Larson Gross

To The Board of Directors
Sudden Valley Community Association
4 Clubhouse Circle
Bellingham, WA 98229

In planning and performing our audit of the financial statements of Sudden Valley Community Association (the Association) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when *(a)* a control necessary to meet the control objective is missing, or *(b)* an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Detailed Preventive Maintenance Program and Funding Analysis
The Association had a level 1 reserve study performed by Schwindt & Co. dated November 1, 2016. This study specifically outlines projected reserve and operating funding that is needed to preserve and improve the physical assets of the Association. The study also outlines the preparation of a detailed preventative maintenance program that would outline and anticipate future cash expenditures. We recommend that the Association review the reserve study and implement the suggested changes. We also recommend that the Association compare the capital funding suggestions noted on the reserve study along with the current operational expenses and inflation to determine if monthly association dues are adequate to meet both the operational and capital needs

required by the Association. Currently, the managing director is drafting a quarterly preventive maintenance program.

Overstatement of Allowance for Doubtful Accounts
We noted during the audit that the allowance for doubtful accounts equaled the accounts receivable balance. This presents the balance sheet on a cash basis which is not in accordance with accounting principles generally accepted in the United States of America. Upon discussion with the Accounting Manager, an entry was posted which reduced the allowance for doubtful accounts by $79,747 to properly present accounts receivable based on estimate that all receivables less than 60 days past due are collectible. This adjustment also reduced overall bad debt expense which effectively increased Excess Revenues over Expenses by $79,747.

This communication is intended solely for the information and use of management and the Board of Directors and is not intended and should not be used by anyone other than these specified parties.

Larson Gross PLLC

Bellingham, Washington
September 11, 2017