THE RIDGE HOMEOWNERS ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2024

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Ridge Homeowners Association

Qualified Opinion

We have audited the accompanying financial statements of The Ridge Homeowners Association (a California corporation), which comprise the balance sheet as of December 31, 2024, and the related statements of revenue, expenses and association funds, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of The Ridge Homeowners Association as of December 31, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We were unable to obtain and review backup documents for certain selected payments.

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 The 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.

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 The 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.

Future Major Repairs and Replacement

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 major repairs and replacement as discussed in Note 3 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.

Emphasis-of- Matter Regarding Supplemental Information

Per California Civil Code requirements, the Association has conducted a study to estimate the remaining lives and replacement costs of the common property within the past three years. The schedule that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements has used the most current study dated September 15, 2023. The projections of this study have not been updated and may no longer be valid.

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 The 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 The 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.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, 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.

Owens, Moskowitz and Associates, Inc.

July 14, 2026

Owens, Moskowitz and Associates, Inc.

THE RIDGE HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2024

	OPERATING FUND	REPLACEMENT FUND	PROPERTY FUND	TOTAL
ASSETS				
Cash	$ 24,753	$ 6,056	$ -	$ 30,809
Short-term investments	-	105,981	-	105,981
Assessments receivable	5,339	-	-	5,339
Less: allowance for doubtful accounts	(3,560)	-	-	(3,560)
Fixed assets	-	-	253,165	253,165
Accumulated depreciation	-	-	(207,105)	(207,105)
Total Assets	**$ 26,532**	**$ 112,037**	**$ 46,060**	**$ 184,629**
LIABILITIES AND ASSOCIATION FUNDS				
Liabilities				
Accounts payable	$ 2,944	$ -	$ -	$ 2,944
Prepaid assessments	8,153	-	-	8,153
Deferred assessments (Assessments received in advance - replacement fund)	-	112,037	-	112,037
Income taxes payable	954	-	-	954
Total Liabilities	**12,051**	**112,037**	**-**	**124,088**
Commitments	-	-	-	-
Association funds	**14,481**	**-**	**46,060**	**60,541**
Total Liabilities & Association Funds	**$ 26,532**	**$ 112,037**	**$ 46,060**	**$ 184,629**

THE RIDGE HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2024

	OPERATING FUND	REPLACEMENT FUND	PROPERTY FUND	TOTAL
REVENUE				
Assessments	$ 143,200	$ 25,516	$ -	$ 168,716
Interest income	-	5,163	-	5,163
Price adjustment - credit losses recovery	10,474	-	-	10,474
Other income	1,692	-	-	1,692
Total Revenue	**155,366**	**30,679**	**-**	**186,045**
EXPENSES				
Landscape maintenance	66,970	-	-	66,970
Management fees	27,480	-	-	27,480
Administrative	2,736	-	-	2,736
Legal and audit	2,389	-	-	2,389
Insurance	4,002	-	-	4,002
Rubbish collection	425	-	-	425
Telephone	212	-	-	212
Interest expense	-	249	-	249
Depreciation	-	-	12,313	12,313
Electricity	12,020	-	-	12,020
Water	9,604	-	-	9,604
Security	10,465	-	-	10,465
Mailboxes	1,653	-	-	1,653
Sidewalk	-	19,549	-	19,549
Sports courts	-	5,780	-	5,780
Income tax	954	-	-	954
Total Expenses	**138,910**	**25,578**	**12,313**	**176,801**
Excess (deficiency) of revenue over expenses	**16,456**	**5,101**	**(12,313)**	**9,244**
Association funds balance (deficit) beginning of year	**(7,076)**	**-**	**58,373**	**51,297**
Interfund transfers	5,101	(5,101)	-	-
Association funds balance end of year	**$ 14,481**	**$ -**	**$ 46,060**	**$ 60,541**

THE RIDGE HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

	OPERATING FUND	REPLACEMENT FUND	PROPERTY FUND	TOTAL
Cash flows from operating activities:				
Cash received from members	$ 125,051	$ 40,000	$ -	$ 165,051
Cash paid to suppliers of goods and services	(137,373)	(25,329)	-	(162,702)
Interest received	-	5,163	-	5,163
Interest paid	-	(249)	-	(249)
Net cash provided by (used in) operating activities	**(12,322)**	**19,585**	**-**	**7,263**
Cash flows from investing activities:				
Purchase of short-term investments	-	(54,816)	-	(54,816)
Cash flows from financing activities:				
Interfund borrowings	855	(855)	-	-
Interfund transfers	5,101	(5,101)	-	-
Principal payments on debt	-	(20,777)	-	(20,777)
Net cash provided by (used in) financing activities	5,956	(26,733)	-	(20,777)
Net decrease in cash and cash equivalents	**(6,365)**	**(61,964)**	**-**	**(68,329)**
Cash and cash equivalents at beginning of year	**31,118**	**68,020**	**-**	**99,138**
Cash and cash equivalents at end of year	**$ 24,753**	**$ 6,056**	**$ -**	**$ 30,809**

RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	OPERATING FUND	REPLACEMENT FUND	PROPERTY FUND	TOTAL
Excess (deficiency) of revenue over expenses	**$ 16,456**	**$ 5,101**	**$ (12,313)**	**$ 9,244**
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:				
Depreciation	-	-	12,313	12,313
Change in assessments receivable	(538)	-	-	(538)
Change in accounts payable	583	-	-	583
Change in deferred assessments	-	14,484	-	14,484
Change in prepaid assessments	(29,777)	-	-	(29,777)
Change in income tax payable	954	-	-	954
Net cash provided by (used in) operating activities	**$ (12,322)**	**$ 19,585**	**$ -**	**$ 7,263**

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

NOTE 1 NATURE OF ORGANIZATION

The Ridge Homeowners Association was incorporated on June 12, 1985, in the state of Washington. It is responsible for the operation and maintenance of the common property within the development, which is located in the city of Federal Way, Washington. The development consists of 229 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of The Ridge Homeowners Association are maintained on the modified cash basis of accounting with entries made to convert them to the accrual basis for audit and tax purposes.

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 in the following funds established according to their nature and purpose:

Operating fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Property fund - This fund is used to account for financial resources related to fixed assets purchased by the Association.

Deferred Assessments (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. Deferred assessments (assessments received in advance-replacement fund) are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The activity in deferred assessments (assessments received in advance-replacement fund) during 2024 was as follows:

Deferred assessments, at January 1, 2024	$	97,553
Assessments Budgeted for Replacement Reserve		40,000
Interest Income		5,163
Interfund Transfers		(5,101)
Revenue Released to Match Reserve Expenses		(25,578)
Deferred assessments, at December 31, 2024	$	112,037

Cash Equivalents and Short-term Investments

Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments. Cash equivalents and short-term investments are stated at cost, which approximates market value.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Real property and common areas acquired by the original homeowners from the developer are owned by the individual owners in common and are not capitalized on the Association's financial statements.

Replacements and improvements to the real property and common areas also belong to the owners and are not capitalized on the Association's financial statements.

Member Assessments

Association members are subject to semi-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 ninety days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The balances of assessments receivable as of the beginning and end of the year were $1,944 and $5,339, respectively.

Credit Losses Implementation

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This guidance represents a significant change in the accounting model for credit losses by requiring immediate recognition of management's estimates of "current expected credit losses". Under the prior model, losses were recognized only as they were incurred, which FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The new model is applicable to all financial instruments that are not accounted for at fair value through net income, thereby bringing consistency in accounting treatment across different types of financial instruments and requiring consideration of a broader range of variables when forming loss estimates. The Association adopted this standard on January 1, 2023 by using a "Loss rate approach – Individual Evaluation". An allowance for expected credit losses is established for any account that is six months or older which has historically been reliable. The cumulative effect of adopting this new accounting policy resulted in no change to the beginning of the year allowance for expected credit losses or the operating fund balance.

Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses of assessments receivables held at December 31, 2024 because the composition of the member receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e. the similar risk characterisitics of its members and its lending practices have not changed significantly over time). Accordingly, the allowance for expected credit losses at December 31, 2024 totaled $3,560.

Use of Estimates

The Association uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTE 3 REPLACEMENT FUND

The Association is funding contributions to capital for the future replacement of selected Association common areas. The funds are held in separate savings accounts to be used for the replacement of common areas only and not in the course of normal operations.

California Civil Code Section 5550 requires that associations identify the estimated remaining life of assets the association is obligated to maintain and the methods of funding used to defray future repair and replacement costs.

Industry practice is to engage outside consultants with experience in construction and maintenance to study and report on the estimated remaining life of assets that the Association is obligated to maintain and the costs of their repair and replacement. These reports address the adequacy of reserves and their funding.

A study of the Association's funding program for the replacement of Association common areas, conducted as of December 31, 2023, indicated the Association's ideal cash replacement fund balance was $ 273,111 at that date. The study indicated the replacement fund was approximately 36% ideally funded.

An independent study to determine the adequacy of the funding program for the replacement of Association common areas has not been conducted for the current year. The preparation of such a study involves significant estimates by the persons preparing the study, and these estimates are subject to annual revision for changing prices, circumstances and assumptions. Accordingly, the current program and cash savings may not be sufficient to meet all future replacement costs. Therefore, when replacement funds are needed, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until funds are available.

NOTE 4 NOTE PAYABLE

In January 2020, the Association borrowed $89,100 to partially fund the asphalt repair and replacement contract. Terms of the note were as follows: 5 year note; 60 monthly installments of principal and interest, commencing February 14, 2020; annual interest rate of 7. 5%; any unpaid principal and interest was due on December 14, 2024. The loan is secured by the assignment of the Association's assessments and receivables and lien rights. The loan was paid off during 2024.

NOTE 5 ASSESSMENTS

During 2024, assessments were billed at a rate of $ 400 per unit per semi-annual installment. The rate is budgeted to remain at $ 400 per unit per semi-annual for 2025.

NOTE 6 INTERFUND ACCOUNT

The interfund account represents the amount one fund owes another fund. Various scenarios may cause this situation which include, but are not limited to, one fund paying the expenses of another fund, one fund borrowing from another fund, or the operating fund not paying the full annual budgeted contribution amount to the replacement fund.

NOTE 7 INCOME TAXES

The Association is a corporation that is potentially taxable on all of its net income, including unspent member assessments. However, the Association may choose to be taxed only on its net non-membership income, which includes interest income.

Federal law allows qualifying homeowner associations to file an election, which must be made annually, to be taxed under special rules. Under this election, income from members (such as assessments) is exempt from taxation. However, net non-membership income under this election is taxed at a flat rate of 30%. If the Association chooses to file as a regular corporation, it may still exclude from taxation its net membership income by making certain elections. Tax at the regular corporate tax rate is generally lower. Some of these elections, however, have come under IRS attack and certain issues are yet to be clarified. In 2024, the Association filed as an exempt association.

Regardless of how the Association files its taxes, non-membership income (interest) may not be offset with membership expenses (such as common area maintenance costs). That is why the Association's taxable income can be greater than its net income as recorded in the financial statements.

Homeowners associations are not required to file tax returns with the State of Washington Board of Tax.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2024, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2019.

Federal income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements. Income taxes for the current year were $954.

NOTE 8 RELATED PARTY TRANSACTIONS

In 2024, one member of the Association's Board of Directors paid for landscaping and other administrative expenses on behalf of the Association and then got reimbursement of $ 1,221.

NOTE 9 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2024, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is July 14, 2026, which is the date on which the financial statements were issued.

SUPPLEMENTAL INFORMATION

Please Note: A current year study has not been conducted.

The board of directors contracted an independent consultant who conducted a September 15, 2023 study, projected to December 31, 2023, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 3% and an interest rate of 1%.

The following table is based on the study and presents information about the components of common property.

Components	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	2024 Funding Requirement	Recommended Fund Balances
Island Curbs	0 years	$ 10,000		$ 10,000
Landscape/Irrigation	0 years	4,500		4,500
Entry Monuments	5 years	60,000		51,429
Fences	3 years	26,500		13,250
Mailboxes	13 years	46,150		22,152
Main Park	0 to 15 years	171,950		64,712
Tennis/Basketball Court	0 to 3 years	104,950		103,353
Picnic Park	5 to 9 years	5,300		3,715
		$ 429,350	**$ 34,800**	**$ 273,111**

As shown above, the study recommends a replacement fund balance of $273,111 as of December 31, 2023 and contributions to reserves of $34,800 during 2024. The Association's replacement fund balance at December 31, 2023 was $97,553 or 35.72% of the recommended fund balance.