

Sudden Valley Community Association

Financial Statements and
Supplementary Information with
Independent Auditor's Report

Years Ended December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 are presented for purposes of additional analysis and are 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

March 29, 2018

Sudden Valley Community Association

Balance Sheets

December 31, 2017 and 2016

		Assets	
		<u>2017</u>	<u>2016</u>
Current assets			
Cash and cash equivalents			
Operating funds	\$	297,571	\$ 154,892
Building deposits		125,000	105,000
Operating reserve funds		<u>553,885</u>	<u>534,735</u>
Total cash and cash equivalents		976,456	794,627
Cash held in reserve			
Capital		1,257,786	1,149,178
Roads		1,153,438	1,544,084
Capital holding		87,364	70,522
Density reduction		85,191	122,956
Mailbox assessment		<u>5,272</u>	<u>4,854</u>
Total cash held in reserve		2,589,051	2,891,594
Receivables, net		87,090	90,837
Inventory		7,393	3,907
Prepaid expenses		66,797	56,866
Parcels and lots held for sale, current		<u>86,693</u>	<u>-</u>
Total current assets		3,813,480	3,837,831
Parcels and lots held for sale, net of current portion		62,896	172,183
Property and equipment, net		9,273,981	8,670,070
Intangible assets, net		<u>96,832</u>	<u>104,161</u>
Total assets		<u>\$ 13,247,189</u>	<u>\$ 12,784,245</u>
Liabilities and Members' Equity			
Current liabilities			
Accounts payable and accrued expenses	\$	179,201	\$ 140,727
Refundable deposits		129,953	111,173
Deferred revenue		50,018	28,452
Prepaid dues		100,578	126,392
Current portion of capital lease		<u>30,990</u>	<u>29,570</u>
Total current liabilities		490,740	436,314
Construction loan		2,870	-
Capital lease, net of current portion		<u>7,978</u>	<u>38,968</u>
Total liabilities		501,588	475,282
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		2,738,304	3,134,631
Retained earnings		<u>7,019,076</u>	<u>6,186,111</u>
Total members' equity		<u>12,745,601</u>	<u>12,308,963</u>
Total liabilities and members' equity		<u>\$ 13,247,189</u>	<u>\$ 12,784,245</u>

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

Sudden Valley Community Association

Statements of Revenues and Expenses

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Dues and assessments - general	\$ 1,746,388	\$ 1,524,967
Dues and assessments - capital expenditures and reserve funding	1,104,067	1,274,102
Golf green fees	624,543	603,776
Rental income	297,506	285,262
Titles and transfers fees	232,534	109,954
Fines, penalties, late and lien fees	74,203	112,397
New home construction fee	60,800	51,246
Miscellaneous income	55,344	95,886
Gain (loss) on disposal of property and equipment	15,625	(16,354)
Investment income	4,635	11,716
Gain (loss) on lot sales	<u>(20,709)</u>	<u>1,379</u>
Total revenues	4,194,936	4,054,331
Expenses		
Salaries and wages	1,184,806	1,047,821
Depreciation	868,641	844,700
Outside services	739,132	490,138
Payroll taxes and fringe benefits	210,217	187,059
Repairs and maintenance	202,143	133,043
Golf maintenance	200,906	193,690
Materials and supplies	150,317	145,517
Taxes, licenses and insurance	136,951	136,195
Telephone and utilities	86,457	71,728
Golf management	54,117	51,989
Miscellaneous	38,423	48,357
Other employee expenses	29,530	34,799
Amortization	7,330	5,776
Bank and credit card charges	2,940	5,994
Bad debt recovery	<u>(153,612)</u>	<u>(96,744)</u>
Total expenses	<u>3,758,298</u>	<u>3,300,062</u>
Excess of revenues over expenses	<u>\$ 436,638</u>	<u>\$ 754,269</u>

Sudden Valley Community Association

Statements of Changes in Members' Equity

Years Ended December 31, 2017 and 2016

	Donated Capital <u>Developers</u>	Paid-In Capital <u>Members</u>	Capital Special <u>Assessment</u>	Equity <u>Reserves</u>	Retained <u>Earnings</u>	<u>Total</u>
Balance - December 31, 2015	\$ 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
Capital Assessments and Board of Director's appropriations for 2016, net						
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)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>261,625</u>	<u>(261,625)</u>	<u>-</u>
Balance - December 31, 2016	482,330	1,815,600	690,291	3,134,631	6,186,111	12,308,963
Excess of revenues over expenses	-	-	-	-	436,638	436,638
Capital Assessments and Board of Director's appropriations for 2017, net						
Road reserves fund	-	-	-	(413,155)	413,155	-
Density reduction fund	-	-	-	(37,809)	37,809	-
Capital reserves fund	-	-	-	36,633	(36,633)	-
Capital reserves holding fund	-	-	-	16,746	(16,746)	-
Mailbox assessment fund	-	-	-	1,258	(1,258)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(396,327)</u>	<u>396,327</u>	<u>-</u>
Balance - December 31, 2017	<u>\$ 482,330</u>	<u>\$ 1,815,600</u>	<u>\$ 690,291</u>	<u>\$ 2,738,304</u>	<u>\$ 7,019,076</u>	<u>\$ 12,745,601</u>

Sudden Valley Community Association

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Excess of revenues over expenses	\$ 436,638	\$ 754,269
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	868,641	844,700
Amortization	7,329	5,776
Loss (gain) on sale of property and equipment	(15,625)	16,354
Loss (gain) on sale of lots held for sale	20,709	(1,379)
Non-cash recovery of receivables previously written-off	(96,947)	-
(Increase) decrease in current assets:		
Receivables, net	3,747	(87,707)
Inventory	(3,486)	3,841
Prepaid expenses	(9,931)	(6,857)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	124,939	8,758
Deferred revenue	21,566	(7,196)
Prepaid dues	(25,814)	11,478
Net cash provided by operating activities	<u>1,331,766</u>	<u>1,542,037</u>
Cash flows from investing activities		
(Increase) decrease in cash held in reserve	302,543	(249,712)
Proceeds from insurance reimbursement and settlement related to disposed property and equipment	223,047	-
Proceeds from sale of lots held for sale	64,685	8,996
Proceeds from sale of property and equipment	4,050	9,400
Purchase of intangible assets	-	(109,937)
Purchase of construction in progress	(614,153)	(182,521)
Purchase of property, roads, and equipment	<u>(1,122,189)</u>	<u>(807,712)</u>
Net cash used by investing activities	<u>(1,142,017)</u>	<u>(1,331,486)</u>
Cash flows from financing activities		
Refundable deposits	18,780	58,918
Proceeds from construction loan	2,870	-
Principal payments on capital lease	<u>(29,570)</u>	<u>(30,403)</u>
Net cash provided (used) by financing activities	<u>(7,920)</u>	<u>28,515</u>
Net increase in cash and cash equivalents	181,829	239,066
Cash and cash equivalents - beginning of year	<u>794,627</u>	<u>555,561</u>
Cash and cash equivalents - end of year	<u>\$ 976,456</u>	<u>\$ 794,627</u>

Notes to Financial Statements

December 31, 2017 and 2016

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 3,143 members and 4,641 total lots as of December 31, 2017. 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 \$351,609 and \$351,259 at December 31, 2017 and 2016, 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 less cost to sell.

Notes to Financial Statements

December 31, 2017 and 2016

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.

Effective June 8, 2017, the Association capitalizes all property and equipment acquisitions with cost of \$2,500 and greater and a useful life of greater than one year. Prior to June 8, 2017, the threshold was \$1,000. 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 2017 or 2016 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, 2017 or 2016.

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 90 days or more past due. Management considers receivables less than 90 days to be fully collectible. The Association's bylaws provide for various collection remedies for delinquent assessments including payment plans, 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.

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 consisting of prepaid golf fees amounted to \$50,018 and \$28,452 at December 31, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016. 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, 2017, the Association had no uncertain tax positions requiring accrual. As of December 31, 2017, tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

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 \$7,182 and \$13,127 for the years ended December 31, 2017 and 2016, 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 March 29, 2018, the date the financial statements were available to be issued.

Note 2 - Receivables, Net

Receivables consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Members' accounts receivable	\$ 716,100	\$ 1,037,729
Allowance for doubtful accounts	(639,381)	(957,982)
Receivables - other	<u>10,371</u>	<u>11,090</u>
	<u>\$ 87,090</u>	<u>\$ 90,837</u>

Allowance for doubtful accounts balances relate to members' accounts receivable and includes receivable balances written-off in prior years. Management continues to pursue collection of these accounts. With increased collection efforts by management, recoveries of prior year bad debts have exceeded current year bad debts by \$153,612 and \$96,744 for the years ended December 31, 2017 and 2016, respectively.

Sudden Valley Community Association

Notes to Financial Statements

December 31, 2017 and 2016

Note 3 - Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Roads and bridges	\$ 9,852,550	\$ 8,752,039
Land and improvements	4,441,254	4,402,052
Buildings and improvements	3,575,597	3,985,453
Vehicles, machinery and equipment	2,564,554	2,419,026
Furniture, fixtures and office equipment	389,570	377,407
Construction in progress	<u>532,393</u>	<u>209,403</u>
	21,355,918	20,145,380
Less accumulated depreciation	<u>(12,081,937)</u>	<u>(11,475,310)</u>
	<u><u>\$ 9,273,981</u></u>	<u><u>\$ 8,670,070</u></u>

Total depreciation expense amounted to \$868,641 and \$844,700 for the years ended December 31, 2017 and 2016, respectively.

The board of directors and management have identified and approved to move forward with urgent capital repair work in the community. The project will focus on installation of a dry fire pipe system and new wet slip gangways at the marina, repairing and stabilizing the marina sea well, demolishing Barn 6 and replace with a temporary sprung-type structure, refurbishing both pools, and obtain the services of project manager to guide the entire construction process. The project will commence in 2018 and is expected be financed through a combination of capital reserve funds and a construction loan (see Note 5 for details).

Note 4 – Intangible Assets

Intangible assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Various design plans	\$ 109,937	\$ 109,937
Less accumulated depreciation	<u>(13,105)</u>	<u>(5,776)</u>
	<u><u>\$ 96,832</u></u>	<u><u>\$ 104,161</u></u>

Total amortization expense related to these assets amount to \$7,330 and \$5,776 for the years ended December 31, 2017 and 2016, respectively.

Note 5 - Construction Loan

In November 2017, the Association obtained a 10-year, 4.62% fixed-rate construction loan from Mutual of Omaha Bank to finance various capital improvements (see Note 3 for details). The Association can draw up to \$1,125,000 from the loan until June 3, 2019, requiring interest-only payments to the lender during the draw period. After May 18, 2019, principal and interest are due, payable in 120 monthly installments. The loan matures May 18, 2029. Loan is secured by the Association's cash and receivables.

Sudden Valley Community Association

Notes to Financial Statements

December 31, 2017 and 2016

Note 5 - Construction Loan - (Continued)

Principal balance owing was \$2,870 at December 31, 2017. The loan agreement contains conditions and covenants. Management is not aware of any violations of these conditions and covenants at December 31, 2017.

Note 6 - 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 \$141,471 and \$102,888 at December 31, 2017 and 2016, 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, 2017, \$10,848 was outstanding.

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

2018	\$	32,160
2019		<u>8,040</u>
Total minimum lease payments		40,200
Less amount representing interest		<u>(1,232)</u>
Present value of minimum lease payments		38,968
Less current portion		<u>(30,990)</u>
	\$	<u><u>7,978</u></u>

Note 7 - Parcels and 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>2017</u>	<u>2016</u>
Parcels and lots, at cost	\$ 343,473	\$ 366,067
Less allowance for decrease in net realizable value	<u>(193,884)</u>	<u>(193,884)</u>
Total parcels and lots, at lower of cost or fair market value less cost to sell	149,589	172,183
Less current parcels and lots	<u>(86,693)</u>	<u>-</u>
Parcels and lots held for sale, net of current portion	<u>\$ 62,896</u>	<u>\$ 172,183</u>

As of December 31, 2017, the Association held 26 lots. In March 2018, 19 of these lots were sold for \$94,500. Only one lot is expected to be held beyond 2018 and is presented as non-current as of December 31, 2017.

Sudden Valley Community Association

Notes to Financial Statements

December 31, 2017 and 2016

Note 8 - 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:

	Road Reserve Fund	Capital Reserve Fund	Capital Reserve Holding Fund	Mailbox Assessment Fund	Density Reduction Fund	Total
Balance - December 31, 2015	\$ 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	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)
Balance - December 31, 2016	1,523,176	1,365,324	70,584	11,362	164,185	3,134,631
2017 appropriations	659,331	448,986	191,659	-	-	1,299,976
Interest income	2,024	1,477	87	3	112	3,703
2017 bad debt recovery	22,032	14,655	-	1,255	48	37,990
Proceeds from disposal of assets	-	227,098	-	-	63,956	291,054
Other transfers	-	175,000	(175,000)	-	-	-
2017 charges	(1,096,542)	(830,583)	-	-	(101,925)	(2,029,050)
Balance - December 31, 2017	<u>\$ 1,110,021</u>	<u>\$ 1,401,957</u>	<u>\$ 87,330</u>	<u>\$ 12,620</u>	<u>\$ 126,376</u>	<u>\$ 2,738,304</u>

Sudden Valley Community Association

Notes to Financial Statements

December 31, 2017 and 2016

Note 9 - Density Reduction

As of December 31, 2017 and 2016, 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, 2017 and 2016, the Association had acquired and owned 790 and 796 lots, respectively. At December 31, 2017 and 2016, 763 and 758, respectively, 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, 15 and 24 are restricted under Water District 10, while 12 and 14 are lots available for sale as of December 31, 2017 and 2016, respectively.

Note 10 - Supplemental Cash Flow Information

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

	2017	2016
Cash paid for interest	<u>\$ 2,607</u>	<u>\$ 3,945</u>
Noncash investing and financing activities:		
Acquisition of lots held for sale through deed-in-lieu	<u>\$ 96,947</u>	<u>\$ -</u>
Purchase of construction in progress with accounts payable	<u>\$ 81,760</u>	<u>\$ -</u>
Purchase of equipment with accounts payable	<u>\$ 4,705</u>	<u>\$ 26,882</u>

Note 11 - Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Application is required for annual periods beginning after December 15, 2018. The Association continues to evaluate the impact of the new accounting guidance on its financial statements.

Supplementary Information

Sudden Valley Community Association

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

Year Ended December 31, 2017

(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, 2017

(Unaudited)

Description	Estimated Remaining Useful Lives	Total	Annual Expenditures													
			2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Adult building	Varies	\$ 375,805	\$ -	\$ -	\$ -	\$ 48,016	\$ 13,577	\$ 34,500	\$ 12,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,879
Adult pool	Varies	129,602	-	-	-	-	-	9,741	1,189	-	11,239	30,262	-	-	-	-
Airport and campground inspection	Varies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AM PM Beach	Varies	108,421	-	12,607	-	-	-	-	14,264	-	-	-	-	16,139	-	-
Area Z maintenance building	Varies	448,796	104,406	-	9,878	7,727	42,076	-	8,321	-	-	8,961	-	2,017	22,295	-
Association wide system	Varies	1,093,321	-	-	107,689	-	27,154	-	-	121,840	-	-	-	53,795	137,851	-
Barn 8 equipment	Varies	767,347	-	-	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	28,259
Golf course	Varies	3,875,787	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	1,243,959	44,075	-	-	169,435	-	-	3,566	54,828	-	-	198,781	2,690	-	4,239
Main pool	Varies	663,368	27,162	20,004	5,384	-	12,445	-	-	-	-	14,081	84,808	134,489	6,893	-
Maintenance equipment	Varies	4,611,191	-	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	115,814	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	87,584	-	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	40,814	4,100	4,202	4,308	4,415	4,526	4,639	4,755	4,874	4,995	-	-	-	-	-
Turf building	Varies	265,981	-	-	-	33,114	6,336	2,315	7,917	12,184	-	-	1,471	2,017	-	13,649
Turf equipment	Varies	2,807,951	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	225,086	-	-	10,230	-	13,577	-	-	1,828	-	24,064	28,866	-	2,068	-
Mailboxes	Varies	705,844	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Culverts	Varies	22,802,232	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	4,399,544	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	32,606,054	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
Total By Year		\$ 83,268,207	\$ 2,495,078	\$ 2,121,195	\$ 2,096,852	\$ 2,127,683	\$ 2,631,049	\$ 2,921,649	\$ 2,130,815	\$ 2,150,761	\$ 2,009,182	\$ 2,705,627	\$ 2,453,916	\$ 2,681,777	\$ 2,491,371	\$ 2,440,865
Cumulative Total		\$ 83,268,207	\$ 2,495,078	\$ 4,616,273	\$ 6,713,125	\$ 8,840,808	\$ 11,471,857	\$ 14,393,506	\$ 16,524,321	\$ 18,675,082	\$ 20,684,264	\$ 23,389,891	\$ 25,843,807	\$ 28,525,584	\$ 31,016,955	\$ 33,457,820

Sudden Valley Community Association

Supplementary Information on Future Major Repairs and Replacements

December 31, 2017

(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 & 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	-	-	-	32,036	-	23,384	5,750	-
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 & 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
Total By Year		\$ 2,760,762	\$ 3,093,432	\$ 2,282,608	\$ 2,989,809	\$ 2,827,308	\$ 3,330,775	\$ 2,988,819	\$ 2,956,020	\$ 4,185,669	\$ 2,981,344	\$ 3,391,245	\$ 3,892,329	\$ 5,155,091	\$ 3,363,729	\$ 3,611,447
Cumulative Total		\$ 36,218,582	\$ 39,312,014	\$ 41,594,622	\$ 44,584,431	\$ 47,411,739	\$ 50,742,514	\$ 53,731,333	\$ 56,687,353	\$ 60,873,022	\$ 63,854,366	\$ 67,245,611	\$ 71,137,940	\$ 76,293,031	\$ 79,656,760	\$ 83,268,207

Sudden Valley Community Association

Internal Balance Sheet

Year Ended December 31, 2017

(Unaudited)

Operations

Current assets

Operating cash	\$ 297,571
Building completion deposit fund	125,000
Member receivables - operations, net *	67,625
Other receivables	10,371
Prepaid expenses	66,797
Inventory	<u>7,393</u>
Total current assets	574,757

Current liabilities

Accounts payable	(80,821)
Prepaid assessments	(100,578)
Building completion deposits	(125,000)
Other refundable deposits	(4,953)
Prepaid golf memberships	<u>(50,018)</u>
Total current liabilities	(361,370)

Operating reserve funds

Emergency operating cash	351,609
Undesignated reserves	<u>189,730</u>
Total operating reserves	541,339

Net operating assets

754,726

Capital

Current assets

CRRRF reserve cash fund	1,195,964
Roads reserve cash fund	1,091,292
Density reduction cash fund	85,191
Mailbox cash fund	5,272
Capital reserve holding cash fund	87,364
Mitigation assignment of savings cash	38,134
Member receivables, capital - net *	<u>9,094</u>
Total current assets	2,512,311

Fixed assets

Property and equipment, net	9,370,813
Lots held for sale, net	<u>149,589</u>
Total fixed assets	<u>9,520,402</u>

Total capital assets

12,032,713

Long-term liabilities

CRRRF loan	(2,870)
Capital lease	<u>(38,968)</u>
Total long-term liabilities	<u>(41,838)</u>

Total net assets

\$ 12,745,601

Member equity

Current year net income - operations	\$ 185,228
Current year net income - capital	251,410
Retained earnings	4,539,670
Capital	<u>7,769,293</u>
Total member equity	<u>\$ 12,745,601</u>

**For GAAP accounting and federal non-profit reporting purposes, the policy is to write off any member receivables that are greater than 60 days past due. 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, 2017 and 2016, the balance of receivables written off under GAAP policy were, respectively, \$639,381 and \$957,982.*

Sudden Valley Community Association

Internal Income Statement

Year Ended December 31, 2017

(Unaudited)

	Operations	Better (Worse) Spending Plan	Coll.	Reserves
Revenue				
Current year dues and assessments income				
Dues and assessment income	\$ 1,746,388			\$ 1,104,067
Bad debt reserve	(54,123)			(24,788)
Net current year dues and assessment income	1,692,265	122,173	96.9%	1,079,279
Bad debt recoveries - prior years *	-	-		71,337
Golf income	742,327	(25,743)		-
Marina income	116,835	(392)		-
Legal and collections income	-	-		-
Other income	158,247	63,009		427,271
Rental income - other	42,748	2,599		-
Rental income - Area Z	18,075	587		-
Investment income	399	(321)		4,052
Total revenue	<u>2,770,896</u>	<u>161,912</u>		<u>1,581,939</u>
Expenses				
Salaries and benefits	1,395,025	56,130		-
Contracted and professional services	230,885	(48,419)		-
CC&Rs/mandates	277,119	(4,574)		2,852
Maintenance and landscaping	310,530	(6,275)		-
Utilities	125,501	(6,689)		-
Administrative	104,580	1,036		150
Regulatory compliance	100,224	(3,554)		8,641
Insurance premiums	100,292	1,390		-
Other expenses	(366)	3,325		-
Capital lease interest expense	-	-		2,590
Depreciation and amortization	-	-		875,971
Demolition expense	-	-		195,318
Capital loss on lots sales	-	-		184,225
Capital loss on fixed asset disposals	-	-		52,301
Total expenses	<u>2,643,790</u>	<u>(7,630)</u>		<u>1,322,048</u>
Net income before UDR and other activity	<u>\$ 127,106</u>	<u>\$ 154,282</u>		<u>\$ 259,891</u>
Net UDR activity for operations				
Snow response, SGM, YMCA, utilities and accounting assistant	(76,638)	-		-
Net income with UDR	<u>\$ 50,468</u>	<u>\$ 154,282</u>		<u>\$ 259,891</u>
Other activity				
Net other UDR activity*	129,331	-		-
A/R accrual - prior year reversal	(62,172)	-		(17,575)
A/R accrual - current year	67,601	-		9,094
Total other activity	<u>\$ 134,760</u>	<u>\$ -</u>		<u>\$ (8,481)</u>
Net income	<u>\$ 185,228</u>	<u>\$ 154,282</u>		<u>\$ 251,410</u>

*Prior year recoveries for operations are deposited into the Undesignated Reserve Account (UDR).

Sudden Valley Community Association

Internal Reserve Cash Balances and Activity

Year Ended December 31, 2017

(Unaudited)

	Capital Reserve Funds						Operating Reserve Funds			
	CRRRF	Roads	Capital Reserve Holding Fund	Density Reduction	Mailbox	Mitigation Assignment of Savings *	Total Capital Reserve Funds	Emergency Ops	UDR	Total Operating Reserve Funds
Net available cash, 12/31/16	\$ 1,137,789	\$ 1,489,511	\$ 70,522	\$ 122,956	\$ 4,854	\$ 38,079	\$ 2,863,711	\$ 351,258	\$ 164,686	\$ 515,944
Dues received	461,888	674,900	-	11	287	-	1,137,086	-	165,009	165,009
Dues received, deed-in-lieu	5,440	8,120	-	(68,644)	128	-	(54,956)	-	53,645	53,645
Transfer fees received, ¼ of 1%	-	-	191,754	-	-	-	191,754	-	-	-
Stormwater mitigation plan fee	-	4,250	-	-	-	-	4,250	-	-	-
Investment income	1,477	1,970	88	111	3	55	3,704	351	184	535
Sale of assets	227,098	-	-	63,956	-	-	291,054	-	-	-
Legal settlement income	1,500	-	-	-	-	-	1,500	-	-	-
CRRRF loan funding received	2,871	-	-	-	-	-	2,871	-	-	-
Interfund transfer, board approved 09/07/17	175,000	-	(175,000)	-	-	-	-	-	-	-
2017 expenditures	(817,099)	(1,087,459)	-	(33,199)	-	-	(1,937,757)	-	(193,794)	(193,794)
Net available cash, 12/31/2017	1,195,964	1,091,292	87,364	85,191	5,272	38,134	2,503,217	351,609	189,730	541,339
Anticipated CRRRF loan funding	1,122,129	-	-	-	-	-	1,122,129	-	-	-
Obligated expenses	(1,778,425)	(174,248)	-	-	-	(38,134)	(1,990,807)	-	(96,409)	(96,409)
Net usable cash balance, 12/31/17	539,668	917,044	87,364	85,191	5,272	-	1,634,539	351,609	93,321	444,930
Board-recommended carryover balance	(600,000)	(500,000)	-	-	-	-	(1,100,000)	-	-	-
Net usable cash balance, 12/31/17, after recommendation	<u>\$ (60,332)</u>	<u>\$ 417,044</u>	<u>\$ 87,364</u>	<u>\$ 85,191</u>	<u>\$ 5,272</u>	<u>\$ -</u>	<u>\$ 534,539</u>	<u>\$ 351,609</u>	<u>\$ 93,321</u>	<u>\$ 444,930</u>
Net current year cash increase (decrease)	\$ (598,121)	\$ (572,467)	\$ 16,842	\$ (37,765)	\$ 418	\$ (38,079)	\$(1,229,172)	\$ 351	\$ (71,365)	\$ (71,014)

* When mitigation period has ended unspent funds will be returned to the source account: roads.

Sudden Valley Community Association

Internal Operations – By Department

Year Ended December 31, 2017

(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	\$ 65,570	\$ 30,570	\$ 106,478	\$ 3,411	\$ 290,670	\$ (13,977)	\$ (331,578)	\$ 20,004
Accounting	42,362	21,848	206,829	8,011	60,998	(1,306)	(225,465)	28,553
Administration	5,305	3,705	290,109	9,971	108,080	(16,004)	(392,884)	(2,328)
Common costs	36,307	7,687	-	-	234,927	14,099	(198,620)	21,786
Facilities	58,278	3,386	64,626	(8,038)	123,054	17,807	(129,402)	13,155
Maintenance	3,321	1,014	202,202	(10,259)	100,777	(48,423)	(299,658)	(57,668)
Subtotal	211,143	68,210	870,244	3,096	918,506	(47,804)	(1,577,607)	23,502
Golf	742,327	(25,743)	506,663	39,883	275,849	(5,432)	(40,185)	8,708
Marina	121,896	7	18,118	13,151	38,204	(7,993)	65,574	5,165
Pools	3,265	(2,735)	-	-	16,206	(2,531)	(12,941)	(5,266)
Total	\$ 1,078,631	\$ 39,739	\$ 1,395,025	\$ 56,130	\$ 1,248,765	\$ (63,760)	\$ (1,565,159)	\$ 32,109
Operation dues earned	1,746,388	-	-	-	-	-	1,746,388	-
Current year bad debt activity	(54,123)	-	-	-	-	-	(54,123)	-
Net operation dues	1,692,265	122,173	-	-	-	-	1,692,265	122,173
Net operations	2,770,896	161,912	1,395,025	56,130	1,248,765	(63,760)	127,106	154,282
Net board-approved UDR activity for operations Snow response, SGM, YMCA, utilities and accounting assistant	-	-	-	-	76,638	-	(76,638)	-
Net operations with UDR	2,770,896	161,912	1,395,025	56,130	1,325,403	(63,760)	50,468	154,282
Other operating activity								
UDR activity	235,272	-	-	-	105,941	-	129,331	-
A/R accrual - prior year reversal	(62,172)	-	-	-	-	-	(62,172)	-
A/R accrual - current year	67,601	-	-	-	-	-	67,601	-
Total other operating activity	240,701	-	-	-	105,941	-	134,760	-
Net operations with UDR and other operating activity	\$ 3,011,597	\$ 161,912	\$ 1,395,025	\$ 56,130	\$ 1,431,344	\$ (63,760)	\$ 185,228	\$ 154,282

* Excludes depreciation.