

# **Sudden Valley Community Association**

Financial Statements and  
Supplementary Information with  
Independent Auditor's Report

Years Ended December 31, 2016 and 2015

Larson Gross 

## Sudden Valley Community Association

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## Independent Auditor's Report

To the Board of Directors and Association Members  
Sudden Valley Community Association  
Bellingham, Washington

We have audited the accompanying financial statements of Sudden Valley Community Association, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues and expenses, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sudden Valley Community Association as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the supplementary information on Future Major Repairs and Replacements on pages 14-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the 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.

**Disclaimer of Opinion on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary internal reports included on pages 17-20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Larson Gross PLLC*

Bellingham, Washington  
September 11, 2017

Sudden Valley Community Association

**Balance Sheets**

December 31, 2016 and 2015

	<b>Assets</b>	
	<u>2016</u>	<u>2015</u>
<b>Current assets</b>		
Cash and cash equivalents		
Operating funds	\$ 154,892	\$ 97,038
Building deposits	105,000	46,500
Operating reserve funds	<u>534,735</u>	<u>412,023</u>
Total cash and cash equivalents	794,627	555,561
Cash held in reserve		
Capital	1,149,178	1,175,118
Roads	1,544,084	1,315,508
Density reduction	122,956	146,834
Capital holding	70,522	-
Mailbox assessment	<u>4,854</u>	<u>4,422</u>
Total cash held in reserve	2,891,594	2,641,882
Receivables, net	90,837	3,130
Inventory	3,907	7,748
Prepaid expenses	<u>56,866</u>	<u>50,009</u>
Total current assets	3,837,831	3,258,330
<b>Property and equipment, net</b>	8,601,235	8,454,574
<b>Parcels and lots held for sale</b>	241,018	248,635
<b>Intangible assets, net</b>	<u>104,161</u>	<u>-</u>
<b>Total assets</b>	<u><u>\$ 12,784,245</u></u>	<u><u>\$ 11,961,539</u></u>
	<b>Liabilities and Members' Equity</b>	
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 140,727	\$ 105,087
Refundable deposits	111,081	52,163
Deferred revenue	28,452	35,648
Prepaid dues	126,484	115,006
Current portion of capital lease	<u>29,570</u>	<u>32,160</u>
Total current liabilities	436,314	340,064
<b>Capital lease, net of current portion</b>	38,968	66,781
<b>Members' equity</b>		
Donated capital - developers	482,330	482,330
Paid-in capital - members	1,815,600	1,815,600
Paid-in capital - special assessment	690,291	690,291
Equity reserves	3,134,631	2,873,006
Retained earnings	<u>6,186,111</u>	<u>5,693,467</u>
Total members' equity	<u>12,308,963</u>	<u>11,554,694</u>
<b>Total liabilities and members' equity</b>	<u><u>\$ 12,784,245</u></u>	<u><u>\$ 11,961,539</u></u>

Sudden Valley Community Association

**Statements of Revenues and Expenses**

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Dues and assessments - general	\$ 1,489,509	\$ 1,437,395
Dues and assessments - capital expenditures and reserve funding	1,272,790	1,136,853
Golf green fees	603,776	649,748
Rental income	285,262	290,439
Fines, penalties, late and lien fees	112,397	156,153
Titles and transfers fees	109,954	33,075
Miscellaneous income	95,886	196,415
New home construction fee	51,246	-
Investment income	11,716	1,299
Gain (loss) on lot sales	1,379	(15,180)
Loss on disposal of property and equipment	<u>(16,354)</u>	<u>(2,364)</u>
Total revenues	4,017,561	3,883,833
<b>Expenses</b>		
Salaries and wages	1,047,821	993,219
Depreciation	844,700	778,316
Outside services	490,138	865,677
Golf maintenance	193,690	217,918
Payroll taxes and fringe benefits	187,059	186,157
Materials and supplies	145,517	124,689
Taxes, licenses and insurance	136,195	129,195
Repairs and maintenance	133,043	227,149
Telephone and utilities	71,728	108,313
Golf management	51,989	55,198
Miscellaneous	48,357	45,035
Other employee expenses	34,799	29,377
Bank and credit card charges	5,994	3,845
Amortization	5,776	-
Bad debt expense (recovery) - see Note 2	<u>(133,514)</u>	<u>94,987</u>
Total expenses	<u>3,263,292</u>	<u>3,859,075</u>
<b>Excess of revenues over expenses</b>	<u>\$ 754,269</u>	<u>\$ 24,758</u>

Sudden Valley Community Association

**Statements of Changes in Members' Equity**

Years Ended December 31, 2016 and 2015

	Donated Capital Developers	Paid-In Capital Members	Capital Special Assessment	Equity Reserves	Retained Earnings	Total
<b>Balance - December 31, 2014 as originally stated</b>	\$ 482,330	\$ 1,815,600	\$ 690,291	\$ 4,130,962	\$ 4,410,753	\$ 11,529,936
Prior year restatements - See Note 7	-	-	-	(868,336)	868,336	-
<b>Balance - December 31, 2014 as restated</b>	482,330	1,815,600	690,291	3,262,626	5,279,089	11,529,936
Excess of revenues over expenses	-	-	-	-	24,758	24,758
<b>Capital Assessments and Board of Director's appropriations for 2015, net</b>						
Road reserves fund	-	-	-	173,874	(173,874)	-
Density reduction fund	-	-	-	(17,139)	17,139	-
Capital reserves fund	-	-	-	(547,249)	547,249	-
Mailbox assessment fund	-	-	-	894	(894)	-
	-	-	-	(389,620)	389,620	-
<b>Balance - December 31, 2015</b>	482,330	1,815,600	690,291	2,873,006	5,693,467	11,554,694
Excess of revenues over expenses	-	-	-	-	754,269	754,269
<b>Capital Assessments and Board of Director's appropriations for 2016, net</b>						
Road reserves fund	-	-	-	220,204	(220,204)	-
Density reduction fund	-	-	-	1,670	(1,670)	-
Capital reserves fund	-	-	-	(31,523)	31,523	-
Capital reserves holding fund	-	-	-	70,584	(70,584)	-
Mailbox assessment fund	-	-	-	690	(690)	-
	-	-	-	261,625	(261,625)	-
<b>Balance - December 31, 2016</b>	<u>\$ 482,330</u>	<u>\$ 1,815,600</u>	<u>\$ 690,291</u>	<u>\$ 3,134,631</u>	<u>\$ 6,186,111</u>	<u>\$ 12,308,963</u>

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

Sudden Valley Community Association

**Statements of Cash Flows**

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Excess of revenues over expenses	\$ 754,269	\$ 24,758
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	844,700	778,316
Amortization	5,776	-
Loss on sale of property and equipment	16,354	2,364
Loss (gain) on sale of lots held for sale	(1,379)	15,180
(Increase) decrease in current assets:		
Receivables, net	(87,707)	99,756
Inventory	3,841	(4,700)
Prepaid expenses	(6,857)	42,424
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	8,758	(37,395)
Deferred revenue	(7,196)	11,536
Prepaid dues	11,478	58,061
	<u>1,542,037</u>	<u>990,300</u>
<b>Net cash provided by operating activities</b>	<b>1,542,037</b>	<b>990,300</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of lots held for sale	8,996	15,268
Proceeds from sale of property and equipment	9,400	3,000
(Increase) decrease in cash held in reserve	(249,712)	399,099
Purchase of construction in progress	(182,521)	(587,332)
Purchase of property, roads, and equipment	(807,712)	(916,950)
Purchase of intangible assets	(109,937)	-
	<u>(1,331,486)</u>	<u>(1,086,915)</u>
<b>Net cash used by investing activities</b>	<b>(1,331,486)</b>	<b>(1,086,915)</b>
<b>Cash flows from financing activities</b>		
Principal payments on capital lease	(30,403)	(26,922)
Refundable deposits	58,918	3,780
	<u>28,515</u>	<u>(23,142)</u>
<b>Net cash provided (used) by financing activities</b>	<b>28,515</b>	<b>(23,142)</b>
Net increase (decrease) in cash and cash equivalents	239,066	(119,757)
Cash and cash equivalents - beginning of year	<u>555,561</u>	<u>675,318</u>
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 794,627</u></b>	<b><u>\$ 555,561</u></b>



**Notes to Financial Statements**

December 31, 2016 and 2015

**Note 1 - Summary of Significant Accounting Policies**

**Business** - Sudden Valley Community Association (the Association) was formed to operate and maintain the commonly owned property in Sudden Valley, Washington, to provide security and maintenance services for its members, and to provide other services including operation of the golf course. The Association is made up of 3,150 members and 4,641 total lots. The Association is organized as a non-profit incorporated entity under the laws of Washington State and for federal tax purposes.

**Fund accounting** - The Association uses fund accounting whereby financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

**Operating Funds**

**Operating fund** - This fund is used to account for financial resources available for the general operations of the Association.

**Emergency operating reserve** - This fund comprises a minimum of two months operating expenses for the purpose of defraying the costs of unexpected and/or emergency operating expenditures. These funds are included in operating retained earnings and totaled \$351,259 and \$350,952 at December 31, 2016 and 2015, respectively.

**Reserve Funds**

**Capital reserves fund** - This fund is used to account for capital assessments from members and financial resources designated by the Board of Directors for major repairs and replacements and capital improvement. Expenditures from this fund must receive approval by the Board of Directors.

**Road reserves fund** - This fund is used to account for capital assessments from members for repairs and replacement of the various roads and bridges in the Association. Expenditures from this fund must receive approval by the Board of Directors.

**Density reduction fund** - This fund is used to account for financial resources designated by the Board of Directors to satisfy the density reduction goals of the Association and the water demand goals of Lake Whatcom Water and Sewer District. Expenditures from this fund must receive approval by the Board of Directors.

**Capital reserves holding fund** - This fund is used to account for capital moneys derived from buyer transfer fees obtained through sales of privately owned lots/homes. Expenditures from this fund must receive approval by the Board of Directors.

**Mailbox special assessment fund** - This fund is used to account for financial resources designated by the Board of Directors for the costs associated with the installation of cluster mailboxes and renaming of streets. Expenditures from this fund must receive approval by the Board of Directors.

**Cash and cash equivalents** - The Association considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Cash held in reserve is excluded from cash and cash equivalents for purposes of the Statements of Cash Flows. The Association maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Association has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

**Parcels and lots held for sale** - Parcels and lots held for sale are stated at lower of cost or fair market value.

**Notes to Financial Statements**

December 31, 2016 and 2015

**Note 1 - Summary of Significant Accounting Policies - (Continued)**

**Property and equipment** - The Association recognizes all common property as assets in its balance sheets, including all common personal and real property to which it has title, regardless of whether or not it can dispose of the property for cash while retaining the proceeds, and whether or not it is used to generate significant cash flows from members or nonmembers. Common area real property consists of roads, water systems, electrical systems, greenbelts, parks, the golf course, and certain structures.

Improvements that increase the useful life of property and replacements of major components of property are capitalized and recorded as assets on the balance sheet. Maintenance, repairs and minor replacements are expensed as incurred. Depreciation is computed using straight-line methods over estimated useful lives of 3 to 40 years.

Whenever changes in circumstances indicate that the carrying amount may not be recoverable, the Association assesses the recoverability of property and equipment (and all other long-lived assets) by analyzing future cash flows. There were no events or changes in circumstances during 2016 or 2015 that indicated that the carrying amounts of any property or equipment were not fully recoverable. The Association believes the future cash flows to be received from property and equipment (and all other long-lived assets) exceed the assets' carrying values and, accordingly, the Association has not recognized any impairment losses through December 31, 2016 or 2015.

**Intangible assets** - Intangible assets consist of the acquisition of various design plans to benefit members and are amortized using the straight-line method over estimated useful lives of 15 years.

**Member dues and assessments** - Association members are subject to annual assessments, which are prorated and due monthly, to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represents past due assessments due from unit owners. The Association's policy is to write off dues and assessments that are outstanding on the last day of each month as bad debts. However, during 2016 management determined that receivables less than 90 days past due are generally collectible. For reporting purposes in accordance with generally accepted accounting principles (GAAP), at December 31, 2016, the allowance was reversed for assessments receivable that were less than 90 days past due as management considers these fully collectible. The Association's bylaws provide for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the member's property and obtaining judgments on other assets of the unit owner. In addition, the Association charges finance charges on assessments that are thirty days past due at a rate of 1% per month. All receivables on the balance sheet are considered fully collectible by management (see Note 2).

**Revenue recognition** - The Association recognizes revenue from members' assessments in the applicable assessment time period. Revenue from other sources is recognized when the product or service is provided in accordance with the accrual basis of accounting. Amounts collected in advance of being earned are recorded as deferred revenue. Deferred revenue related to golf revenue amounted to \$28,452 and \$35,648 at December 31, 2016 and 2015, respectively.

**Interest income** - Interest income is allocated to the operating and reserve funds in proportion to the interest-bearing deposits of each fund.

**Rental activities** - Rental activities consist of short-term rentals of association property primarily in the form of golf cart rentals and storage facilities.

Sudden Valley Community Association

Notes to Financial Statements

December 31, 2016 and 2015

**Note 1 - Summary of Significant Accounting Policies - (Continued)**

**Income taxes** - The Association is a non-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(4). There were no interest and penalties paid during the years ended December 31, 2016 and 2015. As of December 31, 2016, tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions. The Association evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2016, the Association had no uncertain tax positions requiring accrual.

**Sales taxes** - Taxes collected from customers for amounts assessed by governmental authorities on revenue-producing transactions are recorded on a net basis and are not included in the amounts on the accompanying statements of revenues and expenses.

**Advertising** - The Association expenses advertising costs as incurred. Advertising expense totaled \$13,127 and \$8,656 for the years ended December 31, 2016 and 2015, respectively.

**Use of estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management and the Board of Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** - Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

**Subsequent events** - In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 11, 2017, the date the financial statements were available to be issued.

**Note 2 - Receivables, Net**

Receivables consist of the following at December 31:

	2016	2015
Members' accounts receivable	\$ 84,225	\$ 730
Receivables – member (non-dues) and other	6,612	2,400
	<u>\$ 90,837</u>	<u>\$ 3,130</u>

As of December 31, 2016 and 2015, the Association has written off \$957,982 and \$1,091,498, respectively, of member receivable balances at that date that were considered past due. This includes receivable balances written off from prior years. Management continues to pursue collection of these accounts.

Due to the revised application of accounting policy in both 2016 and 2015, as described in Note 1, the Association recognized one-time recovery of \$79,747 of bad debt related to 2016 balances and a write off of \$95,384 of bad debt related to prior year balances as of December 31, 2016 and 2015, respectively. Both are included in bad debt expense (recovery) in the statements of revenues and expenses.

Sudden Valley Community Association

**Notes to Financial Statements**

December 31, 2016 and 2015

**Note 3 - Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Roads and bridges	\$ 8,752,039	\$ 7,989,033
Land and improvements	4,333,217	4,333,217
Buildings and improvements	3,985,453	3,932,607
Vehicles, machinery and equipment	2,414,786	2,162,900
Furniture, fixtures and office equipment	377,407	381,466
Construction in progress	<u>209,403</u>	<u>587,332</u>
	20,072,305	19,386,555
Less accumulated depreciation	<u>(11,471,070)</u>	<u>(10,931,981)</u>
	<u>\$ 8,601,235</u>	<u>\$ 8,454,574</u>

**Note 4 – Intangible Assets**

Intangible assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Various design plans	\$ 109,937	\$ -
Less accumulated depreciation	<u>(5,776)</u>	<u>-</u>
	<u>\$ 104,161</u>	<u>\$ -</u>

**Note 5 - Capital Lease Obligations**

In April 2014, the Association financed equipment through the issuance of a capital lease agreement. The economic substance of the lease agreement is that the Association is financing the acquisition of equipment through the lease, and accordingly, the lease is recorded in the Association's assets and liabilities. The capitalized equipment cost totaled \$192,915 and accumulated depreciation totaled \$102,888 and \$64,305 at December 31, 2016 and 2015, respectively.

The capital lease is payable to Everbank, with monthly payments of \$2,680, including interest at 4.7%, due April 2019, secured by equipment. At December 31, 2016, \$68,538 was outstanding.

Sudden Valley Community Association

**Notes to Financial Statements**

December 31, 2016 and 2015

**Note 5 - Capital Lease Obligations - (Continued)**

Scheduled minimum lease payments for the five years ending December 31 are as follows:

2017	\$ 32,160
2018	32,160
2019	<u>8,040</u>
Total minimum lease payments	72,360
Less amount representing interest	<u>(3,822)</u>
Present value of minimum lease payments	68,538
Less current portion	<u>(29,570)</u>
	<u><u>\$ 38,968</u></u>

**Note 6 - Lots Held For Sale**

The Association owns certain undeveloped lots that were obtained in the initial organization of the Association. In addition, a number of lots have been acquired through purchase, foreclosure proceedings, and in lieu of dues owed to the Association.

The investment in lots held for sale as of December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Lots, at cost	\$ 434,902	\$ 442,519
Less allowance for decrease in net realizable value	<u>(193,884)</u>	<u>(193,884)</u>
Total lots, at lower of cost or fair market value	<u><u>\$ 241,018</u></u>	<u><u>\$ 248,635</u></u>

**Note 7 - Future Major Repairs and Replacements**

The Association is responsible for preserving and maintaining the common property. The Association accumulates funds for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

The Association is partially funding such major repairs and replacements over the estimated useful lives of the components. A study was done to estimate the remaining useful lives and the costs of future major repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material to the financial statements. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to borrow funds or, subject to member approval, to increase regular assessments or levy special assessments. Fund balances are maintained on accrual basis and do not equal cash balances due to timing differences.

Sudden Valley Community Association

Notes to Financial Statements

December 31, 2016 and 2015

**Note 7 - Future Major Repairs and Replacements - (Continued)**

The balance of the various equity reserves is shown below:

	Road Reserve Fund	Capital Reserve Fund	Capital Reserve Holding Fund	Mailbox Assessment Fund	Density Reduction Fund	Total
<b>Balance - December 31, 2014 as originally stated</b>	\$ 1,129,098	\$ 1,944,096	\$ -	\$ 9,778	\$ 1,047,990	\$ 4,130,962
Prior year restatements	-	-	-	-	(868,336)	(868,336)
<b>Balance - December 31, 2014 as restated</b>	1,129,098	1,944,096	-	9,778	179,654	3,262,626
2015 appropriations	661,171	480,763	-	-	-	1,141,934
Interest income	383	306	-	-	371	1,060
2015 bad debt recovery (expense)	(11,082)	(18,412)	-	894	34	(28,566)
Loss on disposal of fixed assets	-	-	-	-	(2,364)	(2,364)
Gain on sales of lots held for sale	-	-	-	-	(15,180)	(15,180)
2015 charges	(476,598)	(1,009,906)	-	-	-	(1,486,504)
<b>Balance - December 31, 2015</b>	1,302,972	1,396,847	-	10,672	162,515	2,873,006
2016 appropriations	733,333	539,457	70,579	-	-	1,343,369
Interest income	1,532	1,180	5	2	108	2,827
2016 bad debt recovery (expense)	21,533	10,529	-	688	27	32,777
Loss on disposal of fixed assets	-	(16,354)	-	-	-	(16,354)
Gain on sales of lots held for sale	-	-	-	-	1,379	1,379
Other transfers	-	(2,364)	-	-	2,364	-
2016 charges	(536,194)	(563,971)	-	-	(2,208)	(1,102,373)
<b>Balance - December 31, 2016</b>	<u>\$ 1,523,176</u>	<u>\$ 1,365,324</u>	<u>\$ 70,584</u>	<u>\$ 11,362</u>	<u>\$ 164,185</u>	<u>\$ 3,134,631</u>

The opening December 31, 2014 balance of equity reserves is misstated. In 2004 and 2005, the Board approved cash transfers from the operating cash accounts to the cash held in reserve accounts totaling \$868,336. In 2006 and 2007, the Board appropriately approved cash transfers from the cash held in reserve accounts to the operating cash accounts totaling \$868,336. However, such transfers were erroneously excluded from the equity reserves activity in 2006 and 2007. As such, the balances of equity reserves and retained earnings were overstated and understated, respectively, by \$868,336 at December 31, 2014. Both the equity reserves schedule above and the Statements of Changes in Members' Equity reflect this restatement. This restatement has no impact to the Association's cash positions or to past or current taxes for either the Association or its members.

**Note 8 - Density Reduction**

As of December 31, 2016 and 2015, the Association had purchased a total of 437 lots, through purchases with members or through foreclosure sales with Lake Whatcom Water and Sewer District, Whatcom County, and the City of Bellingham also sharing in the cost. Certain of these acquired lots were subject to transferable restrictive covenants, and these covenants have been transferred to other lots. As a result, the Association holds title to an equivalent number of properties, which are subject to a restrictive covenant prohibiting them from being developed. This program furthers the density reduction goals of the Association and the water and sewer demand goals of Lake Whatcom Water and Sewer District. As of December 31, 2016 and 2015, the Association had acquired and owned 796 and 802 lots, respectively. At December 31, 2016 and 2015, 758 of these lots had been turned into green space and removed from the tax rolls. Lots held as green space are included in land costs as a component of property and equipment. Of the remaining lots, 24 and 23 are restricted under Water District 10, while 14 and 21 are lots available for sale as of December 31, 2016 and 2015, respectively.

Sudden Valley Community Association

**Notes to Financial Statements**

December 31, 2016 and 2015

**Note 9 - Supplemental Cash Flow Information**

The following information is a supplement to the statements of cash flows:

	<u>2016</u>	<u>2015</u>
Cash paid for interest	\$ 3,945	\$ 5,238
Noncash investing and financing activities:		
Purchase of equipment with accounts payable	<u>\$ 26,882</u>	<u>\$ -</u>
Property received with lot held for sale transaction	<u>\$ -</u>	<u>\$ 4,446</u>

## **Supplementary Information**



Sudden Valley Community Association

**Supplementary Information on Future  
Major Repairs and Replacements**

Year Ended December 31, 2016

(Unaudited)

Schwindt and Company conducted a study in November 2016, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The spreadsheet included as unaudited supplementary information takes into account the effects of an estimated 2.5% inflation between the date of the study and the date that the components will require repair or replacement. Actual expenditures may vary from the estimated amounts and the variations may be material.

The information on pages 15-16 is based on the study and presents significant information about the components of common property. The full study is available from the Association.

Sudden Valley Community Association

Supplementary Information on Future Major Repairs and Replacements

December 31, 2016

(Unaudited)

Description	Estimated Remaining Useful Lives	Total	Annual Expenditures														
			2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Adult building	Varies	\$ 386,335	\$ 10,530	\$ -	\$ -	\$ -	\$ 48,016	\$ 13,577	\$ 34,500	\$ 12,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,879
Adult pool	Varies	158,102	28,500	-	-	-	-	-	9,741	1,189	-	11,239	30,262	-	-	-	-
Airport and campground inspection	Varies	8,000	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AM PM Beach	Varies	108,421	-	-	12,607	-	-	-	-	14,264	-	-	-	-	-	16,139	-
Area Z maintenance building	Varies	515,296	66,500	104,406	-	9,878	7,727	42,076	-	8,321	-	-	8,961	-	-	2,017	22,295
Association wide system	Varies	1,144,321	51,000	-	-	107,689	-	27,154	-	-	-	121,840	-	-	-	53,795	137,851
Barn 8 equipment	Varies	836,347	69,000	-	-	12,923	-	-	-	92,776	-	-	-	107,526	19,681	20,173	-
Bus shelters	Varies	216,467	-	6,421	-	-	6,914	-	26,979	-	-	-	7,823	-	8,219	-	8,851
Campground	Varies	26,051	-	6,930	-	-	-	-	-	-	-	-	-	-	-	-	6,893
Clubhouse	Varies	751,376	-	-	31,518	-	13,908	175,368	-	11,887	-	-	-	-	16,532	13,449	-
Clubhouse equipment	Varies	549,589	-	-	9,981	-	-	33,942	-	2,377	-	-	-	-	91,846	53,124	13,785
Golf course	Varies	3,912,787	37,000	34,850	291,022	69,370	37,530	41,862	31,311	83,208	32,897	33,719	111,368	35,426	36,312	57,209	38,151
Golf course equipment	Varies	1,248,959	5,000	44,075	-	-	169,435	-	-	3,566	54,828	-	-	-	198,781	2,690	4,239
Main pool	Varies	782,368	119,000	27,162	20,004	5,384	-	12,445	-	-	-	-	14,081	84,808	134,489	6,893	-
Maintenance equipment	Varies	4,809,280	198,089	-	143,486	16,153	88,305	162,540	206,425	166,416	38,627	143,619	228,609	137,207	154,662	245,375	150,583
Marina	Varies	1,771,581	-	488,925	-	144,949	-	7,920	13,916	-	24,368	-	175,443	15,745	9,414	27,570	-
Parks	Varies	134,814	19,000	10,250	10,506	10,769	11,038	11,314	11,597	11,887	12,184	-	11,521	-	-	-	-
Rec corridor	Varies	112,380	-	-	-	83,997	-	-	-	-	-	-	18,733	-	-	-	9,650
Security building	Varies	107,744	20,160	-	7,354	-	-	-	-	3,423	-	-	-	-	-	6,731	4,069
Security equipment	Varies	1,586,967	-	6,150	66,190	4,846	-	209,310	29,074	3,566	-	43,710	-	7,873	252,839	40,762	-
Trail building	Varies	44,814	4,000	4,100	4,202	4,308	4,415	4,526	4,639	4,755	4,874	4,995	-	-	-	-	-
Turf building	Varies	317,101	51,120	-	-	-	33,114	6,336	2,315	7,917	12,184	-	-	1,471	2,017	-	13,649
Turf equipment	Varies	2,969,951	162,000	22,549	121,873	107,906	80,578	84,516	69,582	52,897	76,759	43,710	-	19,681	91,452	42,734	252,942
Barn 8 building	Varies	879,295	-	220,375	-	-	-	169,710	-	-	-	21,322	-	249,617	-	-	-
Kitchen	Varies	291,386	66,300	-	-	10,230	-	13,577	-	-	-	1,828	-	24,064	28,866	-	2,068
Mailboxes	Varies	705,844	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Culverts	Varies	23,383,162	580,930	634,774	496,239	579,581	674,612	638,983	1,388,504	717,328	698,120	624,431	640,042	656,043	672,444	689,256	706,487
Culverts, ditches, and swales major maintenance	Varies	4,502,091	102,547	105,111	107,738	110,432	113,193	116,023	118,923	121,896	124,944	128,067	131,269	134,551	137,914	141,362	144,896
Roads	Varies	33,366,054	760,000	779,000	798,475	818,437	838,898	859,870	881,367	903,401	925,986	949,136	972,864	997,186	1,022,116	1,047,668	1,073,860
<b>Total By Year</b>		<b>\$ 85,626,883</b>	<b>\$ 2,358,676</b>	<b>\$ 2,495,078</b>	<b>\$ 2,121,195</b>	<b>\$ 2,096,852</b>	<b>\$ 2,127,683</b>	<b>\$ 2,631,049</b>	<b>\$ 2,921,649</b>	<b>\$ 2,130,815</b>	<b>\$ 2,150,761</b>	<b>\$ 2,009,182</b>	<b>\$ 2,705,627</b>	<b>\$ 2,453,916</b>	<b>\$ 2,681,777</b>	<b>\$ 2,491,371</b>	<b>\$ 2,440,865</b>
<b>Cumulative Total</b>		<b>\$ 85,626,883</b>	<b>\$ 2,358,676</b>	<b>\$ 4,853,754</b>	<b>\$ 6,974,949</b>	<b>\$ 9,071,801</b>	<b>\$ 11,199,484</b>	<b>\$ 13,830,533</b>	<b>\$ 16,752,182</b>	<b>\$ 18,882,997</b>	<b>\$ 21,033,758</b>	<b>\$ 23,042,940</b>	<b>\$ 25,748,567</b>	<b>\$ 28,202,483</b>	<b>\$ 30,884,260</b>	<b>\$ 33,375,631</b>	<b>\$ 35,816,496</b>

Sudden Valley Community Association

Supplementary Information on Future Major Repairs and Replacements

December 31, 2016

(Unaudited)

Description	Estimated Remaining Useful Lives	Annual Expenditures														
		2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Adult building	Varies	\$ -	\$ 5,196	\$ -	\$ -	\$ -	\$ 19,663	\$ 17,686	\$ -	\$ 33,399	\$ 72,349	\$ -	\$ 76,012	\$ -	\$ 28,011	\$ -
Adult pool	Varies	-	-	1,522	-	3,997	36,869	-	-	-	11,757	-	15,962	1,948	-	5,116
Airport and campground inspection	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AM PM Beach	Varies	-	-	18,259	3,119	-	-	-	20,659	-	-	-	-	23,374	-	-
Area Z maintenance building	Varies	3,170	32,660	-	-	11,191	-	134,132	12,051	16,187	2,713	17,036	-	-	-	13,975
Association wide system	Varies	-	-	-	155,966	38,368	-	-	-	176,461	28,940	-	45,607	-	199,650	-
Barn 8 equipment	Varies	17,380	-	-	-	-	235,960	-	-	-	-	27,809	180,528	52,591	-	-
Bus shelters	Varies	-	9,299	25,868	-	10,014	-	10,521	-	59,506	11,330	-	11,903	-	-	12,819
Campground	Varies	-	-	-	-	-	-	2,958	-	-	-	9,270	-	-	-	-
Clubhouse	Varies	-	-	15,216	19,652	-	131,089	-	116,206	-	-	23,360	-	19,478	-	163,713
Clubhouse equipment	Varies	43,449	-	3,043	-	-	-	-	16,355	-	-	55,618	133,021	3,896	19,965	40,928
Golf course	Varies	302,845	50,474	41,083	88,771	54,355	60,628	45,349	58,534	60,879	48,836	81,573	51,308	1,873,784	67,880	55,253
Golf course equipment	Varies	62,277	2,969	-	236,288	-	3,277	5,039	74,028	-	3,617	280,873	-	-	9,982	87,995
Main pool	Varies	15,931	-	-	-	-	18,025	-	-	122,880	180,873	20,393	-	-	-	-
Maintenance equipment	Varies	31,991	348,858	17,608	249,078	183,845	377,144	159,560	77,471	228,522	-	179,998	265,228	366,186	220,014	23,681
Marina	Varies	57,932	478,011	-	31,193	11,191	-	20,155	-	188,813	-	-	36,106	-	39,930	-
Parks	Varies	-	-	-	-	-	14,748	-	-	-	-	-	-	-	-	-
Rec corridor	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security building	Varies	-	-	-	-	-	4,837	-	-	-	-	-	-	-	-	-
Security equipment	Varies	36,207	51,958	4,565	-	255,784	41,080	10,077	48,204	69,702	-	46,349	304,047	54,674	-	-
Trail building	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turf building	Varies	35,165	-	-	-	15,987	9,176	11,186	89,522	-	2,713	-	3,793	-	13,297	6,139
Turf equipment	Varies	133,246	73,484	74,560	73,616	64,340	127,812	169,637	67,141	116,464	144,698	81,574	118,768	81,807	21,961	391,664
Barn 8 building	Varies	25,345	17,814	-	-	-	-	109,173	30,127	-	-	-	-	-	-	35,812
Kitchen	Varies	22,449	-	7,608	7,018	-	22,613	-	-	2,647	9,044	9,270	60,809	-	2,995	-
Mailboxes	Varies	-	-	-	-	-	-	-	-	705,844	-	-	-	-	-	-
Culverts	Varies	724,149	742,253	760,809	779,829	799,325	819,308	839,791	860,786	882,305	904,363	926,972	950,146	973,900	998,248	1,023,204
Culverts, ditches, and swales major maintenance	Varies	148,519	152,232	156,037	159,938	163,937	168,035	172,236	176,542	180,956	185,479	190,116	194,869	199,741	204,735	209,853
Roads	Varies	1,100,707	1,128,224	1,156,430	1,185,341	1,214,974	1,245,348	1,276,482	1,308,394	1,341,104	1,374,632	1,408,998	1,444,222	1,480,328	1,517,336	1,555,270
<b>Total By Year</b>		<b>\$ 2,760,762</b>	<b>\$ 3,093,432</b>	<b>\$ 2,282,608</b>	<b>\$ 2,989,809</b>	<b>\$ 2,827,308</b>	<b>\$ 3,330,775</b>	<b>\$ 2,988,819</b>	<b>\$ 2,956,020</b>	<b>\$ 4,185,669</b>	<b>\$ 2,981,344</b>	<b>\$ 3,391,245</b>	<b>\$ 3,892,329</b>	<b>\$ 5,155,091</b>	<b>\$ 3,363,729</b>	<b>\$ 3,611,447</b>
<b>Cumulative Total</b>		<b>\$ 38,577,258</b>	<b>\$ 41,670,690</b>	<b>\$ 43,953,298</b>	<b>\$ 46,943,107</b>	<b>\$ 49,770,415</b>	<b>\$ 53,101,190</b>	<b>\$ 56,090,009</b>	<b>\$ 59,046,029</b>	<b>\$ 63,231,698</b>	<b>\$ 66,213,042</b>	<b>\$ 69,604,287</b>	<b>\$ 73,496,616</b>	<b>\$ 78,651,707</b>	<b>\$ 82,015,436</b>	<b>\$ 85,626,883</b>

Sudden Valley Community Association

Internal Balance Sheet

Year Ended December 31, 2016

(Unaudited)

**Operations**

**Current assets**

Operating cash	\$ 154,892
Building completion deposit fund	105,000
Member receivables, net *	-
Other receivables	11,090
Prepaid expenses	56,866
Inventory	<u>3,907</u>
Total current assets	331,755

**Current liabilities**

Accounts payable	(94,013)
Prepaid assessments	(126,392)
Building completion deposits	(105,000)
Other refundable deposits	(6,213)
Prepaid golf memberships	<u>(28,452)</u>
Total current liabilities	<u>(360,070)</u>

**Net operating assets** (28,315)

**Capital reserve funds**

CRRRF reserve fund	1,137,789
Roads reserve fund	1,489,511
Density reduction fund	122,956
Mailbox fund	4,854
Capital reserve holding fund	70,522
Mitigation assignment of savings	<u>38,079</u>
Total capital reserve funds	2,863,711

**Operating reserve funds**

Emergency operating cash	351,258
Undesignated reserves	<u>164,686</u>
Total operating reserves	515,944

**Capital assets**

Fixed assets, net	8,705,396
Lots held for sale, net	<u>241,018</u>
Total capital assets	<u>8,946,414</u>

**Long-term liabilities**

Capital lease	<u>(68,538)</u>
Total long-term liabilities	<u>(68,538)</u>

**Total net assets** \$ 12,229,216

**Member equity**

Current year net income: operations	\$ 66,162
Current year net income: capital	608,321
Retained earnings	4,321,334
Capital	<u>7,233,399</u>
<b>Total member equity</b>	<u>\$ 12,229,216</u>

\* The Association's policy is to write off any member receivables that are 30 days past due as bad debts for internal financial statement purposes, allowing the Association to see how much cash is collected each period. At December 31, 2016 and 2015, the balance of receivables written-off under this policy was \$1,037,729 and \$1,091,498, respectively.

For GAAP accounting and Federal non-profit reporting purposes the policy is to write off any member receivables that are 90 days past due as of December 31, 2016. At December 31, 2016, the balance of receivables written off under this policy were \$957,982. GAAP accounting and Federal non-profit reporting in the balance sheet above would have added an additional \$32,820 to operations income and \$46,927 to reserves income at 12/31/2016.

As per SVCA policy, Management continues to pursue collection of these receivables via all avenues allowed by Washington State laws. In addition, the Association records and bills finance charges on receivables that are thirty days past due at 1% per month.

Sudden Valley Community Association

**Internal Income Statement**

Year Ended December 31, 2016

(Unaudited)

	<u>Operations</u>	Better (Worse) <u>Spending Plan</u>	<u>Coll.</u>	<u>Reserves</u>
<b>Revenue</b>				
Current year dues and assessments income				
Dues and assessment income	\$ 1,524,967	\$ -		\$ 1,274,102
Bad debt reserve	(83,044)	-		(58,325)
Net current year dues and assessment income	1,441,923	64,955	94.6%	1,215,777
Bad debt recoveries - prior years *	-	-		234,569
Golf income	715,295	(52,775)		-
Marina income	107,378	(7,588)		-
Legal and collections income	-	-		61,793
Other income	160,569	103,568		58,541
Rental income - other	44,451	16,359		-
Rental income - Area Z	19,311	4,111		-
Investment income	183	(537)		11,534
<b>Total revenue</b>	<b>2,489,110</b>	<b>128,093</b>		<b>1,582,214</b>
<b>Expenses</b>				
Salaries and benefits	1,234,879	22,875		-
Contracted and professional services	210,845	(64,738)		100,044
CC&Rs/mandates	293,657	(9,969)		17,841
Maintenance and landscaping	266,142	(18,526)		-
Utilities	112,129	25,911		-
Administrative	117,758	(6,308)		-
Regulatory compliance	88,024	9,055		3,777
Insurance premiums	98,556	(3,699)		-
Other expenses	958	41		-
Capital lease interest expense	-	-		1,757
Depreciation and amortization	-	-		850,474
<b>Total expenses</b>	<b>2,422,948</b>	<b>(45,358)</b>		<b>973,893</b>
<b>Net income</b>	<b>\$ 66,162</b>	<b>\$ 82,735</b>		<b>\$ 608,321</b>
<b>Net UDR activity for operations</b>				
<b>Snow removal, ACC staff and general manager recruiting expenses</b>	<b>(48,039)</b>	<b>48,039</b>		<b>48,039</b>
<b>Net income with UDR</b>	<b>\$ 18,123</b>	<b>\$ 130,774</b>		<b>\$ 656,360</b>

\* Prior year recoveries for operations are deposited into the Undesignated Reserve Account (UDR) and reported in the Reserves column.

Sudden Valley Community Association

**Internal Reserve Cash Balances and Activity**

Year Ended December 31, 2016

(Unaudited)

	CRRRF	Roads	Capital Reserve Holding Fund	Density Reduction	Mailbox	Emergency Ops	UDR	Mitigation Assignment of Savings **	Total
<b>Net available cash, 12/31/2015</b>	\$ 1,175,067	\$ 1,294,236	\$ -	\$ 146,833	\$ 4,422	\$ 350,952	\$ 60,565	\$ -	\$ 3,032,075
Dues received	543,829	742,542	70,517	17	430	-	224,904	-	1,582,239
Stormwater mitigation plan income	-	3,000	-	-	-	-	-	-	3,000
Investment income	1,180	1,516	5	108	2	306	8,401	16	11,534
Sale of assets	1,400	-	-	8,996	-	-	-	-	10,396
Legal settlement income	22,945	-	-	-	-	-	2,264	-	25,209
Mitigation assignment of savings	-	(38,079)	-	-	-	-	-	38,063	(16)
2016 expenditures	<u>(606,632)</u>	<u>(513,704)</u>	<u>-</u>	<u>(32,999)</u>	<u>-</u>	<u>-</u>	<u>(131,448)</u>	<u>-</u>	<u>(1,284,783)</u>
<b>Net available cash, 12/31/2016</b>	1,137,789	1,489,511	70,522	122,955	4,854	351,258	164,686	38,079	3,379,654
Obligated expenses	<u>(527,346)</u>	<u>(144,809)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,000)</u>	<u>(38,079)</u>	<u>(765,234)</u>
									-
<b>Net usable cash balance, 12/31/2016</b>	610,443	1,344,702	70,522	122,955	4,854	351,258	109,686	-	2,614,420
Board recommended carryover balance *	<u>(600,000)</u>	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,100,000)</u>
<b>Net usable cash balance, 12/31/2016, after motions</b>	<u>\$ 10,443</u>	<u>\$ 844,702</u>	<u>\$ 70,522</u>	<u>\$ 122,955</u>	<u>\$ 4,854</u>	<u>\$ 351,258</u>	<u>\$ 109,686</u>	<u>\$ -</u>	<u>\$ 1,514,420</u>
<b>Net current year cash change</b>	\$ (564,624)	\$ 50,466	\$ 70,522	\$ (23,878)	\$ 432	\$ 306	\$ 49,121	\$ -	\$ (417,655)

\* CRRRF board recommended carryover balance changes to \$600,000 on 01/01/17 from \$750,000 is reflected above.

\*\* Note, when mitigation period has ended unspent funds will be returned to the source account: roads - \$38,079

Sudden Valley Community Association

**Internal Operations – By Department**

Year Ended December 31, 2016

(Unaudited)

Department	Actual Revenue	Revenue Better (Worse) Spending Plan	Actual Salary Benefits	Salary and Benefits Better (Worse) Spending Plan	Actual Other Expense *	Other Expense Better (Worse) Spending Plan *	Net Income (Loss) *	Net Better (Worse) Spending Plan *
ACC/Security	\$ 57,588	\$ 50,688	\$ 69,077	\$ 505	\$ 270,603	\$ (27,067)	\$ (282,092)	\$ 24,126
Accounting	40,659	20,660	187,291	34,241	82,628	(8,584)	(229,260)	46,317
Administration	10,205	8,603	271,922	(9,988)	134,449	(31,484)	(396,166)	(32,869)
Common costs	46,524	17,304	-	-	233,945	10,956	(187,421)	28,260
Facilities	60,922	17,630	41,821	12,451	123,810	27,753	(104,709)	57,834
Maintenance	1,248	1,248	194,724	(26,651)	57,647	(21,802)	(251,123)	(47,205)
Subtotal	217,146	116,133	764,835	10,558	903,082	(50,228)	(1,450,771)	76,463
Golf	715,295	(52,775)	470,044	12,317	261,879	(2,556)	(16,628)	(43,014)
Marina	112,200	(2,766)	-	-	10,726	(3,067)	101,474	(5,833)
Pools	2,546	2,546	-	-	12,382	(12,382)	(9,836)	(9,836)
Total	\$ 1,047,187	\$ 63,138	\$ 1,234,879	\$ 22,875	\$ 1,188,069	\$ (68,233)	\$ (1,375,761)	\$ 17,780
Operation dues earned	1,524,967						1,524,967	
Current year bad debt activity	(83,044)						(83,044)	
Net operation dues	1,441,923	64,955					1,441,923	64,955
<b>Net operations</b>	<u>2,489,110</u>	<u>128,093</u>	<u>1,234,879</u>	<u>22,875</u>	<u>1,188,069</u>	<u>(68,233)</u>	<u>66,162</u>	<u>82,735</u>
Net UDR activity for operations snow removal, ACC staff, and GM recruiting expense	-	-	-	-	48,039	(48,039)	(48,039)	(48,039)
<b>Net operations with UDR</b>	<u>\$ 2,489,110</u>	<u>\$ 128,093</u>	<u>\$ 1,234,879</u>	<u>\$ 22,875</u>	<u>\$ 1,236,108</u>	<u>\$ (116,272)</u>	<u>\$ 18,123</u>	<u>\$ 34,696</u>

\* Excludes depreciation.