Larson Gross
ASSURANCE

Sudden Valley Community Association

Financial Statements and
Supplementary Information with
Independent Auditor's Report

Years Ended December 31, 2025 and 2024

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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, 2025 and 2024, 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, 2025 and 2024, 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 18-19 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 Assurance, PLLC

Bellingham, Washington
October 6, 2026

Sudden Valley Community Association

Balance Sheets

December 31, 2025 and 2024

	2025	2024
Assets		
Current assets		
Cash and cash equivalents		
Operating funds	$ 496,968	$ 579,484
Operating reserve funds	679,739	673,387
Building deposits	798,900	749,908
Total cash and cash equivalents	1,975,607	2,002,779
Cash held in reserve		
Capital	3,848,496	3,189,609
Roads	3,015,998	2,130,137
Capital reserve holding	219,316	219,618
Density reduction	150,789	87,889
Mailbox assessment	178,900	151,969
Mitigation assigned savings	64,859	64,759
Total cash held in reserve	7,478,358	5,843,981
Receivables – net	64,407	70,455
Inventory	5,705	5,823
Prepaid expenses	114,977	111,702
Total current assets	9,639,054	8,034,740
Parcels and lots held for sale – net	188,859	231,827
Property and equipment – net	16,566,628	16,941,751
Intangible assets – net	161,956	183,332
Total assets	$ 26,556,497	$ 25,391,650
Liabilities and Members' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 488,194	$ 432,850
Refundable deposits	810,325	759,855
Deferred revenue	185,883	150,180
Prepaid dues	183,275	241,081
Contract liability – deferred revenue	7,246,851	5,676,299
Current portion of property purchase and construction loan	204,757	196,252
Current portion of finance lease liabilities	15,662	52,848
Total current liabilities	9,134,947	7,509,365
Contingent liability	357,700	357,700
Property purchase and construction loan, net of current portion	1,062,310	1,342,821
Finance lease liabilities – net of current portion	35,946	51,608
Total liabilities	10,590,903	9,261,494
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	166,647	102,921
Retained earnings	12,810,726	13,039,014
Total members' equity	15,965,594	16,130,156
Total liabilities and members' equity	$ 26,556,497	$ 25,391,650

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

Sudden Valley Community Association

Statements of Revenues and Expenses

Years Ended December 31, 2025 and 2024

	2025	2024
Revenues		
Dues and assessments – general	$ 2,860,207	$ 2,673,833
Dues and assessments – recreation	2,608	1,498
Dues and assessments – capital expenditures and reserve funding	1,397,099	3,176,598
Golf green fees	1,192,883	1,206,502
Rental income	584,148	576,460
Miscellaneous income	120,397	82,392
Fines, penalties, late and lien fees	140,824	169,844
New home construction fee	122,400	263,150
Investment income	43,378	57,831
Titles and transfers fees	28,425	24,600
Gain on sale of lots	26,880	-
Valuation adjustment on lots held for sale	152	(4,630)
Gain on disposal of property and equipment	20,023	4,618
Total revenues	6,539,424	8,232,696
Expenses		
Salaries and wages	2,154,249	1,998,181
Depreciation	1,488,975	1,377,170
Outside services	891,532	886,020
Paycheck protection program loan forgiveness clawback	-	357,700
Payroll taxes and fringe benefits	442,153	421,589
Repairs and maintenance	453,882	652,263
Golf maintenance	317,426	302,559
Taxes, licenses and insurance	295,193	258,494
Telephone and utilities	182,596	174,490
Materials and supplies	166,937	147,693
Golf management	108,680	110,222
Interest	73,394	75,448
Miscellaneous	36,216	43,752
Bad debt expense	52,784	65,067
Bank and credit card charges	14,615	11,523
Amortization	21,376	13,656
Other employee expenses	3,978	4,191
Total expenses	6,703,986	6,900,018
(Deficit) excess of revenues over expenses	$ (164,562)	$ 1,332,678

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

Sudden Valley Community Association

Statements of Changes in Members' Equity

Years Ended December 31, 2025 and 2024

	Donated Capital Developers	Paid-In Capital Members	Paid-In Capital Special Assessment	Equity Reserves	Retained Earnings	Total
Balance – December 31, 2023	$ 482,330	$ 1,815,600	$ 690,291	$ 101,292	$ 11,707,965	$ 14,797,478
Excess of revenues over expenses	-	-	-	-	1,332,678	1,332,678
Capital Assessments and Board of Director's appropriations for 2024, net						
Road reserves fund	-	-	-	-	-	-
Density reduction fund	-	-	-	200	(200)	-
Capital reserves fund	-	-	-	-	-	-
Capital reserves holding fund	-	-	-	948	(948)	-
Mailbox assessment fund	-	-	-	481	(481)	-
	-	-	-	1,629	(1,629)	-
Balance – December 31, 2024	482,330	1,815,600	690,291	102,921	13,039,014	16,130,156
Excess of revenues over expenses	-	-	-	-	(164,562)	(164,562)
Capital Assessments and Board of Director's appropriations for 2025, net						
Road reserves fund	-	-	-	-	-	-
Density reduction fund	-	-	-	62,900	(62,900)	-
Capital reserves fund	-	-	-	-	-	-
Capital reserves holding fund	-	-	-	539	(539)	-
Mailbox assessment fund	-	-	-	287	(287)	-
	-	-	-	63,726	(63,726)	-
Balance – December 31, 2025	$ 482,330	$ 1,815,600	$ 690,291	$ 166,647	$ 12,810,726	$ 15,965,594

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

Sudden Valley Community Association

Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Excess of revenues over expenses	$ (164,562)	$ 1,332,678
Adjustments to reconcile excess of revenues over expenses to cash, cash equivalents, and cash held in reserve from operating activities:		
Depreciation	1,488,975	1,377,170
Amortization	21,376	13,656
Gain on disposal of property and equipment	(20,023)	(4,618)
Gain on sale of lots	(26,880)	-
Valuation adjustment on lots held for sale	(152)	4,630
Changes in operating assets and liabilities		
Receivables, net	6,048	6,226
Inventory	118	(164)
Prepaid expenses	(3,275)	(30,856)
Accounts payable and accrued expenses	55,344	(28,825)
Deferred revenue	35,703	36,797
Prepaid dues	(57,806)	16,677
Contract liability – deferred revenue	1,570,552	(416,563)
Net cash from operating activities	2,905,418	2,306,808
Cash flows from investing activities		
Proceeds from sale of lots held for sale	70,000	-
Proceeds from sale of property and equipment	21,198	4,618
Purchase of intangible assets	-	(132,348)
Purchase of construction in progress	(631,550)	(1,416,516)
Purchase of property and equipment	(483,477)	(1,457,420)
Net cash from investing activities	(1,023,829)	(3,001,666)
Cash flows from financing activities		
Refundable deposits	50,470	247,560
Contingent liability	-	357,700
Principle payments on property purchase and construction loan	(272,006)	(260,352)
Proceeds from finance lease	-	67,110
Principal payments on finance lease	(52,848)	(69,250)
Net cash from financing activities	(274,384)	342,768
Net (decrease) increase in cash, cash equivalents, and cash held in reserve	1,607,205	(352,090)
Cash, cash equivalents, and cash held in reserve – beginning of year	7,846,760	8,198,850
Cash, cash equivalents, and cash held in reserve – end of year	$ 9,453,965	$ 7,846,760
Reconciliation of cash, cash equivalents, and cash held in reserve to the Balance Sheet		
Cash and cash equivalents	$ 1,975,607	$ 2,002,779
Cash held in reserve	7,478,358	5,843,981
Total cash, cash equivalents, and cash held in reserve	$ 9,453,965	$ 7,846,760
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 73,394	$ 75,448

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

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, community center barn, 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, 2025 with 3,118 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 – The intent of this fund is to comprise 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 $364,709 and $363,815 at December 31, 2025 and 2024, respectively.

Undesignated reserve – This fund is used to account for the recoveries of prior years' delinquent operating dues (non-capital) and related penalties and interest. Expenditures from this fund must receive approval by the Board of Directors. These funds are included in operating retained earnings and totaled $315,030 and $309,572 at December 31, 2025 and 2024, 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.

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

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.

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 2025 or 2024 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, 2025 or 2024.

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, 2025, 2024, and 2023 are $7,246,851, $5,676,299, and $6,092,862, respectively.

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

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 and a prepaid facility lease amounted to $185,883, $150,180, and $113,383 at December 31, 2025, 2024, and 2023, respectively. For further discussion of revenue and related accounting policies, see Note 3.

Accounts receivable – 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, 2025 and 2024. 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, 2025, the Association had no uncertain tax positions requiring accrual. As of December 31, 2025, 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.

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

Advertising – The Association expenses advertising costs as incurred. Advertising expense totaled $10,955 and $8,514 for the years ended December 31, 2025 and 2024, 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 prior year's financial statements to conform to current year's financial statement presentation.

Subsequent events – In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 6, 2026, 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.

Note 3 – Revenue Recognition – (Continued)

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:

	2025	2024
Members' accounts receivable	$ 766,496	$ 725,750
Allowance for doubtful accounts	(705,535)	(658,645)
Receivables – other	3,446	3,350
	$ 64,407	$ 70,455

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 $52,784 and $65,067 for the years ended December 31, 2025 and 2024, respectively.

Note 5 – Property and Equipment

Property and equipment consist of the following at December 31:

	2025	2024
Roads and bridges	$ 17,512,408	$ 17,408,807
Land and improvements	7,648,704	7,540,025
Buildings and improvements	6,634,935	6,381,587
Vehicles, machinery and equipment	3,726,082	3,508,126
Furniture, fixtures and office equipment	321,512	303,435
Construction in progress	1,329,593	965,993
	37,173,234	36,107,973
Less accumulated depreciation	(20,606,606)	(19,166,222)
	$ 16,566,628	$ 16,941,751

Total depreciation expense amounted to $1,488,975 and $1,377,170 for the years ended December 31, 2025 and 2024, respectively.

Construction in progress consists primarily of facility remodels and refurbishments and improvements, land improvements, and roads and bridge repair projects which were not completed and placed in service as of December 31, 2025. Contractually obligated estimated costs to complete these projects total approximately $1,285,291.

Note 6 – Intangible Assets

Intangible assets consist of the following at December 31:

	2025	2024
Ten-year roads & drainage improvement plan	$ 132,349	$ 132,349
Various design plans	122,125	122,125
Less accumulated amortization	(92,518)	(71,142)
	$ 161,956	$ 183,332

Total amortization expense related to these assets amounted to $21,376 and $13,656 for the years ended December 31, 2025 and 2024, respectively.

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

2026	$ 21,376
2027	21,376
2028	21,376
2029	21,376
2030	21,376
Thereafter	55,076
	$ 161,956

Note 7 – Contingent Liability

During 2024, the Association recorded a contingent liability relating to Paycheck Protection Program (PPP) loan funds that were received in May 2020 and then forgiven by the Small Business Administration (SBA) in September 2021, which are funds that the SBA has since subsequently deemed that the Association did not qualify for because of its 501(c)(4) tax exempt status, which was communicated to the Association by the government in April 2025. This contingency was classified by the Association as probable. Upon the final resolution with the SBA, the Association believes that the estimated amount of liability will be limited to the original amount of the PPP loan funds received ($357,700) because of the fact that the Association fully disclosed its tax exempt status to the SBA during the PPP loan application process, which the government has especially acknowledged.

Note 8 – Property Purchase and Construction Loan

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

	2025	2024
Note payable to First Citizens Bank, monthly payments totaling $22,090 including interest at 4.25%, secured by cash and receivables, matures July 2032	$ 1,267,067	$ 1,539,073
Less current portion	(204,757)	(196,252)
	$ 1,062,310	$ 1,342,821

Note 8 – Property Purchase and Construction Loan – (Continued)

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

2026	$ 204,757
2027	213,631
2028	222,889
2029	232,548
2030	242,627
Thereafter	150,615
	1,267,067
Less current portion	(204,757)
	$ 1,062,310

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.

Note 9 – Finance Leases

Finance leases consist of the following at December 31:

	2025	2024
Finance lease to DLL Finance LLC, monthly payments totaling $1,326 including interest at 7.48%, secured by equipment, matures July 2029	$ 48,553	$ 60,253
Finance lease to Wells Fargo Equipment Finance, monthly payments totaling $3,065 including interest at 3.76%, secured by equipment, matures January 2026	3,055	38,984
Finance lease to Wells Fargo Equipment Finance, monthly payments totaling $2,409 including interest at 5.00%, secured by equipment, matures March 2025	-	5,219
	51,608	104,456
Less current portion	(15,662)	(52,848)
	$ 35,946	$ 51,608

Note 9 – Finance Leases – (Continued)

Total capitalized cost and accumulated depreciation of the leased equipment included in Property and Equipment on the balance sheet is as follows as of December 31:

	2025	2024
Cost	$ 328,515	$ 456,122
Accumulated depreciation	(281,538)	(337,062)
	$ 46,977	$ 119,060

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

2026	$ 18,967
2027	15,912
2028	15,912
2029	9,257
Total minimum lease payments	60,048
Less amount representing interest	(8,440)
Present value of minimum lease payments	51,608
Less current portion	(15,662)
	$ 35,946

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 August 2026 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, 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.

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

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, 2025 are presented below:

	Road Reserve Fund	Capital Reserve Fund	Capital Reserve Holding Fund	Mailbox Assessment Fund	Density Reduction Fund	Total
Balance – December 31, 2023	$ -	$ -	$ 12,833	$ 770	$ 87,689	$ 101,292
Recognized appropriations from prior years collections	1,365,287	1,780,673	-	-	-	3,145,960
Prior year(s) appropriations collected in 2024	15,873	14,765	-	295	-	30,933
2024 collected appropriations	1,373,889	1,333,813	-	24,751	-	2,732,453
Adjustment for unrecognized collected appropriations	(1,373,889)	(1,333,813)	-	(25,045)	-	(2,732,747)
Interest income	17,769	26,260	948	587	200	45,764
2024 bad debt recovery	-	-	-	-	-	-
Proceeds from sale of property and equipment	-	4,618	-	-	-	4,618
Capital loan distributions	-	-	-	-	-	-
Unrecognized prior year(s) appropriations to be refunded	-	-	3,350	-	-	3,350
Refund transfers of prior year(s) appropriations	-	-	(3,350)	-	-	(3,350)
Other transfers	86,923	145,600	-	-	-	232,523
2024 charges	(1,485,852)	(1,971,916)	-	(107)	-	(3,457,875)
Balance – December 31, 2024	-	-	13,781	1,251	87,889	102,921
Recognized appropriations from prior years collections	583,235	769,961	-	-	-	1,353,196
Prior year(s) appropriations collected in 2025	22,608	21,294	-	387	-	44,289
2025 collected appropriations	1,469,097	1,428,848	-	26,256	-	2,924,201
Adjustment for unrecognized collected appropriations	(1,469,097)	(1,428,848)	-	(26,643)	-	(2,924,588)
Interest Income	14,396	19,361	539	397	149	34,842
2025 bad debt recovery	-	-	-	-	-	-
Proceeds from sale of property and equipment	-	20,024	-	-	-	20,024
Proceeds from sale of lots held for sale	-	-	-	-	62,751	62,751
Capital loan distributions	-	-	-	-	-	-
Unrecognized prior year(s) appropriations to be refunded	-	-	841	-	-	841
Refund transfers of prior year(s) appropriations	-	-	(841)	-	-	(841)
Other transfers	-	-	-	-	-	-
2025 charges	(620,239)	(830,640)	-	(110)	-	(1,450,989)
Balance – December 31, 2025	$ -	$ -	$ 14,320	$ 1,538	$ 150,789	$ 166,647

The August 2026 reserve studies present total current replacement costs of $40,992,629 and recommended fully funded total of $23,238,197. The Association is projected to be 23% funded at December 31, 2026.

Note 11 – Density Reduction

As of December 31, 2025 and 2024, 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, 2025 and 2024, the Association had acquired and owned 775 and 774 lots, respectively, 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, 2025

(Unaudited)

Smart Property conducted a Level 3 reserve study in August 2026 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 19 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, 2025

(Unaudited)

Study Component	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs
Capital Repair and Replacement Fund (CRRRF)		
Adult center building	2-16	$ 391,854
Area Z	4-28	320,301
Barn 6	0-29	5,312,551
Barn 8	0-18	7,295,908
Bus shelters	0-21	106,069
Clubhouse	1-45	4,834,612
Core area	27	1,132,331
Golf	0-35	10,053,025
Golf & maintenance equipment	0-28	3,490,928
Maintenance – building	1-18	1,137,949
Maintenance – vehicles	0-9	872,850
Marina & AM/PM areas	0-19	4,855,600
Miscellaneous	0-18	790,231
Park areas	0-19	485,350
Pool-main	1-22	1,369,672
Pool-quiet	1-22	587,567
Security building & equipment	3-9	343,973
Turf	0-39	618,216
Welcome center	5-22	239,556
Total CRRRF		44,238,543
Mailboxes	8-12	806,594
Road Fund		
Asphalt-engineering & planning	0-2	251,861
Asphalt-road & parking surfaces	0-11	3,966,669
Stormwater & drainage improvements & bridges	0-29	16,380,099
Total Road Fund		20,598,629
Total		$ 65,643,766
Other Assumptions:		
Interest rate		1.00%
Inflation rate		4.00%

Larson Gross
ASSURANCE

800 447 0177 ◗ larsongross.com
BELLINGHAM ◗ BURLINGTON ◗ LYNDEN ◗ WENATCHEE ◗ YAKIMA

October 6, 2026

Board of Directors
Sudden Valley Community Association
4 Clubhouse Circle
Bellingham, WA 98229

We have audited the financial statements of Sudden Valley Community Association (the Association) as of and for the year ended December 31, 2025 and have issued our report thereon dated October 6, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards
As communicated in our agreement letter dated March 4, 2026, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are represented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Association solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating matters related to the audit that are in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We are independent with respect to the Association under the requirements of the American Institute of Certified Public Accountants.

Other Information in Documents Containing Audited Financial Statements
Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Association's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

"Larson Gross" is the brand name under which Larson Gross Assurance, PLLC and Larson Gross Advisors, LLC (and its subsidiaries) provide professional services. Larson Gross Assurance, PLLC and Larson Gross Advisors, LLC practice as an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable laws, regulations, and professional standards. Larson Gross Assurance, PLLC is a licensed independent CPA firm that provides attest services to its clients, and Larson Gross Advisors, LLC provides tax and business consulting services to their clients. Larson Gross Advisors, LLC is not a licensed CPA firm. The entities falling under the Larson Gross brand name are independently owned and are not liable for the services provided by any other entity providing services under Larson Gross brand. Our use of the terms "our firm" and "we" and "us" and terms of similar import, denote the alternative practice structure conducted by Larson Gross Assurance PLLC, and Larson Gross Advisors, LLC (and its subsidiaries).

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative Aspects of the Association's Significant Accounting Practices
Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Association is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended December 31, 2025. No matters have come to our attention that would require us, under professional standards, to inform you about 1) the methods used to account for significant unusual transactions and 2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions
We did not identify any significant unusual transactions

Significant Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is the allowance for doubtful receivables. Management's estimate of the allowance for doubtful receivables is based on prior experience, the age of receivables at year end, the debtor's ability to repay the amount owed, and management's appraisal of current economic conditions. We evaluated these key factors and assumptions and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures
Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Association's financial statements relate to the items discussed in the significant accounting estimates section above, and Note 5 (Property & Equipment), 6 (Intangible Assets), and 10 (Future Major Repairs and Replacements).

Significant Difficulties Encountered During the Audit
We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements
For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There were no uncorrected financial statement misstatements whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as result of our audit procedures.

The attached schedule includes all material misstatements that we identified as a result of our audit procedures. They were brought to the attention of, and corrected by, management

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Association's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management
We have requested certain written representations from management, which are included in the attached letter dated October 6, 2026.

Management's Consultation with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues
In the normal course of our professional association with the Association, we generally discussed a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Association, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Association's auditors.

Other Matters
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with generally accepted accounting principles in the United States, the method of preparing it has not change from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Closing
We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to Sudden Valley Community Association.

This communication is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Larson Gross Assurance, PLLC

Bellingham, Washington
October 6, 2026

Client: ***85630 - Sudden Valley Community Association***
Engagement: ***25 Audit - Sudden Valley Community Association***
Period Ending: ***12/31/2025***
Trial Balance: ***201.00 - Trial Balance***
Workpaper: ***202.02 - Reclassifying Journal Entries Report (1)***

Account	Description	Debit	Credit
Reclassifying Journal Entries			
Reclassifying Journal Entries JE # 101			
To reclass current portion of long-term debt.			
LG2001-XXX	Less Current Portion: Capital Lease Obligation	18,967.00	
LG2005-XXX	Less Current Portion: CRRRF Loan	204,757.00	
LG2002-000	Capital Lease Obligation, Current		18,967.00
LG2006-000	CRRRF Loan Obligation, Current		204,757.00
Total		**223,724.00**	**223,724.00**
	Total Reclassifying Journal Entries	**223,724.00**	**223,724.00**
	Total All Journal Entries	**223,724.00**	**223,724.00**