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, 2014, 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:

Cash Collections
During our audit we noted that accounts receivable and bad debt expense substantially increased for the year ended December 31, 2014. As a result, cash available for operations and capital projects is materially lower than expected based on gross billings. We recommend hiring, and the Association already has hired, a collection specialist who focuses on the aged accounts receivable that could potentially be collected.

We also noted during the audit that cash collected from association member dues was recorded with one charge code on the accounts receivable subsidiary ledger after implementing the new accounting software. This resulted in aging by fund being unreconciled on the accounts receivable subledger. We recommend that the Association account for cash collections by applying the payment received to the correct billings codes with which the payment is associated. The Association has implemented this practice subsequent to year end.

Segregation of Duties over Cash Receipts
During our audit we noted that the accounts receivable clerk received payments and posted payments to customer accounts. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected.

Cash receipts should be received and controlled by a person independent of the person responsible for the accounts receivable subsidiary ledger. An individual independent of accounts receivable should open the mail, endorse the checks, and prepare the deposit slip and daily list of receipts. The cash and deposit slip would then be forwarded to another individual for deposit. The daily list of receipts should then be forwarded to the accounts receivable clerk to post to customer's accounts. Subsequent to year end, the Association changed its cash collection controls and implemented proper segregation of duties.

FDIC Limits
We noted during our audit procedures that the Association has significant cash with one bank; the cash is mostly uninsured by the Federal Deposit Insurance Corporation (FDIC) due to FDIC insurance limitations. We recommend that the Association consider alternative means of investment of these funds in order to obtain full insurance coverage and thus reduce the Association’s risk of loss. For instance, additional insurance could be obtained or the funds could be moved to another bank in order to gain additional coverage.

Detailed Preventive Maintenance Program and Funding Analysis
The Association had a level 1 reserve study performed by Capital Reserve Consultants, LLC dated September 25, 2013. 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.

Accounting Staff
It was noted during our audit procedures that the prior accounting staff employed through the previous management company made a substantial amount of accounting errors throughout the year. As a result, large adjustments were required subsequent to year end that affected fixed assets, expenses, reclassifications of cash and other areas of the Association’s financial statements. The Association has taken steps to resolve this issue subsequent to year end by hiring a qualified accountant as the new accounting manager, along with providing additional accounting personnel support. We recommend that the Board also provide adequate oversight over the accounting department’s controls and reporting to avoid issues in the future.

Evaluation of the Existing Accounting System
During the year ended December 31, 2014, the Association changed its accounting system to C3, based on recommendations from the previous management company. We noted issues with the setup of the new system, large journal entries used to correct opening balances and issues when

pulling reports needed for the audit. We recommend that the Board and the accounting department fully evaluate the current accounting system to determine if the system is adequate for the Association.

Produce and Retain Certain Accounting Records
We noted that various accounting records, such as board reports, marina files and other requested reports, frequently either could not be provided or required additional time to obtain, causing us to perform alternative procedures if the documents were unable to be located . It is also our understanding that the Association should keep all accounting records based on a records retention policy. It is important to maintain these records for possible analysis by users such as management, independent auditors, or governmental bodies such as the Internal Revenue Service. Subsequent to the year ended December 31, 2014, the Association has dramatically improved its records retention and organizational policies.

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
August 25, 2015