



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, 2015, 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 Payment Applications**

We noted during the audit that cash collected from association member dues were being applied to member dues accounts incorrectly. Association policy is that payments are applied based on charge type. The system was applying these cash payments to the oldest outstanding balance. While total gross accounts receivable and revenue were still accurate, this caused discrepancies in reconciling revenues by type, net of bad debt expense. Subsequent to year end, the Association fixed this issue within the system and cash payments are being applied appropriately by type.

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**FDIC Limits**

We noted during our audit procedures that the Association has significant cash with one bank; the cash at times during 2015 was mostly uninsured by the Federal Deposit Insurance Corporation (FDIC) due to FDIC insurance limitations. Currently, the Association has addressed this issue and obtained insured cash sweep accounts which mitigates the exposure of having uninsured cash deposits.

**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, and the Association is also in the process of updating the reserve study.

**Fixed Assets and Construction in Progress**

During the audit we posted entries to reconcile fixed assets due to improper recording of prior year's construction in progress. Certain assets that should have been capitalized and depreciated in prior years remained in construction in progress thus causing fixed assets and accumulated depreciation to be understated. We recommend that assets that have been placed in service are transferred from construction in progress to fixed assets in a timely manner so that they are depreciated properly.

**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. During the audit we noted there were sales and acquisitions of the Association's lots held for sale during the year ended December 31, 2015. As part of the audit, we posted entries to properly account for these transactions when reconciling these accounts. We recommend that the gain or loss is properly recorded at the time of sale when there are transactions involving the lots held for sale.

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 8, 2016