

Sudden Valley Community Association

Financial Statements and
Supplementary Information with
Independent Auditor's Report

Years Ended December 31, 2021 and 2020

Larson Gross 

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

Opinion

We have audited the accompanying financial statements of Sudden Valley Community Association, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sudden Valley Community Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sudden Valley Community Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sudden Valley Community Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sudden Valley Community Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Future Major Repairs and Replacements on pages 16-17 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of 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
November 3, 2022

Sudden Valley Community Association

Balance Sheets

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents		
Operating funds	\$ 823,297	\$ 713,424
Operating reserve funds	702,973	687,294
Building deposits	437,649	173,410
Total cash and cash equivalents	<u>1,963,919</u>	<u>1,574,128</u>
Cash held in reserve		
Capital	2,688,456	1,690,462
Roads	2,911,292	1,751,498
Capital reserve holding	1,157,885	830,342
Density reduction	87,365	89,061
Mailbox assessment	75,985	50,776
Mitigation assigned savings	182,139	182,003
Total cash held in reserve	<u>7,103,122</u>	<u>4,594,142</u>
Receivables, net	64,585	89,919
Inventory	3,623	3,742
Prepaid expenses	73,568	63,042
Total current assets	<u>9,208,817</u>	<u>6,324,973</u>
Parcels and lots held for sale, net	204,810	204,810
Property and equipment, net	11,471,304	12,082,134
Intangible assets, net	67,516	74,845
Total assets	<u><u>\$ 20,952,447</u></u>	<u><u>\$ 18,686,762</u></u>
Liabilities and Members' Equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 294,756	\$ 277,706
Refundable deposits	441,765	177,515
Deferred revenue	27,490	60,767
Prepaid dues	211,077	238,994
Contract liabilities	6,823,644	4,314,026
Current portion of construction loan	150,907	149,067
Current portion of capital leases	57,242	23,914
Total current liabilities	<u>8,006,881</u>	<u>5,241,989</u>
Construction loan	968,537	1,111,591
Payroll Protection Program (PPP) loan	-	357,700
Capital lease, net of current portion	166,356	84,579
Total liabilities	<u>9,141,774</u>	<u>6,795,859</u>
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	97,337	98,113
Retained earnings	8,725,115	8,804,569
Total members' equity	<u>11,810,673</u>	<u>11,890,903</u>
Total liabilities and members' equity	<u><u>\$ 20,952,447</u></u>	<u><u>\$ 18,686,762</u></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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Dues and assessments – general	\$ 2,182,043	\$ 2,014,974
Dues and assessments – recreation	411,090	360,648
Dues and assessments – capital expenditures and reserve funding	599,967	1,515,796
Golf green fees	956,099	798,786
Forgiveness of Paycheck Protection Program loan	357,700	-
Rental income	351,049	322,160
New home construction fee	131,000	38,850
Gain on disposal of property and equipment	75,922	345
Miscellaneous income	55,716	54,276
Titles and transfers fees	46,000	41,779
Fines, penalties, late and lien fees	16,899	14,840
Investment income	12,398	28,726
Valuation adjustment on lots held for sale	-	(13,205)
Total revenues	<u>5,195,883</u>	<u>5,177,975</u>
Expenses		
Salaries and wages	1,601,579	1,677,102
Depreciation	1,180,676	1,174,455
Outside services	894,984	558,380
Payroll taxes and fringe benefits	319,840	343,042
Repairs and maintenance	306,780	316,666
Golf maintenance	230,517	198,357
Taxes, licenses and insurance	187,812	163,663
Materials and supplies	166,773	153,174
Telephone and utilities	133,491	117,581
Golf management	91,679	72,795
Miscellaneous	78,037	33,070
Interest	63,236	74,101
Other employee expenses	18,217	25,500
Bank and credit card charges	8,950	4,805
Amortization	7,329	7,329
Bad debt (recovery) expense	(13,787)	17,478
Total expenses	<u>5,276,113</u>	<u>4,937,498</u>
(Deficiency) excess of revenues over expenses	<u>\$ (80,230)</u>	<u>\$ 240,477</u>

Sudden Valley Community Association

Statements of Changes in Members' Equity

Years Ended December 31, 2021 and 2020

	Donated Capital Developers	Paid-In Capital Members	Paid-In Capital Special Assessment	Equity Reserves	Retained Earnings	Total
Balance – December 31, 2019	\$ 482,330	\$ 1,815,600	\$ 690,291	\$ 132,386	\$ 8,529,819	\$ 11,650,426
Excess of revenues over expenses	-	-	-	-	240,477	240,477
Capital Assessments and Board of Director's appropriations for 2020, net						
Road reserves fund	-	-	-	-	-	-
Density reduction fund	-	-	-	(39,469)	39,469	-
Capital reserves fund	-	-	-	-	-	-
Capital reserves holding fund	-	-	-	4,695	(4,695)	-
Mailbox assessment fund	-	-	-	501	(501)	-
	-	-	-	(34,273)	34,273	-
Balance – December 31, 2020	482,330	1,815,600	690,291	98,113	8,804,569	11,890,903
Deficiency of revenues over expenses	-	-	-	-	(80,230)	(80,230)
Capital Assessments and Board of Director's appropriations for 2021, net						
Road reserves fund	-	-	-	-	-	-
Density reduction fund	-	-	-	(1,696)	1,696	-
Capital reserves fund	-	-	-	-	-	-
Capital reserves holding fund	-	-	-	920	(920)	-
Mailbox assessment fund	-	-	-	-	-	-
	-	-	-	(776)	776	-
Balance – December 31, 2021	<u>\$ 482,330</u>	<u>\$ 1,815,600</u>	<u>\$ 690,291</u>	<u>\$ 97,337</u>	<u>\$ 8,725,115</u>	<u>\$ 11,810,673</u>

Sudden Valley Community Association

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
(Deficiency) excess of revenues over expenses	\$ (80,230)	\$ 240,477
Adjustments to reconcile (deficiency) excess of revenues over expenses to cash, cash equivalents, and cash held in reserve provided by operating activities:		
Depreciation	1,180,676	1,174,455
Amortization	7,329	7,329
(Gain) loss on sale of property and equipment	(75,922)	345
Valuation adjustment on lots held for sale	-	13,205
Non-cash recovery of receivables previously written-off	-	(39,455)
Forgiveness of Paycheck Protection Program loan	(357,700)	-
(Increase) decrease in current assets:		
Receivables, net	25,334	(18,753)
Inventory	119	(422)
Prepaid expenses	(10,526)	(2,561)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	17,050	(220,852)
Deferred revenue	(33,277)	26,677
Prepaid dues	(27,917)	110,196
Contract liabilities	<u>2,509,618</u>	<u>1,266,809</u>
Net cash provided by operating activities	<u>3,154,554</u>	<u>2,557,450</u>
Cash flows from investing activities		
Proceeds from sale of property and equipment	94,000	-
Purchase of construction in progress	(402,472)	(169,366)
Purchase of property and equipment	<u>(185,452)</u>	<u>(1,037,845)</u>
Net cash used by investing activities	<u>(493,924)</u>	<u>(1,207,211)</u>
Cash flows from financing activities		
Refundable deposits	264,250	(60,430)
Payments on construction loan	(141,214)	(234,586)
Proceeds from PPP loan	-	357,700
Proceeds from capital lease	167,405	127,607
Principal payments on capital lease	<u>(52,300)</u>	<u>(19,114)</u>
Net cash provided by financing activities	<u>238,141</u>	<u>171,177</u>
Net increase in cash, cash equivalents, and cash held in reserve	2,898,771	1,521,416
Cash, cash equivalents, and cash held in reserve – beginning of year	<u>6,168,270</u>	<u>4,646,854</u>
Cash, cash equivalents, and cash held in reserve – end of year	<u>\$ 9,067,041</u>	<u>\$ 6,168,270</u>
Reconciliation of cash, cash equivalents, and cash held in reserve to the Balance Sheet		
Cash and cash equivalents	1,963,919	1,574,128
Cash held in reserve	<u>7,103,122</u>	<u>4,594,142</u>
Total cash, cash equivalents, and cash held in reserve	<u>\$ 9,067,041</u>	<u>\$ 6,168,270</u>

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

Notes to the Financial Statements

December 31, 2021 and 2020

Note 1 – Organization

Sudden Valley Community Association (the Association) was formed in 1973 to operate and maintain the commonly owned property in Sudden Valley, Washington, and to provide security and maintenance services for its members. The Association also provides other services for the members including the operation of the Sudden Valley Golf Club (including the golf course and equipment), marina, parks, playgrounds, trails, fitness center, two swimming pools, two barns, adult center, tennis courts, basketball court, camp ground, airfield, a road and drainage system, and over 10,000 feet of shoreline. The Association consisted of 4,641 total lots as of December 31, 2021 with 3,124 billable units. The Association is organized as a non-profit incorporated entity under the laws of Washington State and for federal tax purposes.

Note 2 – Summary of Significant Accounting Policies

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 \$360,735 and \$359,761 at December 31, 2021 and 2020, respectively.

Reserve Funds

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 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.

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 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.

Notes to the Financial Statements

December 31, 2021 and 2020

Note 2 – Summary of Significant Accounting Policies – (Continued)

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. 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.

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.

The Association capitalizes all property and equipment acquisitions with cost of \$2,500 and greater and a useful life of greater than one year. 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 2021 or 2020 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, 2021 or 2020.

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.

Contract liabilities – The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement capital expenditures and reserve funding assessments. The balances of contract liabilities at December 31, 2021, 2020, and 2019 are \$6,823,644, \$4,314,026, and \$3,047,217, respectively.

Revenue recognition – The Association recognizes revenue from members' assessments in the applicable 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 \$27,490, \$60,767, and \$34,090 at December 31, 2021, 2020, and 2019, respectively. For further discussion of revenue and related accounting policies, see Note 3.

Notes to the Financial Statements

December 31, 2021 and 2020

Note 2 – Summary of Significant Accounting Policies – (Continued)

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. For further discussion of related accounting policies, see note 3.

Interest income – Interest income is allocated to the operating and reserve funds in proportion to the interest-bearing deposits of each fund and is included in investment income on the statement of revenues and expenses.

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 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, 2021 and 2020. 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, 2021, the Association had no uncertain tax positions requiring accrual. As of December 31, 2021, 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 \$13,682 and \$10,220 for the years ended December 31, 2021 and 2020, 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 November 3, 2022, the date the financial statements were available to be issued.

Notes to the Financial Statements

December 31, 2021 and 2020

Note 3 – Revenue Recognition

Revenue recognition – The Association recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which provide a five-step model for recognizing revenue from contracts with customers as follows:

- 1) Identify the contract
- 2) Identify performance obligations
- 3) Determine the transaction price
- 4) Allocate the transaction price
- 5) Recognize revenue

Nature of products – The Association provides social and recreational activities and maintains the community assets.

Timing – The Association recognizes revenue from dues and assessments and title and transfer fees related to capital expenditures and reserve funding over time in the applicable time period when expenditures are incurred. Rental income is recognized in the month the facilities are used by the member or member’s guest, and other revenue is recognized at a point in time. Revenue from golf and other sources is recognized at the point in time when the product or service is provided, which is when the performance obligation is satisfied.

Payment terms – Payments for annual dues and assessments related to capital expenditures and reserve funding are prorated and due monthly. The Association records payment from title and transfers fees at the point in time of transfer to the property owner, and records revenue from rental income, golf, and other sources at the point in time of delivery of the good or service to the member or member’s guest. Payment terms are typically within 30 days. The primary purpose of the Association’s invoicing terms is to provide property owners with simplified and predictable ways of purchasing the goods and services and not to receive financing from or provide financing to the property owner. Additionally, the Association has elected the practical expedient that permits an entity to not recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less.

Transaction price – The transaction price is the amount of consideration to which the Association expects to be entitled in exchange for transferring goods and services to the property owner. The Association records reductions to net revenue related to future returns based on the Association’s expectations and historical experience.

Note 4 – Receivables, Net

Receivables consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Members' accounts receivable	\$ 581,724	\$ 590,449
Allowance for doubtful accounts	(525,536)	(517,547)
Receivables – other	8,397	17,017
	<u>\$ 64,585</u>	<u>\$ 89,919</u>

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2021 and 2020

Note 4 – Receivables, Net – (Continued)

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. Bad debt (recovery) expense totaled \$(13,787) and \$17,478 for the years ended December 31, 2021 and 2020, respectively.

Note 5 – Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Roads and bridges	\$ 12,327,083	\$ 11,962,358
Land and improvements	5,862,879	5,344,158
Buildings and improvements	5,205,089	5,205,088
Vehicles, machinery and equipment	2,824,549	2,771,077
Furniture, fixtures and office equipment	295,903	295,903
Construction in progress	<u>402,472</u>	<u>1,004,529</u>
	26,917,975	26,583,113
Less accumulated depreciation	<u>(15,446,671)</u>	<u>(14,500,979)</u>
	<u>\$ 11,471,304</u>	<u>\$ 12,082,134</u>

Total depreciation expense amounted to \$1,180,676 and \$1,174,455 for the years ended December 31, 2021 and 2020, respectively.

Note 6 – Intangible Assets

Intangible assets consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Various design plans	\$ 109,937	\$ 109,937
Less accumulated amortization	<u>(42,421)</u>	<u>(35,092)</u>
	<u>\$ 67,516</u>	<u>\$ 74,845</u>

Total amortization expense related to these assets amounted to \$7,329 for the years ended December 31, 2021 and 2020, respectively.

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2021 and 2020

Note 6 – Intangible Assets – (Continued)

Estimated future amortization expense total the following for the years ending December 31:

2022	\$ 7,329
2023	7,329
2024	7,329
2025	7,329
2026	7,329
Thereafter	<u>30,871</u>
	<u>\$ 67,516</u>

Note 7 – Construction Loan

The Association has the following construction loan at December 31:

	<u>2021</u>	<u>2020</u>
Note payable to Mutual of Omaha Bank, monthly payments totaling \$16,967 including interest at 4.62%, secured by cash and receivables, matures December 2028	\$ 1,119,444	\$ 1,260,658
Less current portion	<u>(150,907)</u>	<u>(149,067)</u>
	<u>\$ 968,537</u>	<u>\$ 1,111,591</u>

Future annual principal payments due on the construction loan are as follows for the years ending December 31:

2022	\$ 150,907
2023	158,029
2024	165,486
2025	173,296
2026	181,474
Thereafter	<u>290,252</u>
	1,119,444
Less current portion	<u>(150,907)</u>
	<u>\$ 968,537</u>

The construction loan payable to Mutual of Omaha Bank contains certain financial covenants. Management is not aware of any violations of these covenants at the date of this report.

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2021 and 2020

Note 8 – Paycheck Protection Program Loan

In May 2020, the Association received a \$357,700 loan through the Paycheck Protection Program (PPP). In September 2021, the loan was forgiven and paid in full by the Small Business Administration. Forgiveness of the loan is recognized as income in the Statements of Revenues and Expenses for the year ended December 31, 2021.

Note 9 – Capital Leases

Capital leases consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Capital lease to Wells Fargo Equipment Finance, monthly payments totaling \$3,065 including interest at 3.76%, secured by equipment, matures January 2026	\$ 137,071	\$ -
Capital lease to Wells Fargo Equipment Finance, monthly payments totaling \$2,409 including interest at 5.00%, secured by equipment, matures March 2025	86,527	108,493
	223,598	108,493
Less current portion	(57,242)	(23,914)
	<u>\$ 166,356</u>	<u>\$ 84,579</u>

Total capitalized cost and accumulated depreciation of the leased equipment is as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Cost	\$ 389,012	\$ 127,607
Accumulated depreciation	(96,943)	(19,141)
	<u>\$ 292,069</u>	<u>\$ 108,466</u>

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

2022	\$ 65,688
2023	65,688
2024	65,688
2025	42,048
2026	3,055
Total minimum lease payments	242,167
Less amount representing interest	(18,569)
Present value of minimum lease payments	223,598
Less current portion	(57,242)
	<u>\$ 166,356</u>

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2021 and 2020

Note 10 – Future Major Repairs and Replacements

The Association’s governing documents require funds to be accumulated for future major repairs and replacements related to the preservation and maintenance of common property. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations.

The board of directors conducted reserve studies in September 2022 to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on this study. The Capital Repair and Replacement Fund (CRRRF) reserve study includes the golf course, golf equipment, maintenance equipment, maintenance area, marina, campgrounds, adult center, core areas of buildings (including the clubhouse and barns 6 (Ice Barn) and 8 (Community Center)). The Mailbox reserve study includes mailboxes located throughout the community. The Roads reserve study includes forty miles of roads, culverts and ditches. Changes to the existing reserve studies can materially change assessment and expenditure projections.

The Association is partially funding such major repairs and replacements over the estimated useful lives of the components based on the study’s estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. 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, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

Reserve fund activity and balances for the year ended December 31, 2021 are presented below:

	Road Reserve Fund	Capital Reserve Fund	Capital Reserve Holding Fund	Mailbox Assessment Fund	Density Reduction Fund	Total
Balance – December 31, 2019	\$ -	\$ -	\$ 3,769	\$ 87	\$ 128,530	\$ 132,386
Recognized appropriations from prior years collections	806,691	709,105	-	-	-	1,515,796
2020 collected appropriations	1,245,109	1,209,344	272,153	22,434	-	2,749,040
Adjustment for unrecognized 2020 collected appropriations	(1,245,109)	(1,209,344)	(272,153)	(22,434)	-	(2,749,040)
Interest income	9,057	6,978	3,911	215	823	20,984
2020 bad debt recovery	-	-	-	-	1	1
Proceeds from sale of property and equipment	-	345	-	-	-	345
Capital loan distributions	-	-	-	-	-	-
Other transfers	-	105,114	-	-	(38,769)	66,345
2020 charges	(815,748)	(821,542)	784	286	(1,524)	(1,637,744)
Balance – December 31, 2020	-	-	8,464	588	89,061	98,113
Recognized appropriations from prior years collections	210,087	333,257	-	-	-	543,344
Prior year(s) appropriations collected in 2021	29,491	27,131	310	509	-	57,441
2021 collected appropriations	1,369,880	1,331,251	326,311	24,700	-	3,052,142
Adjustment for unrecognized collected appropriations	(1,369,880)	(1,331,251)	(326,621)	(25,209)	-	(3,052,961)
Interest Income	4,142	3,790	1,823	51	135	9,941
2021 bad debt recovery	-	-	-	-	-	-
Proceeds from sale of property and equipment	-	94,000	-	-	-	94,000
Other transfers	-	-	-	-	-	-
2021 charges	(243,720)	(458,178)	(903)	(51)	(1,831)	(704,683)
Balance – December 31, 2021	\$ -	\$ -	\$ 9,384	\$ 588	\$ 87,365	\$ 97,337

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2021 and 2020

Note 10 – Future Major Repairs and Replacements – (Continued)

The September 2022 reserve studies present total current replacement costs of \$22,292,995 and recommended fully funded total of \$11,105,369. The Association is projected to be 23% funded at December 31, 2022.

Note 11 – Density Reduction

As of December 31, 2021 and 2020, 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, 2021 and 2020, the Association had acquired and owned 773 lots, each of which 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. None of the remaining lots are restricted under Water District 10.

Note 12 – Supplemental Cash Flow Information

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

	<u>2021</u>	<u>2020</u>
Cash paid for interest	\$ 63,236	\$ 74,101
Noncash investing and financing activities:		
Acquisition of lots held for sale through deed-in-lieu	\$ -	\$ 39,455
Forgiveness of Payroll Protection Program loan	\$ 357,700	\$ -

Note 13 – Subsequent Events

In June 2022, the Association applied for a loan in the amount of \$2,150,000. In July 2022, the Association received these funds and used the proceeds to pay off an existing loan from CIT Bank (CIT Bank acquired Mutual of Omaha Bank in 2020) in the amount of \$1,047,402 and, in conjunction with a Board approved transfer from the Operations fund, to additionally purchase property for \$1,527,750.

Supplementary Information

Sudden Valley Community Association

Supplementary Information on Future Major Repairs and Replacements

Year Ended December 31, 2021

(Unaudited)

Smart Property conducted a Level 1 reserve study in September 2022 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 4.0% 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 page 17 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

Year Ended December 31, 2021

(Unaudited)

Study Component	Estimated remaining useful lives (years)	Estimated future replacement costs
Capital Repair and Replacement Fund (CRRRF)		
Adult center building	0-20	\$ 348,100
Area Z	0-16	260,236
Barn 6	39	1,269,501
Barn 8	0-29	3,676,760
Bus shelters	0-17	91,768
Clubhouse	0-49	4,407,533
Core area	0-4	221,781
Golf	0-49	6,648,332
Golf & maintenance equipment	0-24	2,480,987
Maintenance - building	0-18	383,553
Maintenance - vehicles	1-16	915,936
Marina & AM/PM areas	0-23	3,311,929
Miscellaneous	0-18	520,980
Park areas	0-12	169,952
Pool-main	5-26	1,362,810
Pool-quiet	1-26	536,931
Security building & equipment	2-9	305,304
Turf	0-16	320,965
Total CRRRF		27,233,358
Mailboxes	12-16	806,599
Road Fund		
Asphalt-engineering & planning	0-9	189,091
Asphalt-road & parking surfaces	0-9	5,094,041
Stormwater & drainage improvements	0-29	6,287,069
Total Road Fund		11,570,201
Total		\$ 39,610,158
Other Assumptions:		
Interest rate		<u>0.50%</u>
Inflation rate		<u>4.00%</u>