

Sudden Valley Community Association

Financial Statements and
Supplementary Information with
Independent Auditor's Report

Years Ended December 31, 2015 and 2014

Larson Gross 

Sudden Valley Community Association

Contents

	Page
Independent Auditor's Report	1-2
Balance Sheets	3
Statements of Revenues and Expenses	4
Statements of Changes in Members' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7-12
Supplementary Information	
Supplementary Information on Future Major Repairs and Replacements (Unaudited)	13-15
Internal Reports	16-19

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sudden Valley Community Association (the Association) which comprise the balance sheets as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 16-19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

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 13-15 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.

Larson Gross PLLC

Bellingham, Washington
August 8, 2016

Sudden Valley Community Association

Balance Sheets

December 31, 2015 and 2014

	Assets	
	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents		
Operating funds	\$ 97,038	\$ 127,566
Building deposits	46,500	42,525
Operating reserve funds	<u>412,023</u>	<u>505,227</u>
Total cash and cash equivalents	555,561	675,318
Cash held in reserve		
Capital	1,175,118	1,721,605
Roads	1,315,508	1,181,804
Density reduction	146,834	134,044
Mailbox assessment	<u>4,422</u>	<u>3,528</u>
Total cash held in reserve	2,641,882	3,040,981
Receivables, net	3,130	102,886
Inventory	7,748	3,048
Prepaid expenses	<u>50,009</u>	<u>92,433</u>
Total current assets	3,258,330	3,914,666
Property and equipment, net	8,454,574	7,907,695
Parcels and lots held for sale	<u>248,635</u>	<u>279,083</u>
Total assets	<u><u>\$ 11,961,539</u></u>	<u><u>\$ 12,101,444</u></u>
	Liabilities and Members' Equity	
Current liabilities		
Accounts payable	\$ 105,087	\$ 316,205
Refundable deposits	52,163	48,383
Deferred revenue	35,648	24,112
Prepaid dues	115,006	56,945
Current portion of capital lease	<u>32,160</u>	<u>32,160</u>
Total current liabilities	340,064	477,805
Capital lease, net of current portion	66,781	93,703
Members' equity		
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	3,741,342	4,130,962
Retained earnings	<u>4,825,131</u>	<u>4,410,753</u>
Total members' equity	<u>11,554,694</u>	<u>11,529,936</u>
Total liabilities and members' equity	<u><u>\$ 11,961,539</u></u>	<u><u>\$ 12,101,444</u></u>

Sudden Valley Community Association

Statements of Revenues and Expenses

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues		
Dues and assessments - general	\$ 1,437,395	\$ 1,595,176
Dues and assessments - capital expenditures and reserve funding	1,136,853	1,934,325
Golf green fees	649,748	572,422
Rental income	290,439	269,957
Miscellaneous income	224,181	149,333
Fines, penalties, late and lien fees	156,153	176,174
Member donations	2,601	67
Activity fees	2,140	15,750
Investment income	1,299	2,907
Member service income	482	2,018
Maintenance income	86	-
Gain (loss) on disposal of property and equipment	(2,364)	3,548
Loss on lot sales	(15,180)	-
Total revenues	<u>3,883,833</u>	<u>4,721,677</u>
Costs and expenses		
Salaries and wages	993,219	-
Outside services	860,332	201,122
Depreciation and amortization	778,316	700,705
Repairs and maintenance	227,149	202,711
Golf maintenance	217,918	200,982
Payroll taxes and fringe benefits	191,502	-
Taxes, licenses and insurance	129,195	141,991
Materials and supplies	124,689	103,749
Telephone and utilities	108,313	100,661
Bad debt expense (see Note 2)	94,987	463,743
Golf management	55,198	50,213
Miscellaneous	39,797	64,211
Other employee expenses	29,377	-
Interest expense	5,238	3,688
Bank and credit card charges	3,845	5,739
Management fee	-	1,605,765
Total costs and expenses	<u>3,859,075</u>	<u>3,845,280</u>
Excess of revenues over expenses	<u>\$ 24,758</u>	<u>\$ 876,397</u>

Sudden Valley Community Association

Statements of Changes in Members' Equity

Years Ended December 31, 2015 and 2014

	<u>Donated Capital Developers</u>	<u>Paid-In Capital Members</u>	<u>Capital Special Assessment</u>	<u>Equity Reserves</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance - December 31, 2013	\$ 482,330	\$ 1,815,600	\$ 690,291	\$ 3,917,245	\$ 3,748,073	\$ 10,653,539
Excess of revenues over expenses	-	-	-	-	876,397	876,397
Capital Assessments and Board of Director's appropriations for 2014, net						
Road reserves fund	-	-	-	471,161	(471,161)	-
Density reduction fund	-	-	-	14,213	(14,213)	-
Capital reserves fund	-	-	-	(271,658)	271,658	-
Mailbox assessment fund	-	-	-	1	(1)	-
Balance - December 31, 2014	482,330	1,815,600	690,291	4,130,962	4,410,753	11,529,936
Excess of revenues over expenses	-	-	-	-	24,758	24,758
Capital Assessments and Board of Director's appropriations for 2015, net						
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	-
Balance - December 31, 2015	<u>\$ 482,330</u>	<u>\$ 1,815,600</u>	<u>\$ 690,291</u>	<u>\$ 3,741,342</u>	<u>\$ 4,825,131</u>	<u>\$ 11,554,694</u>

Sudden Valley Community Association

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Excess of revenues over expenses	\$ 24,758	\$ 876,397
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	778,316	700,705
Loss on sale of property and equipment	2,364	10,414
Loss (gain) on sale of lots held for sale	15,180	(13,962)
(Increase) decrease in assets:		
Receivables, net	99,756	127,524
Inventory	(4,700)	5,334
Prepaid expenses	42,424	(13,785)
Increase (decrease) in liabilities:		
Accounts payable	(37,395)	102,477
Deferred revenue	11,536	(14,741)
Prepaid dues	58,061	6,275
	<u>990,300</u>	<u>1,786,638</u>
Net cash provided by operating activities	990,300	1,786,638
Cash flows from investing activities		
(Increase) decrease in cash held in reserve	399,099	(831,806)
Proceeds from sale of property and equipment	3,000	1,392
Proceeds from sale of lots held for sale	15,268	7,489
Purchase of construction in progress	(587,332)	(526,346)
Purchase of property, roads, and equipment	(916,950)	(569,490)
	<u>(1,086,915)</u>	<u>(1,918,761)</u>
Net cash used by investing activities	(1,086,915)	(1,918,761)
Cash flows from financing activities		
Principal payments on capital lease	(26,922)	(17,752)
Refundable deposits	3,780	(46)
	<u>(23,142)</u>	<u>(17,798)</u>
Net cash used by financing activities	(23,142)	(17,798)
Net decrease in cash and cash equivalents	(119,757)	(149,921)
Cash and cash equivalents - beginning of year	<u>675,318</u>	<u>825,239</u>
Cash and cash equivalents - end of year	<u>\$ 555,561</u>	<u>\$ 675,318</u>

Notes to Financial Statements

December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies

Business - Sudden Valley Community Association (the Association) was formed to operate and maintain the commonly owned property at 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 3,167 members and 4,641 total lots. The Association is organized as a nonprofit 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 (2) 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 \$412,023 and \$505,227 at December 31, 2015 and 2014, 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.

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 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 equivalents for purposes of the Statements of Cash Flows.

Concentrations of credit risk - Cash deposits and certificates of deposit exceed the FDIC insured amount by approximately \$2,798,000 as of December 31, 2015.

Lots held for resale - Lots held for resale are stated at lower of cost or fair market value.

Notes to Financial Statements

December 31, 2015 and 2014

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

Property and equipment - The Association recognizes all common property as assets in its balance sheet, 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 which 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.

Member dues and assessments - Association members are subject to monthly and annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. In 2013, the Association stopped billing members in advance for dues. Deferred revenue related to golf and health club revenue, amounted to \$35,648 and \$24,112 at December 31, 2015 and 2014, respectively. Assessments receivable at the balance sheet date represents prior assessments due from unit owners. 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. The Association's policy through 2014 was to write off invoices that were outstanding on the last day of each quarter which were not considered current as bad debts. In 2015, the policy was revised to write off invoices that are outstanding on the last day of each month that are not considered current as bad debts. All receivables on the balance sheet are considered fully collectible by management (See Note 2 - Receivables).

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 services is provided in accordance with the accrual basis of accounting.

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.

Income taxes - The Association is a not-for-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, 2015 and 2014. As of December 31, 2015, 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, 2015, the Association had no uncertain tax positions requiring accrual.

Notes to Financial Statements

December 31, 2015 and 2014

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

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 \$8,656 and \$20,209 for the years ended December 31, 2015 and 2014, 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.

Subsequent events - In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 8, 2016, the date the financial statements were available to be issued.

Note 2 - Receivables, Net

Receivables consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Members' accounts receivable	\$ 730	\$ 95,408
Receivables - member (non-dues) and other	<u>2,400</u>	<u>7,478</u>
	<u>\$ 3,130</u>	<u>\$ 102,886</u>

As of December 31, 2015 and 2014, the Association has written off \$1,091,498 and \$996,509 respectively, of member accounts receivable balances at that date that were considered past due. This includes accounts receivable balances written off from prior years. Management continues to pursue collection of these accounts.

Due to the revised application of accounting policy as described in Note 1, the Association wrote off an additional \$95,384 of bad debt on January 1, 2015 that were related to prior year balances.

Notes to Financial Statements

December 31, 2015 and 2014

Note 3 - Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Roads and bridges	\$ 7,989,033	\$ 7,513,526
Land and improvements	4,333,217	4,353,715
Buildings and improvements	3,932,607	2,963,121
Vehicles, machinery and equipment	2,162,900	2,178,793
Furniture, fixtures and office equipment	381,466	324,383
Construction in progress	<u>587,332</u>	<u>934,819</u>
	19,386,555	18,268,357
Less accumulated depreciation	<u>(10,931,981)</u>	<u>(10,360,662)</u>
	<u><u>\$ 8,454,574</u></u>	<u><u>\$ 7,907,695</u></u>

Note 4 - 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 \$192,920 and accumulated depreciation totaled \$64,305 and \$25,722 at December 31, 2015 and 2014, 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, 2015, \$98,941 was outstanding.

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

2016	\$ 32,160
2017	32,160
2018	32,160
2019	<u>10,720</u>
Total minimum lease payments	107,200
Less amount representing interest	<u>(8,259)</u>
Present value of minimum lease payments	98,941
Less current portion	<u>(32,160)</u>
	<u><u>\$ 66,781</u></u>

Notes to Financial Statements

December 31, 2015 and 2014

Note 5 - 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>2015</u>	<u>2014</u>
Lots, at cost	\$ 442,519	\$ 472,967
Less allowance for decrease in net realizable value	(193,884)	(193,884)
Total lots, at lower of cost or fair market value	<u>\$ 248,635</u>	<u>\$ 279,083</u>

Note 6 - 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.

The balance of the various equity reserves is shown below:

	<u>Road Reserve Fund</u>	<u>Capital Reserve Fund</u>	<u>Mailbox Assessment Fund</u>	<u>Density Reduction Fund</u>	<u>Total</u>
Balance December 31, 2013	\$ 657,937	\$ 2,215,754	\$ 9,777	\$ 1,033,777	\$ 3,917,245
2014 appropriations	1,264,638	669,687	-	-	1,934,325
Interest income	285	677	1	251	1,214
2014 bad debt expense	(141,627)	(121,269)	-	-	(262,896)
Gain on sale of PPE	-	(10,414)	-	13,962	3,548
2014 charges	(652,135)	(810,339)	-	-	(1,462,474)
Balance December 31, 2014	1,129,098	1,944,096	9,778	1,047,990	4,130,962
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)
Gain (Loss) on disposal of PPE	-	-	-	(17,544)	(17,544)
2015 charges	(476,598)	(1,009,906)	-	-	(1,486,504)
Balance December 31, 2015	<u>\$ 1,302,972</u>	<u>\$ 1,396,847</u>	<u>\$ 10,672</u>	<u>\$ 1,030,851</u>	<u>\$ 3,741,342</u>

Notes to Financial Statements

December 31, 2015 and 2014

Note 7 - Density Reduction

As of December 31, 2015 and 2014, the Association had purchased a total of 437 lots, through purchases with members or through foreclosure sales with Lake Whatcom Water & 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 & Sewer District. As of December 31, 2015 and 2014, the Association had acquired and owned 802 and 812 lots, respectively. At December 31, 2015 and 2014, 758 and 746 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 23 are restricted under Water District 10, while 21 are lots available for sale as of December 31, 2015.

Note 8 - Supplemental Cash Flow Information

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

	<u>2015</u>	<u>2014</u>
Cash paid for interest	\$ 5,238	\$ 3,688
Noncash investing and financing activities:		
Property received with lot held for sale transaction	<u>\$ 4,446</u>	<u>\$ 10,000</u>
Trade-in of golf carts in exchange for reduction of capital lease obligation	<u>\$ -</u>	<u>\$ 49,300</u>
Purchase of equipment with capital lease obligation	<u>\$ -</u>	<u>\$ 192,915</u>
Purchase of equipment with accounts payable	<u>\$ -</u>	<u>\$ 173,723</u>

Supplementary Information

Sudden Valley Community Association

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

Year Ended December 31, 2015

(Unaudited)

Capital Reserve Consultants, LLC conducted a study in September 2013, 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 3% 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 14-15 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, 2015

(Unaudited)

Description	Estimated Remaining Useful Lives	Per Year Expenses															
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Audio-Visual Equipment	Varies	\$ -	\$ 4,512	\$ -	\$ -	\$ -	\$ 2,087	\$ 6,334	\$ -	\$ -	\$ 9,803	\$ -	\$ 6,064	\$ -	\$ 7,790	\$ -	
Bridges & Dams	Varies	-	-	78,786	-	-	-	-	-	-	-	-	-	-	-	-	
Buildings	Varies	50,923	-	5,628	12,172	-	-	-	504,915	5,376	-	-	-	-	-	52,955	
Computer and Technology	Varies	-	1,345	-	37,171	102,641	-	1,559	-	43,091	118,989	4,225	26,746	2,163	49,955	137,941	
Decks and Balconies	Varies	-	-	-	-	-	-	-	-	-	23,071	-	-	-	-	-	
Drainage Improvements	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Emergency Equipment	Varies	-	-	-	-	4,728	-	-	-	-	5,482	-	-	-	-	6,355	
Fences and Gates	Varies	-	-	-	-	-	-	-	11,091	-	9,189	13,080	-	-	9,934	-	
Fire Safety and Supervision	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Flooring	Varies	6,448	-	-	-	31,289	4,120	-	1,336	-	36,272	8,666	-	6,973	-	42,050	
Furnitures and Fixtures	Varies	2,148	-	16,698	-	-	13,229	2,990	2,642	-	7,108	-	-	16,269	3,677	3,250	
Hardware	Varies	8,376	-	-	-	19,702	-	-	-	-	-	-	-	-	-	-	
Heavy Equipment	Varies	-	-	-	-	-	-	-	-	-	3,657	-	-	-	-	-	
HVAC	Varies	-	13,113	-	-	-	-	-	-	-	-	-	-	-	-	-	
Irrigation	Varies	-	-	58,526	637,601	-	-	-	-	-	-	-	76,364	-	-	83,445	
Kitchen Equipment	Varies	-	-	-	-	-	-	-	4,958	18,921	9,486	-	-	-	-	23,360	
Lawn Maintenance Equipment	Varies	-	-	-	56,358	-	-	6,496	-	46,735	-	-	59,326	-	-	-	
Lighting	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Mailbox	Varies	-	-	-	-	-	-	-	-	-	31,159	-	-	-	-	-	
Marina	Varies	33,786	4,369	-	912	-	-	-	-	192,633	3,443	-	166,861	-	9,784	-	
Office Equipment	Varies	1,150	-	-	-	-	-	15,413	1,414	-	5,909	-	-	-	18,956	1,740	
Office Furniture and Equipment	Varies	-	1,860	-	-	-	-	-	-	-	-	-	-	-	3,332	-	
Paint and Coatings	Varies	-	-	-	-	-	-	-	-	30,238	35,298	-	-	-	-	-	
Paving-Cart Paths	Varies	-	43,709	-	-	-	-	50,671	-	-	-	-	58,741	-	-	-	
Paving-Parking Areas	Varies	-	-	-	-	150,451	-	-	-	-	-	-	-	-	-	-	
Paving-Pool Decks	Varies	-	-	-	-	-	-	-	19,572	-	-	-	-	-	-	-	
Paving-Walkways and Sidewalks	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42,461	
Plumbing	Varies	10,609	-	-	-	-	-	-	-	6,488	123,197	1,886	-	25,976	-	124,365	
Recreational Amenities-Fitness	Varies	-	-	4,052	-	7,337	130,809	-	38,809	-	8,506	-	156,193	5,445	-	9,861	
Recreational Amenities-Games	Varies	-	-	-	-	-	-	-	-	-	3,970	-	2,567	3,035	-	-	
Recreational Amenities-Golf Course	Varies	51,454	60,545	1,118,790	11,272	63,551	186,517	218,814	154,103	56,908	770,297	33,140	103,947	1,459,242	88,223	173,364	
Recreational Amenities-Playgrounds	Varies	-	-	-	-	3,303	1,864	-	-	71,248	43,086	-	-	-	-	8,596	
Recreational Amenities-Pools	Varies	11,615	14,651	-	-	15,365	13,465	23,675	-	-	23,203	15,609	-	6,905	-	140,791	
Recreational Amenities-Tennis Courts	Varies	-	-	-	-	-	-	-	-	-	161,955	-	-	-	-	-	
Road Maintenance Equipment	Varies	1,899	-	5,498	-	6,360	15,238	-	-	59,041	615	2,552	-	-	53,935	27,805	
Roofing and Waterproofing	Varies	-	4,917	26,956	-	-	-	10,764	-	-	20,244	-	-	1,475	-	39,604	
Security	Varies	2,894	40,860	-	35,133	6,856	12,178	-	-	1,649	86,621	3,889	79,611	-	47,216	11,292	
Signage	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,705	
Site Improvements	Varies	6,040	-	-	-	-	4,846	-	-	-	-	8,117	-	-	-	-	
Specialty Equipment	Varies	-	-	-	-	-	-	3,147	-	2,809	-	-	19,644	-	3,870	-	
Store Fixtures	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,751	
Telecommunications	Varies	-	1,238	-	-	-	-	51,022	-	1,523	-	-	-	-	62,750	-	
Tools and Equipment	Varies	-	-	-	-	1,302	6,074	-	-	-	3,544	-	-	7,471	-	-	
Vehicles	Varies	26,988	-	-	-	-	2,856	286,055	62,070	64,624	-	3,311	-	-	45,989	399,464	
Website	Varies	-	-	-	-	15,761	-	-	-	-	18,271	-	-	-	-	21,180	
Total By Year		214,330	191,119	1,314,934	790,619	428,646	393,283	676,940	800,910	601,284	1,562,375	94,475	753,497	1,534,486	408,446	1,360,335	
Cumulative Total		\$ 4,102,110	\$ 4,293,229	\$ 5,608,163	\$ 6,398,782	\$ 6,827,428	\$ 7,220,711	\$ 7,897,651	\$ 8,698,561	\$ 9,299,845	\$ 10,862,220	\$ 10,956,695	\$ 11,710,192	\$ 13,244,678	\$ 13,653,124	\$ 15,013,459	

Sudden Valley Community Association

Supplementary Information on Future Major Repairs and Replacements

December 31, 2015

(Unaudited)

Description	Estimated Remaining Useful Lives	Per Year Expenses												
		2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Audio-Visual Equipment	Varies	\$ 2,805	\$ -	\$ -	\$ -	\$ 13,175	\$ 9,581	\$ 8,149	\$ -	\$ -	\$ -	\$ 3,770	\$ -	\$ 11,783
Bridges & Dams	Varies	-	-	-	-	-	-	-	-	-	-	-	162,175	44,016
Buildings	Varies	28,363	-	24,549	-	-	-	10,164	-	-	-	-	-	-
Computer and Technology	Varies	-	2,096	-	57,911	159,911	-	2,429	6,023	102,691	185,381	3,176	2,816	-
Decks and Balconies	Varies	-	-	-	-	74,412	-	-	-	-	-	-	-	-
Drainage Improvements	Varies	-	-	-	-	279,044	-	-	-	-	-	-	-	-
Emergency Equipment	Varies	-	-	-	-	7,367	-	-	-	-	8,540	-	-	-
Fences and Gates	Varies	15,806	-	-	-	-	-	-	-	-	14,315	20,378	-	-
Fire Safety and Supervision	Varies	-	-	-	-	288,346	-	-	-	-	-	-	-	-
Flooring	Varies	5,537	-	78,908	-	48,747	11,646	-	2,082	-	56,511	7,441	-	-
Furnitures and Fixtures	Varies	-	25,257	-	-	20,009	4,522	3,997	-	10,752	-	-	24,609	5,561
Hardware	Varies	-	28,090	-	-	-	-	10,807	-	-	-	17,537	-	-
Heavy Equipment	Varies	-	138,721	-	-	22,495	-	-	-	-	-	-	-	-
HVAC	Varies	-	76,609	-	117,397	-	-	23,683	-	-	-	-	-	-
Irrigation	Varies	-	-	-	-	-	-	-	-	108,876	-	-	118,972	-
Kitchen Equipment	Varies	-	-	6,663	-	12,248	-	-	-	29,478	580	-	-	8,955
Lawn Maintenance Equipment	Varies	80,353	-	-	9,262	-	66,632	-	-	-	84,584	-	-	114,564
Lighting	Varies	-	-	-	15,670	20,110	-	-	-	-	-	-	-	-
Mailbox	Varies	101,429	50,011	-	-	655,043	-	6,809	-	-	-	-	-	-
Marina	Varies	-	-	-	-	4,627	-	7,890	-	1,648	-	-	-	-
Office Equipment	Varies	-	-	-	-	2,586	23,313	2,139	-	-	-	-	-	28,672
Office Furniture and Equipment	Varies	-	-	-	2,733	-	-	3,359	-	-	-	-	-	-
Paint and Coatings	Varies	-	-	-	40,637	47,438	-	-	-	-	-	-	-	-
Paving-Cart Paths	Varies	-	68,097	-	-	-	-	78,943	-	-	-	-	91,517	-
Paving-Parking Areas	Varies	-	-	-	25,331	-	-	-	-	-	-	-	-	-
Paving-Pool Decks	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-
Paving-Walkways and Sidewalks	Varies	-	-	-	-	-	-	-	-	2,301	18,139	-	-	-
Plumbing	Varies	-	-	29,459	-	-	-	-	-	47,797	-	2,939	-	-
Recreational Amenities-Fitness	Varies	-	-	192,816	-	11,432	-	-	60,463	222,694	13,252	-	-	8,484
Recreational Amenities-Games	Varies	-	-	-	-	5,335	-	-	-	-	-	-	-	-
Recreational Amenities-Golf Course	Varies	82,713	352,923	43,487	76,480	1,094,886	131,357	232,755	1,855,579	249,264	120,426	111,160	407,574	188,094
Recreational Amenities-Playgrounds	Varies	-	-	-	-	63,049	2,905	-	-	111,002	-	-	-	-
Recreational Amenities-Pools	Varies	22,041	-	-	6,043	155,846	29,725	63,346	-	9,342	24,319	-	-	-
Recreational Amenities-Tennis Courts	Varies	-	-	-	-	217,654	-	-	-	-	-	-	-	-
Road Maintenance Equipment	Varies	2,959	-	8,568	-	9,908	23,741	-	-	91,984	958	3,976	-	-
Roofing and Waterproofing	Varies	-	-	45,547	-	6,697	-	-	40,780	245,333	4,313	-	6,864	176,026
Security	Varies	16,366	-	-	2,216	116,412	5,227	73,798	-	63,454	12,383	21,995	-	-
Signage	Varies	-	1,836	-	-	-	-	-	-	-	-	-	-	-
Site Improvements	Varies	6,512	-	15,132	-	-	10,908	-	-	6,281	-	8,752	-	-
Specialty Equipment	Varies	-	-	-	27,935	20,086	4,760	-	-	-	-	29,714	-	5,854
Store Fixtures	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-
Telecommunications	Varies	1,873	-	-	-	-	77,175	-	2,303	-	-	-	-	94,916
Tools and Equipment	Varies	-	-	-	-	16,047	-	-	-	-	-	-	11,300	-
Vehicles	Varies	44,258	-	-	-	-	4,448	45,625	459,038	151,888	-	5,158	-	-
Website	Varies	-	-	-	-	24,553	-	-	-	-	28,468	-	-	-
Total By Year		411,015	743,640	445,129	381,615	3,397,463	405,940	563,729	2,436,432	1,530,027	472,608	260,315	825,827	686,925
Cumulative Total		\$ 15,424,474	\$ 16,168,114	\$ 16,613,243	\$ 16,994,858	\$ 20,392,321	\$ 20,798,261	\$ 21,361,990	\$ 23,798,422	\$ 25,328,449	\$ 25,801,057	\$ 26,061,372	\$ 26,887,199	\$ 27,574,124

Sudden Valley Community Association

Internal Balance Sheet

Year Ended December 31, 2015

Operations	
Current Assets	
Operating Cash	\$ 97,038
Building Completion Deposit Fund	46,500
Member Receivables	92
Other Receivables	3,043
Prepaid Expenses	50,009
Inventory	<u>7,748</u>
Total Current Assets	204,430
Current Liabilities	
Accounts Payable	(83,221)
Prepaid Assessments	(115,046)
Building Completion Deposits	(46,500)
Other Refundable Deposits	(5,663)
Prepaid Golf Memberships	<u>(35,648)</u>
Total Current Liabilities	<u>(286,078)</u>
Net Operating Assets	(81,648)
Capital Reserve Funds	
CRRRF Reserve Fund	1,175,067
Major Repair & Replacement Fund	-
Roads Reserve Fund	1,294,236
Density Reduction Fund	146,833
Mailbox Fund	<u>4,422</u>
Total Capital Reserve Funds	2,620,558
Operating Reserve Funds	
Emergency Operating Cash	350,952
Undesignated Reserves	<u>60,565</u>
Total Operating Reserves	411,517
Capital Assets	
Fixed Assets	8,454,573
Lots Held for Sale	<u>248,635</u>
Total Capital Assets	<u>8,703,208</u>
Long Term Liabilities	
Capital Lease	<u>(98,941)</u>
Total Long Term Liabilities	(98,941)
NET ASSETS	<u>\$ 11,554,694</u>
Member Equity	
Member Equity	
Current Year Net Loss: Operations	(479,078)
Current Year Net Income: Capital	503,836
Retained Earnings	4,800,373
Capital	<u>6,729,563</u>
TOTAL MEMBER EQUITY	<u>\$ 11,554,694</u>

* The Association's policy is to write off any member receivables that are 30 days past due as bad debts for accounting and Federal non-profit reporting purposes. 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. At December 31, 2015 the balance of receivables written off under this policy were \$1,091,498.

Sudden Valley Community Association

Internal Income Statement

Year Ended December 31, 2015

	Operations	Better / (Worse) Spending Plan	Reserves
REVENUE			
Dues and Assessment Income	\$ 1,312,145	\$ 86,905	\$ 1,285,862
Golf Income	766,756	7,433	-
Marina Income	117,227	10,044	-
Legal & Collections Income	-	-	281,483
Other Income	80,293	29,392	-
Rental Income - Other	37,373	(7,254)	-
Rental Income- Area Z	18,743	177	-
Investment Income	232	231	1,068
UDR Funding to Operations**	133,033	-	(133,033)
Total Revenue	\$ 2,465,802	\$ 126,928	\$ 1,435,380
EXPENSES			
Salaries & Benefits	\$ 1,179,377	\$ 168,473	\$ -
Contracted & Professional Services	469,428	(210,032)	20,632
CC&Rs/ Mandates	409,084	(34,664)	10,640
Maintenance & Landscaping	312,215	(76,287)	-
Utilities	148,714	(15,774)	-
Administrative	111,677	(13,523)	-
Regulatory Compliance	87,943	48	3,793
Insurance Premiums	91,341	13,797	-
Other Expenses	2,068	(2,068)	-
Capital Lease Interest Expense	-	-	5,238
UDR Funding, Board Approved**	133,033	-	-
Cash Application Adjustment	-	-	95,384
Capital Loss on Sale of Fixed Assets	-	-	17,544
Depreciation Expense	-	-	778,313
Total Expenses	\$ 2,944,880	\$ (170,030)	\$ 931,544
Net Income (Loss)	\$ (479,078)	\$ (43,102)	\$ 503,836

** Undesignated Reserve operational supplemental funding as approved by the Board of Directors

Sudden Valley Community Association

Internal Reserve Cash Balances and Activity

Year Ended December 31, 2015

(Unaudited)

	CRRRF	MR&R	Roads	Density Reduction	Mailbox	Emergency Ops	UDR	Totals
Net Available Cash 12/31/2014	\$ 1,206,713	\$ 381,147	\$ 1,044,779	\$134,044	\$ 3,528	\$ 350,776	\$ 154,451	\$ 3,275,438
Dues Received	453,664	4,364	650,089	34	894	-	308,013	1,417,058
Investment Income	306	117	383	78	-	176	-	1,060
Sale of Assets	2,000	-	-	15,268	-	-	-	17,268
Legal Settlement Income	128,229	-	-	-	-	-	91,459	219,688
Board Motion, Aug 6, 2015, OPS to UDR Transfer							(310,000)	(310,000)
Combine MR&R & CRRRF	117,588	(117,588)						-
2015 Expenditures	(733,432)	(268,040)	(401,015)	(2,591)	-	-	(183,358)	(1,588,436)
Net Available Cash at 12/31/2015	1,175,068	-	1,294,236	146,833	4,422	350,952	60,565	3,032,076
Obligated Expenses	(112,231)	-	(291,552)	-	-	-	(28,611)	(432,394)
Net Usable Cash Balance 12/31/2015	\$ 1,062,837	\$ -	\$ 1,002,684	\$146,833	\$ 4,422	\$ 350,952	\$ 31,954	\$ 2,599,682
Board Motion, Aug 6, 2015, Remaining available							-	-
Board Approved Minimum Balance	(750,000)	-	(500,000)	-	-	-	-	(1,250,000)
Net Usable Cash 12/31/2015, After Motions	\$ 312,837	\$ -	\$ 502,684	\$146,833	\$ 4,422	\$ 350,952	\$ 31,954	\$ 1,349,682
Net Current Year Cash Change	\$ (143,876)	\$ (381,147)	\$ (42,095)	\$ 12,789	\$ 894	\$ 176	\$ (122,497)	\$ (675,756)

Sudden Valley Community Association

Internal Operations - By Department

Year Ended December 31, 2015

(Unaudited)

Department	Actual Revenue	Revenue Better / (Worse) Than Spending Plan	Actual Salary Benefits	Salary / Benefits Better / (Worse) Than Spending Plan	Actual Other Expense *	Other Exp Better / (Worse) Than Spending Plan *	Net Income / (Loss) *	Net Better / (Worse) Than Spending Plan*
ACC / Security	\$ 6,207	\$ 6,207	\$ 68,821	\$ (28,516)	\$ 352,103	\$ (34,289)	\$ (414,717)	\$ (56,598)
Accounting	33,832	13,832	155,071	23,408	135,568	(29,900)	(256,807)	7,340
Administration	3,794	1,394	205,563	95,006	289,054	(121,715)	(490,823)	(25,315)
Common Costs	31,223	2,723	-	-	235,019	(4,134)	(203,796)	(1,411)
Facilities	56,847	(6,346)	25,251	(25,251)	133,556	(46,706)	(101,960)	(78,303)
Maintenance	-	-	216,614	81,358	125,692	(8,220)	(342,306)	73,138
Subtotal	131,903	17,810	671,320	146,005	1,270,992	(244,964)	(1,810,409)	(81,149)
Golf	768,121	8,798	508,057	22,468	291,525	(29,875)	(31,461)	1,391
Marina	120,689	13,506	-	-	18,527	(15,237)	102,162	(1,731)
Pools	(90)	(91)	-	-	51,421	(48,422)	(51,516)	(48,518)
Subtotal	\$ 1,020,623	\$ 40,023	\$ 1,179,377	\$ 168,473	\$ 1,632,465	\$ (338,498)	\$ (1,791,224)	\$ (130,007)
Ops Dues Earned	1,437,395						1,437,395	
Cur Yr. Bad Debts Activity	(125,249)						(125,249)	
Net Ops Dues	1,312,146	86,905					1,312,146	86,905
UDR Funding**	133,033				133,033		-	-
Net Operations	\$ 2,465,802	\$ 126,928	\$ 1,179,377	\$ 168,473	\$ 1,765,498	\$ (338,498)	\$ (479,078)	\$ (43,102)

* Excludes Depreciation