

Sudden Valley Community Association

Financial Statements and
Supplementary Information with
Independent Auditor's Report

Years Ended December 31, 2023 and 2022

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 (a nonprofit organization), which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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. 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 audits. 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 the 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 generally accepted auditing standards, 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
October 22, 2024

Sudden Valley Community Association

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Cash and cash equivalents		
Operating funds	\$ 678,243	\$ 490,351
Operating reserve funds	668,517	585,541
Building deposits	506,408	492,617
Total cash and cash equivalents	<u>1,853,168</u>	<u>1,568,509</u>
Cash held in reserve		
Capital	3,636,467	3,248,004
Roads	2,121,536	2,614,619
Capital reserve holding	222,019	262,193
Density reduction	87,689	87,552
Mailbox assessment	126,444	101,061
Mitigation assigned savings	151,527	53,622
Total cash held in reserve	<u>6,345,682</u>	<u>6,367,051</u>
Receivables, net	76,681	74,325
Inventory	5,659	6,200
Prepaid expenses	80,846	93,181
Total current assets	<u>8,362,036</u>	<u>8,109,266</u>
Parcels and lots held for sale, net	236,457	228,042
Property and equipment, net	15,444,985	14,264,313
Intangible assets, net	64,640	60,187
Total assets	<u><u>\$ 24,108,118</u></u>	<u><u>\$ 22,661,808</u></u>
Liabilities and Members' Equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 461,675	\$ 436,903
Refundable deposits	512,295	497,515
Deferred revenue	113,383	154,367
Prepaid dues	224,404	179,227
Contract liabilities	6,092,862	6,213,237
Current portion of property purchase and construction loan	188,100	180,287
Current portion of finance lease liabilities	62,393	59,760
Total current liabilities	<u>7,655,112</u>	<u>7,721,296</u>
Property purchase and construction loan	1,611,325	1,868,725
Finance lease liabilities, net of current portion	44,203	106,596
Total liabilities	<u>9,310,640</u>	<u>9,696,617</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	101,292	100,190
Retained earnings	11,707,965	9,876,780
Total members' equity	<u>14,797,478</u>	<u>12,965,191</u>
Total liabilities and members' equity	<u><u>\$ 24,108,118</u></u>	<u><u>\$ 22,661,808</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenues		
Dues and assessments – general	\$ 2,363,726	\$ 2,167,490
Dues and assessments – recreation	186,157	424,523
Dues and assessments – capital expenditures and reserve funding	2,849,583	2,489,831
Golf green fees	1,231,625	1,027,843
Rental income	504,345	402,556
Miscellaneous income	121,117	59,932
Fines, penalties, late and lien fees	92,231	102,763
New home construction fee	53,920	75,240
Investment income	40,200	12,103
Titles and transfers fees	25,625	29,799
Valuation adjustment on lots held for sale	8,415	23,232
Gain on disposal of property and equipment	-	13,441
Total revenues	<u>7,476,944</u>	<u>6,828,753</u>
Expenses		
Salaries and wages	1,717,643	1,687,129
Depreciation	1,242,196	1,176,446
Outside services	848,282	1,152,467
Payroll taxes and fringe benefits	360,185	342,816
Repairs and maintenance	307,140	288,927
Golf maintenance	274,841	211,321
Taxes, licenses and insurance	238,286	218,261
Telephone and utilities	155,800	152,480
Materials and supplies	155,527	144,277
Golf management	141,963	110,294
Interest	88,469	78,053
Miscellaneous	72,235	72,098
Bad debt expense	22,808	19,239
Bank and credit card charges	9,502	11,396
Amortization	7,735	7,329
Other employee expenses	2,045	1,702
Total expenses	<u>5,644,657</u>	<u>5,674,235</u>
Excess of revenues over expenses	<u>\$ 1,832,287</u>	<u>\$ 1,154,518</u>

Sudden Valley Community Association

Statements of Changes in Members' Equity

Years Ended December 31, 2023 and 2022

	Donated Capital Developers	Paid-In Capital Members	Paid-In Capital Special Assessment	Equity Reserves	Retained Earnings	Total
Balance – December 31, 2021	\$ 482,330	\$ 1,815,600	\$ 690,291	\$ 97,337	\$ 8,725,115	\$ 11,810,673
Excess of revenues over expenses	-	-	-	-	1,154,518	1,154,518
Capital Assessments and Board of Director's appropriations for 2022, net						
Road reserves fund	-	-	-	-	-	-
Density reduction fund	-	-	-	187	(187)	-
Capital reserves fund	-	-	-	-	-	-
Capital reserves holding fund	-	-	-	2,754	(2,754)	-
Mailbox assessment fund	-	-	-	(88)	88	-
	-	-	-	2,853	(2,853)	-
Balance – December 31, 2022	482,330	1,815,600	690,291	100,190	9,876,780	12,965,191
Excess of revenues over expenses	-	-	-	-	1,832,287	1,832,287
Capital Assessments and Board of Director's appropriations for 2023, net						
Road reserves fund	-	-	-	-	-	-
Density reduction fund	-	-	-	137	(137)	-
Capital reserves fund	-	-	-	-	-	-
Capital reserves holding fund	-	-	-	695	(695)	-
Mailbox assessment fund	-	-	-	270	(270)	-
	-	-	-	1,102	(1,102)	-
Balance – December 31, 2023	<u>\$ 482,330</u>	<u>\$ 1,815,600</u>	<u>\$ 690,291</u>	<u>\$ 101,292</u>	<u>\$ 11,707,965</u>	<u>\$ 14,797,478</u>

Sudden Valley Community Association

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Excess of revenues over expenses	\$ 1,832,287	\$ 1,154,518
Adjustments to reconcile excess of revenues over expenses to cash, cash equivalents, and cash held in reserve provided by operating activities:		
Depreciation	1,242,196	1,176,446
Amortization	7,735	7,329
Gain on sale of property and equipment	-	(13,441)
Valuation adjustment on lots held for sale	(8,415)	(23,232)
(Increase) decrease in current assets:		
Receivables, net	(2,356)	(9,740)
Inventory	541	(2,577)
Prepaid expenses	12,335	(19,613)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	24,772	142,147
Deferred revenue	(40,984)	126,877
Prepaid dues	45,177	(31,850)
Contract liabilities	(120,375)	(610,407)
Net cash provided by operating activities	<u>2,992,913</u>	<u>1,896,457</u>
Cash flows from investing activities		
Proceeds from sale of property and equipment	-	15,550
Purchase of construction in progress	(572,030)	(1,641,689)
Purchase of property and equipment	(1,850,838)	(2,329,875)
Net cash used by investing activities	<u>(2,435,056)</u>	<u>(3,956,014)</u>
Cash flows from financing activities		
Refundable deposits	14,780	55,750
Proceeds from construction loan	-	1,098,468
Principle payments on property purchase and construction loan	(249,587)	(168,900)
Principal payments on finance lease	(59,760)	(57,242)
Net cash (used) provided by financing activities	<u>(294,567)</u>	<u>928,076</u>
Net increase (decrease) in cash, cash equivalents, and cash held in reserve	263,290	(1,131,481)
Cash, cash equivalents, and cash held in reserve – beginning of year	<u>7,935,560</u>	<u>9,067,041</u>
Cash, cash equivalents, and cash held in reserve – end of year	<u><u>\$ 8,198,850</u></u>	<u><u>\$ 7,935,560</u></u>
Reconciliation of cash, cash equivalents, and cash held in reserve to the Balance Sheet		
Cash and cash equivalents	\$ 1,853,168	\$ 1,568,509
Cash held in reserve	<u>6,345,682</u>	<u>6,367,051</u>
Total cash, cash equivalents, and cash held in reserve	<u><u>\$ 8,198,850</u></u>	<u><u>\$ 7,935,560</u></u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 88,469</u>	<u>\$ 78,053</u>
Noncash investing and financing activities:		
Property and equipment purchased with construction loan	<u>\$ -</u>	<u>\$ 1,051,532</u>

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

Notes to the Financial Statements

December 31, 2023 and 2022

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, campground, 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, 2023 with 3,119 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 \$362,252 and \$361,096 at December 31, 2023 and 2022, 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 reserve 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 reserve 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. In October 2021, the Board of Directors voted to discontinue collecting this fee for all real property transactions that close on or after January 1, 2022.

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, 2023 and 2022

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 2023 or 2022 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, 2023 or 2022.

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, 2023, 2022, and 2021 are \$6,092,862, \$6,213,237, and \$6,823,644, 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 \$113,383, \$154,367, and \$27,490 at December 31, 2023, 2022, and 2021, respectively. For further discussion of revenue and related accounting policies, see Note 3.

Notes to the Financial Statements

December 31, 2023 and 2022

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

Accounts receivable – The Financial Accounting Standards Board issued new guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects current expected credit losses ("CECL") and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The Association adopted the new guidance on January 1, 2023, using a modified retrospective approach with no material impact on the Association's financial statements.

Accounts receivable are stated net of the allowance for credit losses and represent the amount expected to be collected. At each balance sheet date, the Association recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. Accounts receivable are evaluated individually when they do not share similar risk characteristics. The allowance estimate is derived from a review of historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions and reasonable and supportable forecasts of future economic conditions. The Association believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as Association member and customer characteristics have remained constant and there have been no significant changes in factors that influenced the estimate of expected credit losses.

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 of association property consist of marina wet slips and dry slips, facility leases, and other short-term rentals 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, 2023 and 2022. 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, 2023, the Association had no uncertain tax positions requiring accrual. As of December 31, 2023, 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.

Leases – The Association continues to record right-of-use assets and corresponding lease liabilities for leases classified as capital leases under previous guidance. The Association determines if an arrangement contains a lease at inception based on whether the Association has the right to control the asset during the contract period and other facts and circumstances. The Association elected not to record right-of-use assets and lease liabilities for leases with an initial term of 12 months or less and recognizes lease expense on a straight-line basis over the lease term.

Advertising – The Association expenses advertising costs as incurred. Advertising expense totaled \$16,850 and \$16,697 for the years ended December 31, 2023 and 2022, respectively.

Notes to the Financial Statements

December 31, 2023 and 2022

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

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 October 22, 2024, the date the financial statements were available to be issued.

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.

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2023 and 2022

Note 4 – Receivables, Net

Receivables consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Members' accounts receivable	\$ 640,426	\$ 618,522
Allowance for doubtful accounts	(580,304)	(552,486)
Receivables – other	16,559	8,289
	<u>\$ 76,681</u>	<u>\$ 74,325</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. Bad debt expense totaled \$22,808 and \$19,239 for the years ended December 31, 2023 and 2022, respectively.

Note 5 – Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Roads and bridges	\$ 16,054,938	\$ 12,896,548
Land and improvements	6,866,015	6,866,015
Buildings and improvements	6,281,904	6,216,886
Vehicles, machinery and equipment	3,185,138	2,923,551
Furniture, fixtures and office equipment	303,435	295,903
Construction in progress	572,030	1,641,689
	<u>33,263,460</u>	<u>30,840,592</u>
Less accumulated depreciation	<u>(17,818,475)</u>	<u>(16,576,279)</u>
	<u>\$ 15,444,985</u>	<u>\$ 14,264,313</u>

Total depreciation expense amounted to \$1,242,196 and \$1,176,446 for the years ended December 31, 2023 and 2022, respectively.

Construction in progress consists primarily of facility remodels and refurbishments, playground improvements, and roads repair projects which were not completed and placed in service as of December 31, 2023. Contractually obligated estimated costs to complete these projects total approximately \$1,481,786.

Note 6 – Intangible Assets

Intangible assets consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Various design plans	\$ 122,125	\$ 109,937
Less accumulated amortization	(57,485)	(49,750)
	<u>\$ 64,640</u>	<u>\$ 60,187</u>

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2023 and 2022

Note 6 – Intangible Assets – (Continued)

Total amortization expense related to these assets amounted to \$7,735 and \$7,329 for the years ended December 31, 2023 and 2022, respectively.

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

2024	\$	7,735
2025		7,735
2026		7,735
2027		7,735
2028		7,735
Thereafter		<u>25,965</u>
	\$	<u>64,640</u>

Note 7 – Property Purchase and Construction Loan

The Association has the following property purchase and construction loan at December 31:

	<u>2023</u>	<u>2022</u>
Note payable to First Citizens Bank, monthly payments totaling \$22,090 including interest at 4.25%, secured by cash and receivables, matures July 2032	\$ 1,799,425	\$ 2,049,012
Less current portion	<u>(188,100)</u>	<u>(180,287)</u>
	<u>\$ 1,611,325</u>	<u>\$ 1,868,725</u>

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

2024	\$	188,100
2025		196,252
2026		204,757
2027		213,631
2028		222,889
Thereafter		<u>773,796</u>
		1,799,425
Less current portion		<u>(188,100)</u>
	\$	<u>1,611,325</u>

The property purchase and construction loan payable to First Citizens 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, 2023 and 2022

Note 8 – Finance Leases

Finance leases consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Finance lease to Wells Fargo Equipment Finance, monthly payments totaling \$3,065 including interest at 3.76%, secured by equipment, matures January 2026	\$ 73,589	\$ 106,918
Finance lease to Wells Fargo Equipment Finance, monthly payments totaling \$2,409 including interest at 5.00%, secured by equipment, matures March 2025	<u>33,007</u>	<u>59,438</u>
	106,596	166,356
Less current portion	<u>(62,393)</u>	<u>(59,760)</u>
	<u>\$ 44,203</u>	<u>\$ 106,596</u>

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

	<u>2023</u>	<u>2022</u>
Cost	\$ 389,012	\$ 389,012
Accumulated depreciation	<u>(252,548)</u>	<u>(174,746)</u>
	<u>\$ 136,464</u>	<u>\$ 214,266</u>

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

2024	\$ 65,688
2025	43,997
2026	<u>3,055</u>
Total minimum lease payments	112,740
Less amount representing interest	<u>(6,144)</u>
Present value of minimum lease payments	106,596
Less current portion	<u>(62,393)</u>
	<u>\$ 44,203</u>

Note 9 – 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 August 2024 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.

Sudden Valley Community Association

Notes to the Financial Statements

December 31, 2023 and 2022

Note 9 – Future Major Repairs and Replacements – (Continued)

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, Welcome Center, 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, 2023 are presented below:

	<u>Road Reserve Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Reserve Holding Fund</u>	<u>Mailbox Assessment Fund</u>	<u>Density Reduction Fund</u>	<u>Total</u>
Balance – December 31, 2021	\$ -	\$ -	\$ 9,384	\$ 588	\$ 87,365	\$ 97,337
Recognized appropriations from prior years collections	1,666,920	772,397	-	-	-	2,439,317
Prior year(s) appropriations collected in 2022	26,324	24,189	176	449	-	51,138
2022 collected appropriations	1,370,247	1,331,944	6,613	24,714	-	2,733,518
Adjustment for unrecognized collected appropriations	(1,370,247)	(1,331,944)	(6,788)	(25,163)	-	(2,734,142)
Interest income	4,455	4,422	1,620	-	-	10,497
2022 bad debt recovery	-	-	-	-	-	-
Proceeds from sale of property and equipment	-	15,550	-	-	-	15,550
Capital loan distributions	-	2,150,000	-	-	-	2,150,000
Unrecognized prior year(s) appropriations to be refunded	-	-	905,234	-	-	905,234
Refund transfers of prior year(s) appropriations	-	-	(905,234)	-	-	(905,234)
Other transfers	-	611,301	-	-	-	611,301
2022 charges	<u>(1,697,699)</u>	<u>(3,577,859)</u>	<u>1,133</u>	<u>(88)</u>	<u>187</u>	<u>(5,274,326)</u>
Balance – December 31, 2022	-	-	12,138	500	87,552	100,190
Recognized appropriations from prior years collections	1,864,188	944,934	-	-	-	2,809,122
Prior year(s) appropriations collected in 2023	21,009	19,452	1	374	-	40,836
2023 collected appropriations	1,371,104	1,333,399	-	24,738	-	2,729,241
Adjustment for unrecognized collected appropriations	(1,371,104)	(1,333,399)	(1)	(25,113)	-	(2,729,617)
Interest Income	12,920	18,586	695	364	137	32,702
2023 bad debt recovery	-	-	-	-	-	-
Proceeds from sale of property and equipment	-	-	-	-	-	-
Capital loan distributions	-	-	-	-	-	-
Unrecognized prior year(s) appropriations to be refunded	-	-	40,869	-	-	40,869
Refund transfers of prior year(s) appropriations	-	-	(40,869)	-	-	(40,869)
Other transfers	-	32,799	-	-	-	32,799
2023 charges	<u>(1,898,117)</u>	<u>(1,015,771)</u>	<u>-</u>	<u>(93)</u>	<u>-</u>	<u>(2,913,981)</u>
Balance – December 31, 2023	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,833</u>	<u>\$ 770</u>	<u>\$ 87,689</u>	<u>\$ 101,292</u>

The August 2024 reserve studies present total current replacement costs of \$29,885,869 and recommended fully funded total of \$16,655,666. The Association is projected to be 24% funded at December 31, 2024.

Notes to the Financial Statements

December 31, 2023 and 2022

Note 10 – Density Reduction

As of December 31, 2023 and 2022, 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, 2023 and 2022, the Association had acquired and owned 774 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.

Supplementary Information

Sudden Valley Community Association

Supplementary Information on Future Major Repairs and Replacements

Year Ended December 31, 2023

(Unaudited)

Smart Property conducted a Level 3 reserve study in August 2024 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, 2023

(Unaudited)

Study Component	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs
Capital Repair and Replacement Fund (CRRRF)		
Adult center building	4-18	\$ 391,854
Area Z	6-19	186,581
Barn 6	1	1,130,000
Barn 8	0-29	4,594,084
Bus shelters	2-23	106,069
Clubhouse	0-47	4,483,775
Core area	1-29	1,164,188
Golf	0-37	5,408,675
Golf & maintenance equipment	0-24	2,679,228
Maintenance – building	2-19	1,136,479
Maintenance – vehicles	0-6	860,330
Marina & AM/PM areas	0-21	4,330,873
Miscellaneous	0-29	589,901
Park areas	0-19	447,971
Pool-main	3-24	1,413,896
Pool-quiet	3-24	582,235
Security building & equipment	0-5	268,590
Turf	0-19	378,528
Welcome center	0-24	245,761
Total CRRRF		30,399,018
Mailboxes	10-14	806,594
Road Fund		
Asphalt-engineering & planning	0-4	246,802
Asphalt-road & parking surfaces	0-11	3,534,038
Stormwater & drainage improvements & bridges	0-29	13,389,130
Total Road Fund		17,169,970
Total		\$ 48,375,582
Other Assumptions:		
Interest rate		<u>2.00%</u>
Inflation rate		<u>4.00%</u>