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, financial resources are separated into two categories, the Operating Fund and the Replacement Fund. Disbursements from the Replacement Fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the Operating Fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

Investment Income - The Board's policy is to allocate interest earned on Operating Fund and Replacement Fund cash and investment accounts to the respective fund.

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

Cash and Cash Equivalents - The Corporation considers highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 3. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Corporation members are subject to paying assessments to fund the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected.

Under the revenue recognition standard of ASC 606 [Note 5], the Corporation (an entity) has a performance obligation to the unit/unit owners (customers). The Corporation's approved annual Operating Fund budget establishes the maintenance, management, and administrative services that the Corporation is obligated to perform. These services can be bundled together as a single commercial objective and a single performance obligation. The budget establishes an implied contract price, and because these services are provided within an annual cycle, the respective Operating Fund assessments are considered revenue for the current period.

The performance obligations related to Replacement Fund assessments are satisfied when these financial resources are expended for their designated purpose.

For the fiscal year ended May 31, 2024, the Corporation's monthly assessment was \$219 per unit. Homeowners residing within one of the five "Special Benefit Areas" also paid an additional assessment, based upon the respective area's budget, for related costs and maintenance. The special benefit area assessments for the year ended May 31, 2024 for Slope 1, Slope 2, Front Yard, Covenant Hills, and Christopher Homes were \$41, \$39.50, \$132, \$397, and \$80, respectively.

For the fiscal year ending May 31, 2025, the monthly assessment has been raised to \$225 per unit. Homeowners residing within one of the five "Special Benefit Areas" will continue to pay additional assessments in accordance with the respective area's budget requirements. The special benefit area assessments for the fiscal year ending May 31, 2025 for Slope 1, Slope 2, Front Yard, Covenant Hills, and Christopher Homes are \$41, \$47, \$137, \$413, and \$83, respectively.

Corporation members are subject to paying assessments to fund for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable at May 31, 2024 represent assessments and other fees due from owners. The Corporation's governing documents provide for various collection remedies for delinquent assessments, including suspension of privileges, filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner. At May 31, 2024, the Corporation has recorded an allowance for uncollectible assessments of \$170,000. This allowance represents an estimated amount which was calculated using historical collection information.

Under ASC 606, assessments and other fees that cannot be collected with certainty are now charged against the respective revenue rather than bad debt expense. Bad debt expense will still be used to account for uncollectible receivable balances that were recorded in prior periods.

NOTE 4. CONTRACT LIABILITIES

The Corporation recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Corporation has the right to receive payment in advance of the satisfaction of performance obligations which specifically pertains to Replacement Fund assessments. For the fiscal year ended May 31, 2024, the Corporation funded a combined amount of \$6,439,180 from total assessments to the Replacement Fund. The contract liability balance at the beginning of the year and end of the year was \$15,883,984 and \$15,578,826, respectively.

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 5. REVENUE RECOGNITION

The Financial Accounting Standards Board (FASB) issued guidance in the Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. FASB ASC 606 is a revenue recognition standard that affects businesses that enter into contracts with customers to transfer goods and services, including public, private and non-public entities. The purpose of the standard is to eliminate variations in the way businesses across industries handle accounting

NOTE 6. REPLACEMENT FUNDING PROGRAM

In accordance with the Corporation's governing documents, which require that funds be accumulated for future major repairs and replacements, the Corporation has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

Independent studies of the Corporation's replacement funding programs were updated in 2024 and recommend contributions to the Replacement Fund of approximately \$3,652,500 for the Master Association, \$42,990 for the Slope Area 1 Special Benefit Area, \$93,908 for the Slope Area 2 Special Benefit Area, \$524,784 for the Front Yard Special Benefit Area, \$2,258,240 for the Covenant Hills Special Benefit Area, and \$19,620 for the Christopher Homes Special Benefit Area for the fiscal year ending May 31, 2025. The studies' recommendations were based on estimates of remaining useful lives, current replacement costs, and amounts accumulated in the Replacement Fund. For the year ended May 31, 2024, the Corporation funded a combined amount of \$6,439,180 from total assessments to the Replacement Fund. The 2024/2025 budgets include a combined provision for replacement funding totaling \$6,982,732. The table included in the unaudited supplementary information on future major repairs and replacements is based on the studies.

The Corporation is funding such major repairs and replacements over the estimated useful lives of the components based on the studies' estimates of current replacement costs, considering amounts previously accumulated in the Replacement Fund. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts collected for replacement obligations may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Corporation has the right, subject to the Corporation's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 7. INCOME TAXES

The Corporation has been granted tax exempt status under the Internal Revenue Code Section 501(c)(4) and California Revenue and Taxation Code Section 23701f and therefore subject to income tax only on income unrelated to its exempt purpose. For the year ended May 31, 2024, there was no federal or California income tax expense.

The Corporation utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Corporation's assets and liabilities, the Corporation has not recorded any deferred tax assets or liabilities.

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 7. INCOME TAXES – (CONTINUED)

The Corporation has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an association. Management believes that all of the positions taken by the Corporation in its federal and state income tax returns are more likely than not to be sustained upon examination. The Corporation's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

NOTE 8. CUSTOM LOT/ARCHITECTURAL REFUNDABLE DEPOSITS

The Corporation collects construction deposits from certain owners in the Corporation to ensure that they will comply with certain architectural and landscape requirements. The deposits also cover any damages made to common areas during construction. These deposits are refundable upon satisfactory completion of the requirements, less any necessary maintenance costs incurred.

NOTE 9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended May 31, 2024. No interest was paid and there were no non-cash investing or financing transactions during the year.

NOTE 10. COMMERCIAL/RETAIL REIMBURSEMENT

The Corporation and the commercial and retail areas [Corporate Terrace, Mercantile East, Bridgepark Retail, and Mercantile West] have entered into an agreement regarding the exterior common area maintenance. Revenue collected from the commercial and retail areas covers their portion of the common area maintenance, landscape and related expenses. Any surplus collected over expenses is to be reimbursed to the commercial and retail areas, or any deficit is to be reimbursed to the Corporation. As of May 31, 2024, a net liability of \$71,258, which was due to the commercial and retail areas, was recorded in these financial statements.

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 11. INVESTMENTS

The Corporation's investments consist of open-end non-sweep mutual funds and certificates of deposit with original maturities over 90 days. Investment income from these investments is recorded when earned or accrued. The investments are considered to be held to maturity and are carried at adjusted cost, which approximates the fair value. Investments are made based on the Corporation's investment policy which restricts the types of investments that can be made.

At May 31, 2024, the Corporation's investments were as follows:

Operating Fund - Master:

Certificates of deposit - maturities ranging from 8/23/24 to 6/13/26 with interest rates ranging from 4.95% to 5.35%	\$ 1,768,000
Open-end non-sweep mutual funds	<u>566,495</u>
Total Investments - Operating Fund	<u><u>\$ 2,334,495</u></u>

Operating Fund - Special Benefit Areas:

Certificates of deposit - maturities ranging from 6/3/24 to 4/30/25 with interest rates ranging from 4.80% to 5.30%	\$ 796,000
Open-end non-sweep mutual funds	<u>144,676</u>
Total Investments - Operating Fund	<u><u>940,676</u></u>

Replacement Fund - Master:

Certificates of deposit - maturities ranging from 6/3/24 to 12/29/26 with interest rates ranging from 0.25% to 5.50%	\$ 9,269,000
Open-end non-sweep mutual funds	<u>511,374</u>
Total Investments - Replacement Fund	<u><u>\$ 9,780,374</u></u>

Replacement Fund - Special Benefit Areas:

Certificates of deposit - maturities ranging from 6/6/24 to 6/12/26 with interest rates ranging from 0.75% to 5.45%	\$ 3,261,000
Open-end non-sweep mutual funds	<u>2,711,597</u>
Total Investments - Replacement Fund	<u><u>\$ 5,972,597</u></u>

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 12. LEGAL

On July 19, 2016, the Corporation filed a complaint against homeowners for breach of the Covenants, Conditions & Restrictions [CC&Rs] for unauthorized installation of a tarp and removal of certain street trees. The defendants filed a cross-complaint alleging breach of the CC&Rs and declaratory relief. In August 2016, the defendants filed a cross-complaint. The Corporation tendered this matter to its insurance carrier for defense. On February 2021, the Court issued a judgment in favor of the Corporation on both the complaint and cross-complaint. The Corporation filed motions seeking recover of attorneys' fees and costs incurred in connection with the litigation. On August 31, 2021, the Court granted the Corporation's motions and entered an amended judgment. On April 1, 2021, the defendant filed a notice of appeal on the judgment and on September 27, 2021 filed a notice of appeal on the amended judgment. In August 2022, the Court of Appeal affirmed the Court's judgment. On January 9, 2023, the Court of Appeal reversed the Court's amended judgment. As this matter is pending, the outcome cannot be determined at this time.

On February 14, 2023, a lawsuit was filed against the Corporation alleging claims of nuisance, breach of CC&Rs and declaratory relief regarding an architectural matter. The Corporation tendered this matter to its insurance carrier for defense. On April 12, 2023, the Corporation filed a cross-complaint. Settlement discussions are in process. A jury trial is scheduled for October 28, 2024. As this matter is pending, the outcome cannot be determined at this time.

On October 30, 2023, a neighboring association filed a complaint against the Corporation alleging various causes of action regarding the assessments for the Covenant Hills special benefit area. The Corporation tendered this matter to its insurance carrier for defense. A court trial is scheduled for December 9, 2024. As this matter is pending, the outcome cannot be determined at this time.

On December 18, 2023, the Corporation was named in a lawsuit, along with other parties, regarding alleged personal injuries suffered in the community. This matter was tendered to the Corporation's insurance carrier for defense. A jury trial is scheduled for December 15, 2025. As this matter is pending, the outcome cannot be determined at this time.

On March 6, 2024, the Corporation was named in a lawsuit, along with other parties, alleging breach of contract and negligence. The Corporation has tendered this matter to its insurance carrier for defense. As this matter is pending, the outcome cannot be determined at this time.

On July 18, 2024, a lawsuit was filed against the Corporation, along with another party, regarding alleged personal injuries suffered in the community. This matter was tendered to the Corporation's insurance carrier for defense. A case management conference is scheduled for December 19, 2024. As this matter is pending, the outcome cannot be determined at this time.

From time to time, the Corporation is involved in legal proceedings with homeowners arising in the ordinary course of enforcing the Corporation's rules and regulations. The Corporation believes that any current matters will not likely have a material adverse effect on its results of operations or financial condition.

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 13. ASSOCIATION UNITS

The Corporation foreclosed on several units within the community. In order to mitigate the loss of assessment income on these units, the Corporation began renting out some of the foreclosed units. All rental income has been applied to assessments owed and actual expenses and maintenance of the related foreclosed units. Any excess rental income over the actual expenditures and assessments has been recorded as a liability as of May 31, 2024. In light of market conditions, and the non-recourse aspects of the loans, the units have not been assigned an asset value or corresponding mortgage loan liability.

NOTE 14. CONCENTRATION OF RISK

The Corporation maintains an operating account at one financial institution that is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000; however due to the Corporation's operating requirements, the account balances periodically exceed the FDIC limit. The Corporation's management company provides separate bond insurance for this institution for amounts in excess of the FDIC coverage, thereby eliminating the risk of uninsured funds for this institution.

NOTE 15. FUND BALANCES

The Corporation's Operating Fund Balances and Replacement Fund Balances were comprised of the following:

	<u>Operating Fund</u>	<u>Replacement Fund</u>
<u>Master:</u>		
Beginning Fund Balances: June 1, 2023	\$ 482,371	\$ 524,973
Excess of Revenues Over Expenses	<u>(362,000)</u>	<u>379,735</u>
Ending Fund Balances: May 31, 2024	<u>\$ 120,371</u>	<u>\$ 904,708</u>
<u>Special Benefit Areas:</u>		
Beginning Fund Balances: June 1, 2023	\$ 1,452,539	\$ 230,013
Excess of Revenues Over Expenses	<u>309,241</u>	<u>258,602</u>
Ending Fund Balances: May 31, 2024	<u>\$ 1,761,780</u>	<u>\$ 488,615</u>
Total Combined Ending Fund Balances	<u><u>\$ 1,882,151</u></u>	<u><u>\$ 1,393,323</u></u>

LADERA RANCH MAINTENANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2024

NOTE 16. DEFERRED REVENUE/MARKETING AGREEMENT

On January 1, 2024, the Corporation entered into a five-year service agreement with Cox Communications (Cox) for bulk internet services. The Corporation also received a net bonus of \$1,636,320, which is being amortized over the five-year agreement. For the fiscal year ending May 31, 2024, the Corporation recorded deferred revenue of \$1,527,232. Cox will also pay additional revenue share compensation to the Corporation relating to certain services (video, Homelife and phone). The Corporation shall receive 8% of service revenue on a quarterly basis.

Additionally, Cox has agreed to the exclusive sponsorship of the Sports Park and shall pay the Corporation \$210,000 per year with equal payments of \$52,500 every three months [beginning January 1, 2024 through May 31, 2029]. As a further exclusive sponsorship of the Ladera Ranch community, Cox has agreed to pay the Corporation \$11,000 annually [beginning February 1, 2024 through May 31, 2029].

As a contribution towards the Corporation's purchase video services, Cox has agreed to pay the Corporation \$7,800 annually [beginning February 1, 2024 through May 31, 2029].

NOTE 17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 5, 2024, which is the date the financial statements were available to be issued.

LADERA RANCH MAINTENANCE CORPORATION
SCHEDULE OF SPECIAL BENEFIT AREA REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2024

	SLOPE AREA 1		SLOPE AREA 2		FRONT YARD	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
REVENUES						
Member assessments	\$ 138,492	\$ 192,647	\$ 524,462	\$ 68,833	\$ 1,343,928	\$ 1,164,216
Interest	1,197	9,795	3,945	5,521	5,239	132,578
Total Revenues	139,689	202,442	528,407	74,354	1,349,167	1,296,794
EXPENSES						
Utilities:	24,602	--	93,155	--	219,537	--
Common area expenses:						
Landscape maintenance and supplies	89,980	192,647	387,480	68,833	1,019,744	184,833
Asphalt/concrete work	--	--	--	--	--	912,411
Other common area maintenance	4,192	--	6,098	--	52,736	66,972
Total common area expenses:	94,172	192,647	393,578	68,833	1,072,480	1,164,216
Administrative:						
Insurance	2,542	--	2,543	--	2,542	--
Management	8,438	--	8,438	--	8,438	--
Other administrative expenses	366	--	377	--	546	--
Bad debt expense/(recovery)	(115)	--	(1,099)	--	(1,161)	--
Total administrative expenses:	11,231	--	10,259	--	10,365	--
Total Expenses	130,005	192,647	496,992	68,833	1,302,382	1,164,216
EXCESS OF REVENUES OVER EXPENSES	9,684	9,795	31,415	5,521	46,785	132,578
Beginning Fund Balances	49,420	11,367	54,112	5,202	171,534	129,193
Ending Fund Balances	\$ 59,104	\$ 21,162	\$ 85,527	\$ 10,723	\$ 218,319	\$ 261,771

See independent auditors' report and accompanying notes to financial statements.

LADERA RANCH MAINTENANCE CORPORATION
SCHEDULE OF SPECIAL BENEFIT AREA REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2024

	COVENANT HILLS		CHRISTOPHER HOMES		TOTAL	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
REVENUES						
Member assessments	\$ 2,856,057	\$ 846,650	\$ 14,940	\$ 1,376	\$ 4,877,879	\$ 2,273,722
Interest	34,584	106,978	--	3,730	44,965	258,602
Other income	12,060	--	--	--	12,060	--
Total Revenues	2,902,701	953,628	14,940	5,106	4,934,904	2,532,324
EXPENSES						
Utilities:	338,539	--	1,898	--	677,731	--
Common area expenses:						
Landscape maintenance and supplies	1,379,381	570,181	4,044	1,376	2,880,629	1,017,870
Gate attendant	522,436	--	--	--	522,436	--
Asphalt/concrete work	--	206,225	--	--	--	1,118,636
Other common area maintenance	311,849	70,244	5,820	--	380,695	137,216
Total common area expenses:	2,213,666	846,650	9,864	1,376	3,783,760	2,273,722
Administrative:						
Insurance	51,151	--	253	--	59,031	--
Management	75,480	--	--	--	100,794	--
Other administrative expenses	11,865	--	396	--	13,550	--
Bad debt expense	(7,332)	--	504	--	(9,203)	--
Total administrative expenses:	131,164	--	1,153	--	164,172	--
Total Expenses	2,683,369	846,650	12,915	1,376	4,625,663	2,273,722
EXCESS OF REVENUES OVER EXPENSES	219,332	106,978	2,025	3,730	309,241	258,602
Beginning Fund Balances	1,142,755	82,369	34,718	1,882	1,452,539	230,013
Ending Fund Balances	\$ 1,362,087	\$ 189,347	\$ 36,743	\$ 5,612	\$ 1,761,780	\$ 488,615

See independent auditors' report and accompanying notes to financial statements.

LADERA RANCH MAINTENANCE CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS & REPLACEMENTS
AS OF MAY 31, 2024
(UNAUDITED)

Independent reserve studies were conducted in 2024 to estimate the remaining useful lives and the replacement costs of the components of common property. The studies were based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs adjusted for an annual inflation rate of 3.0%. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been collected for future repairs and replacements, earning a yield on funds of 3.0%.

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

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	2024/2025 Recommended Funding Requirement	Study's Recommended Fund Balance as of 5/31/2024	Contract liability and Replacement Fund Balance as of 5/31/2024
Ladera Ranch - Master:					
Parks	0-24 years	\$ 8,983,370	\$ 849,419	\$ 5,334,146	
Avendale Club	0-18 years	1,383,335	117,934	841,639	
Bluff Top Trail	1-7 years	31,719	1,377	26,184	
Boreal Plunge	0-19 years	704,183	53,085	344,230	
Bridgepark Plaza	3 years	15,450	2,568	6,180	
Celestial Plunge	0-14 years	567,065	38,837	356,979	
Cherry Plunge	0-19 years	474,979	39,583	278,290	
Covenant Hills Club	0-18 years	1,200,034	99,803	812,546	
Creighton Plunge	0-19 years	413,614	36,070	292,035	
Flintridge Club	0-19 years	1,245,208	113,757	829,178	
Common areas	0-24 years	5,342,617	1,780,942	3,986,228	
Mercantile East/West	3 years	36,050	5,992	14,420	
Oak Knoll Club	0-24 years	1,651,325	149,408	1,271,415	
Oak Knoll Garden	0-5 years	28,599	5,751	28,060	
Oso Grande	0-18 years	959,618	89,810	574,621	
Paseo	0-12 years	535,188	36,017	404,072	
Sienna Botanica	0-21 years	226,431	18,371	164,686	
Terramor Club	0-16 years	2,603,888	161,021	2,173,856	
Town Green	0-11 years	133,382	10,512	76,758	
Town Plunge	0-17 years	502,966	39,678	314,720	
UAC Corporate Terrace	1 year	15,448	2,565	12,362	
Sub-total - Master:		\$ 27,054,469	\$ 3,652,500	\$ 18,142,605	\$ 11,288,975

LADERA RANCH MAINTENANCE CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS & REPLACEMENTS
AS OF MAY 31, 2024
(UNAUDITED)
[CONTINUED]

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2024/2025 Recommended Funding Requirement</u>	<u>Study's Recommended Fund Balance as of 5/31/2024</u>	<u>Contract liability and Replacement Fund Balance as of 5/31/2024</u>
Slope Area 1:					
Irrigation	0-8 years	\$ 98,618	\$ 8,981	\$ 17,347	
Landscape	0 years	195,700	34,009	41,200	
Sub-total - Slope Area 1:		<u>\$ 294,318</u>	<u>\$ 42,990</u>	<u>\$ 58,547</u>	<u>\$ 74,743</u>
Slope Area 2:					
Irrigation	0-8 years	\$ 144,150	\$ 9,800	\$ 93,175	
Landscape	0-1 year	390,000	84,108	360,000	
Sub-total - Slope Area 2:		<u>\$ 534,150</u>	<u>\$ 93,908</u>	<u>\$ 453,175</u>	<u>\$ 75,240</u>
Front Yard:					
Arborage	0-5 years	\$ 73,727	\$ 3,507	\$ 63,689	
Astoria	0-8 years	58,731	4,485	29,437	
Claiborne	0-10 years	96,820	5,819	76,426	
Front street	0-15 years	49,624	1,813	39,723	
Grounds	0-5 years	370,956	137,232	254,165	
Lighting	4-6 years	545,076	19,397	456,628	
Painting	0-12 years	163,989	32,349	134,812	
Park furnishings	0-4 years	71,070	2,804	66,620	
Asphalt/concrete	0-8 years	2,346,400	265,564	1,346,840	
Potters Bend	6-16 years	58,061	4,034	14,961	
Savannah/Baywood	0-19 years	53,612	2,669	11,188	
Surrey Farm	0-19 years	153,264	11,410	102,225	
Tarleton	0-17 years	70,040	3,375	20,428	
The Gables	0-10 years	62,316	2,763	51,891	
The Trails	1 year	50,470	1,952	48,276	
Walden Park	0-19 years	207,957	10,342	179,999	
Westcott	0-16 years	128,620	15,269	96,968	
Sub-total - Front Yard:		<u>\$ 4,560,733</u>	<u>\$ 524,784</u>	<u>\$ 2,994,276</u>	<u>\$ 2,668,479</u>

LADERA RANCH MAINTENANCE CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS & REPLACEMENTS
AS OF MAY 31, 2024
(UNAUDITED)
[CONTINUED]

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	2024/2025 Recommended Funding Requirement	Study's Recommended Fund Balance as of 5/31/2024	Contract liability and Replacement Fund Balance as of 5/31/2024
Covenant Hills:					
Asphalt/concrete	0-33 years	\$ 24,303,368	\$ 1,349,229	\$ 17,262,964	
Common area furnishings	1-9 years	151,462	11,072	116,177	
Fences/gates/rails	2-21 years	457,179	34,434	234,492	
Gatehouses	0-11 years	270,852	33,917	189,308	
Landscape/irrigation	0-9 years	1,024,274	800,375	741,379	
Lighting/electrical	6 years	73,182	4,072	55,618	
Painting	0-4 years	183,941	25,141	179,107	
Sub-total - Covenant Hills:		<u>\$ 26,464,258</u>	<u>\$ 2,258,240</u>	<u>\$ 18,779,045</u>	<u>\$ 2,763,124</u>
Christopher Homes:					
Asphalt/concrete	3-18 years	\$ 118,458	\$ 7,248	\$ 30,248	
Fences/walls/pillars	18-29 years	99,544	4,109	23,340	
Landscape/irrigation	0-13 years	14,885	5,217	12,113	
Miscellaneous	6-19 years	18,767	1,025	5,822	
Painting	3 years	9,567	2,021	3,826	
Sub-total - Christopher Homes:		<u>\$ 261,221</u>	<u>\$ 19,620</u>	<u>\$ 75,349</u>	<u>\$ 101,588</u>
Sub-totals - Special Benefit Areas:		<u>\$ 32,114,680</u>	<u>\$ 2,939,542</u>	<u>\$ 22,360,392</u>	<u>\$ 5,683,174</u>
Total - Master and Special Benefit Areas:		<u>\$ 59,169,149</u>	<u>\$ 6,592,042</u>	<u>\$ 40,502,997</u>	<u>\$ 16,972,149</u>