Cougar Ridge Homeowners' Association

Audit Report

Financial Statements

&

Supplementary Information

For the Year Ended December 31, 2025

Cougar Ridge Homeowners' Association
Audit Report, Financial Statements and Supplementary Information
For the Year Ended December 31, 2025

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Independent Auditors' Report

To the Board of Directors and Members
Cougar Ridge Homeowners' Association
Olympia, Washington

Qualified Opinion

We have audited the accompanying financial statements of Cougar Ridge Homeowners' Association, which comprise the Balance Sheet as of December 31, 2025, and the related Statement of Changes in Fund Balances, Statement of Revenues and Expenses and Statement of Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" section of the auditor's report, the financial statements referred to above present fairly, in all material respects, the financial position of Cougar Ridge Homeowners' Association as of December 31, 2025, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Because of the lack of substantiation for the value of the fixed assets and the inadequacy of the related depreciation, we were unable to obtain sufficient audit evidence regarding the water system asset and associated depreciation.

As discussed in Note 8 to the financial statements, the Association has not recorded a liability for Washington State public utility tax on amounts derived from the distribution of water that, in our judgment, do not qualify for the deduction the Association has claimed for amounts used for capital improvements. Accounting principles generally accepted in the United States of America require that this liability be accrued. Had the liability been accrued, accrued liabilities would have been increased and the change in net assets would have been decreased by approximately $2,938 for the year ended December 31, 2025.

We conducted our audit 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 Cougar Ridge Homeowners' 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 qualified audit opinion.

Emphasis of Matter - New Accounting Guidance Implementation

As described in Note 5 to the financial statements, the Association adopted the new revenue recognition standard using the modified retrospective method and recognized the cumulative effect as an adjustment to the opening balance of the replacement fund. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Prior Period Adjustment(s)

As discussed in Note 6 to the financial statements, the 2024 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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Emphasis of Matter - Fund Accounting

As described in Note 7 to the financial statements, the Association changed from the nonfund presentation to the fund presentation for its financial statements. Our opinion is not modified with respect to that matter.

Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

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 Cougar Ridge Homeowners' 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 Responsibilities 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 Cougar Ridge Homeowners' 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 Cougar Ridge Homeowners' 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 [GAAP] require that the Supplementary Information on Future Major Repairs 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.

Alena Alonichava, CPA

PNW CPA, PLLC

Seattle, Washington

April 29, 2026

Cougar Ridge Homeowners' Association
Balance Sheet
December 31, 2025

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash, including interest bearing deposits	$ 39,652		$ 39,652
Investments		$ 381,603	381,603
Assessments Receivable	558		558
Prepaid Insurance	2,222		2,222
Other Receivable	22		22
Water System	136,454		136,454
Accumulated Depreciation	(19,699)		(19,699)
TOTAL ASSETS	$ 159,209	$ 381,603	$ 540,812

	OPERATING FUND	REPLACEMENT FUND	TOTAL
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	$ 641		$ 641
Assessments Received in Advance	786		786
Contract Liability		$ 360,161	360,161
Income Taxes Payable	3,818		3,818
TOTAL LIABILITIES	5,245	360,161	365,406
FUND BALANCES			
Operating	153,964		153,964
Replacement		21,442	21,442
TOTAL FUND BALANCES	153,964	21,442	175,406
TOTAL LIABILITIES AND FUND BALANCES	$ 159,209	$ 381,603	$ 540,812

See Notes to the Financial Statements

Cougar Ridge Homeowners' Association

Statement of Changes in Fund Balances

For the Year Ended December 31, 2025

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Balance at the Beginning of the Year	$ 490,977	$ 0	$ 490,977
Prior Period Adjustment - Note 6	(4,078)		(4,078)
Transfer Between Funds	(9,105)	9,105	
Change in Accounting Principle - Note 7	(326,266)		(326,266)
Excess <Deficiency> of Revenues over Expenses	2,436	12,337	14,773
Balance at the End of the Year	$ 153,964	$ 21,442	$ 175,406

See Notes to the Financial Statements

Cougar Ridge Homeowners' Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2025

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Assessments	$ 17,312		$ 17,312
Water Assessments	30,323		30,323
Reimbursable Repairs	1,393		1,393
Backflow Testing	4,005		4,005
Interest	414	$ 12,337	12,751
Late Fees & Interest	1,284		1,284
TOTAL REVENUES	54,731	12,337	67,069
EXPENSES			
Administrative			
Administrative	2,276		2,276
Depreciation	4,663		4,663
Federal Taxes	3,818		3,818
Insurance	8,823		8,823
Legal	685		685
Miscellaneous	645		645
Office Supplies & Expenses	1,248		1,248
Professional Fees	1,535		1,535
Taxes, Licenses & Fees	386		386
Water System Management	3,287		3,287
	27,366		27,366
Utilities			
Electricity	9,577		9,577
	9,577		9,577
Maintenance			
Capital Improvements	1,249		1,249
Reimbursable Repairs	1,548		1,548
Repairs & Maintenance	8,077		8,077
Water System Maintenance	4,480		4,480
	15,353		15,353
TOTAL EXPENSES	52,296		52,296
EXCESS <DEFICIENCY> OF REVENUES OVER EXPENSES	$ 2,436	$ 12,337	$ 14,773

See Notes to the Financial Statements

Cougar Ridge Homeowners' Association
Statement of Cash Flows
For the Year Ended December 31, 2025

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash Flows from Operating Activities:			
Cash from Assessments	$ 16,546	$ 33,895	$ 50,441
Cash from Special Assessments	30,323		30,323
Interest Received	414	12,337	12,751
Miscellaneous Income	6,682		6,682
Cash Paid for Services and Products	(49,496)		(49,496)
Net Increase <Decrease> in Cash from Operating Activities	4,469	46,232	50,701
Cash Flows from Investing Activities:			
Purchase of Investments		(55,337)	(55,337)
Cash Flows from Financing Activities:			
Transfers Between Funds	(9,105)	9,105	
Net Increase <Decrease> in Cash	(4,636)	0	(4,636)
Cash, including interest bearing deposits, at the Beginning of Year	44,287		44,287
Cash, including interest bearing deposits, at the End of Year	$ 39,652	$ 0	$ 39,652

Reconciliation of Excess <Deficiency> of Revenues over Expenses to Net Cash Received by Operations:

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Excess <Deficiency> of Revenues over Expenses	$ 2,436	$ 12,337	$ 14,773
Increased Assessments Receivable	(1,552)		(1,552)
Increased Prepaid Insurance	(2,222)		(2,222)
Increased Prepaid Expenses	(22)		(22)
Decreased Accumulated Depreciation	4,663		4,663
Increased Accounts Payable	641		641
Increased Prepaid Assessments	786		786
Increased Taxes Payable	3,818		3,818
Increased Contract Liability		33,895	33,895
Prior Period Adjustment	(4,078)		(4,078)
Net Increase <Decrease> in Operating Cash	$ 4,469	$ 46,232	$ 50,701

See Notes to the Financial Statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General
Cougar Ridge Homeowners' Association was incorporated June 5, 1986, in the state of Washington as a nonprofit corporation. The Association is responsible for the operation and maintenance of the common property. This is a 94-unit planned residential development located in Olympia, Washington.

Fund Accounting
The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes according to their nature and purpose: The operating fund is used to account for financial resources available for the general operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

Capitalization Policy
Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements as the Board does not have the right to sell the common areas and keep the proceeds. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

Member Assessments
Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. There is no allowance necessary at the end of the fiscal year.

The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control.

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 reserve assessments.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

Cash, Including Interest Bearing Deposits
Cash, including interest bearing deposits, include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

Investments
Investments include certificates of deposit with original maturities over 90 days.

Income Tax
The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Interest Income

The Association recognizes interest income on the operating fund and the replacement fund when earned. The Association's policy is to account for fund expenditures using fund interest income before fund assessment income.

Date of Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the audit report, which is the date that the financial statements were issued or available to be issued.

NOTE 2 - REPLACEMENT FUNDING PROGRAM

The Association is currently funding for the future major repair and replacement of Association common areas as disclosed in Note 1. Accumulated funds are held in separate accounts and are generally not available for operating purposes. The funding is based upon a professional reserve study approved by the Board of Directors.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and variations may be material. Therefore, the amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to certain legal limitations, to increase assessments, pass special assessments, or delay replacement if these funds are found to be inadequate for all future costs.

NOTE 3 - FEDERAL INCOME TAXES

Associations may be taxed either as homeowners associations or as regular corporations. For the current year the Association elected to file as a homeowners association using form 1120-H under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance and care of Association property. Net nonexempt function income which includes interest, user fees and revenues from non-members is taxed at 30%. Certain expenses were allocated to offset a portion of the taxable income.

The Association's federal tax return is subject to audit by the Internal Revenue Service. The tax returns for the current and prior two fiscal years remain open for examination by the IRS. In evaluating the Association's tax positions and accruals, the Association believes that its estimates are appropriate based on the current facts and circumstances.

NOTE 4 - WATER SYSTEM

The Association owns and operates a private water system. It is responsible for delivering water to an owner's property. Owners are charged a $157 water assessment on a quarterly basis. For the year ended December 31, 2025, the Association assessed water system assessments totaling $58,218. Please also refer to Note 5 and the Supplementary Information on Future Major Repairs and Replacements.

NOTE 5 - FASB ASC 606 - NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued ASC 606, Revenue from Contracts with Customers, which provides a framework for recognizing revenue. The new revenue guidance supersedes the revenue recognition requirements in FASB ASC 972-605 and most industry-specific revenue guidance in the FASB ASC, including the accounting guidance that Common Interest Realty Associations (CIRAs) previously followed. The new revenue recognition guidance requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the CIRA expects to be entitled in exchange for those goods or services.

On January 1, 2025, the Association adopted the new accounting standard ASC 606 and all the related amendments (“new revenue standard”) to contracts not completed as of the date of adoption using the modified retrospective method. The cumulative effect of initially applying the new revenue standard was recognized as an adjustment to the opening balance of retained earnings. Adoption of the new revenue standard resulted in changes to the accounting method for assessment revenue and contract liabilities related to the replacement fund.

The adoption of the new revenue guidance resulted in the following change to the replacement fund balance as of January 1, 2025:

	As Previously Reported	Revenue Recognition Adjustment	As Adjusted
Replacement fund balance	$ 326,266	$ (326,266)	$ -

The Association adjusted its 2025 financial statements from amounts previously reported to adopt the new revenue recognition guidance. The following line items in the balance sheet changed from what would have been previously reported as of December 31, 2025:

	As Previously Reported	Revenue Recognition Adjustment	As Adjusted
Contract liability	$ -	$ 360,161	$ 360,161
Replacement fund balance	$ 360,161	$ (360,161)	$ -

The effect of adopting the new revenue recognition guidance was a decrease to the Association's 2025 revenue of $33,895. The decrease is the result of deferring the unspent portion of reserve assessments as contract liability. Previously, the Association recognized reserve assessments revenue in the period that they were assessed. Operating assessments continue to be recognized when assessed. The following line items in the statement of income, changes in fund balances and the statement of cash flows changed from what would have been previously reported for the year ended December 31, 2025:

	As Previously Reported	Revenue Recognition Adjustment	As Adjusted
Revenues:			
Replacement fund assessments	$ 33,895	$ (33,895)	$ -
Net replacement fund income	$ 33,895	$ (33,895)	$ -
Cash Flows:			
Net replacement fund income	$ 33,895	$ (33,895)	$ -
Contract liability	$ -	$ 33,895	$ 33,895

NOTE 6 - PRIOR PERIOD ADJUSTMENT

Federal taxes payable were understated by $3,552, utilities were understated by $509, prepaid insurance was understated by $2,157, and capital improvement expenses were understated by $2,175 in the prior period. As a result, net income was overstated by a net amount of $4,078 in the previous period. Adjustments have been made to the prior year for these misstatements.

NOTE 7 - CHANGE IN ACCOUNTING PRINCIPLE

In the prior year the financial statements were not presented on the fund basis. While fund basis presentation is not required, it is recommended and it is industry standard. Thus, in the current year the transition to separate operating and replacement funds was implemented. The beginning replacement fund balance has been booked as a “Change in Accounting Principle” as it is and adjustment for one approved method under generally accepted accounting principles to another.

NOTE 8 - WASHINGTON STATE EXCISE TAXES - CONTINGENCY

The Association operates its own water distribution system described in Note 4 and is subject to the Washington State public utility tax ("PUT") on amounts derived from the distribution of water. State law permits a deduction from the tax measure for amounts used for capital improvements to the water distribution system. The Association has historically treated its replacement fund contributions as amounts used for capital improvements and deducted those amounts on its quarterly excise tax returns. After deduction, taxable water income in each quarter of 2025 fell below the small-utility threshold below which no tax is due, and no PUT was remitted.

Replacement fund contributions are accumulated for the future replacement of existing water system components and, as such, do not qualify as amounts used for capital improvements under the deduction. The unrecorded PUT expense and related liability for the year ended December 31, 2025 is estimated at $2,938. The Department of Revenue may generally assess additional tax for periods up to four years. The ultimate outcome of this matter cannot be determined at this time.

Cougar Ridge Homeowners' Association
December 31, 2025
Supplementary Information on Future Major Repairs
and Replacements
(Unaudited)

A study was prepared on June 17, 2025 by Reserve Study Group for the period beginning January 1, 2026 to December 31, 2026 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current replacement costs. Funding requirements consider an annual inflation rate of 3% on amounts funded for future major repairs and replacements. The following table is based on the study and presents significant information about the components of common property.

Component	Estimated Remaining Useful Life in Years	Estimated Current Replacement Costs	Fand Balance and Contract Liabilties
General Site	0-79	$ 264,247	
Water System	0-56	1,035,190	
TOTAL			$ 381,603

Percent Funded as of January 1, 2026 *65.0%*