

MONTAGE AT MISSION HILLS HOMEOWNERS ASSOCIATION

Professionally managed by



*Personalized
Property
Management*

68-950 Adelina Road
Cathedral City, CA 92235
Phone: (760) 325-9500
Fax: (760) 325-9300

April 20, 2011

Dear Homeowner:

Your Board of Directors is complying with The Davis–Sterling Common Interest Development Act. The Act states that a review of the Association’s financial statements be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year in which the gross income to the association exceeds seventy–five thousand dollars (\$75,000.)

Please find the enclosed copy of the 2010 financial report for Montage at Mission Hills Inc. This report was completed by Ghandi & Beck, a Certified Public Accountant. After reviewing the report, if you have any questions, please place them in writing addressed to the Board of Directors of Montage at Mission Hills c/o Personalized Property Management at the address below.

Sincerely,

Jennifer Zeivel, CCAM, CMCA
Community Manager

Gandhi and Beck

Certified Public Accountants

MONTAGE AT MISSION HILLS, INC. REVIEWED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

Independent Accountant's Review Report	1
Financial Statements	
Balance Sheet	2
Statement of Revenues and Expenses and Changes in Fund Balances	3
Statement of Cash Flows	4
Notes to Financial Statements	5-7
Required Supplementary Information	
Future Major Repairs and Replacements	8

Gandhi and Beck
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
MONTAGE AT MISSION HILLS, INC.
Rancho Mirage, California

We have reviewed the accompanying balance sheet of MONTAGE AT MISSION HILLS, INC. as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year(s) then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. We have not applied procedures to determine whether the funds set aside for future major repairs and replacements are adequate to meet all future costs for major repairs and replacements because that determination is outside the scope of our review.

The supplementary information on future major repairs and replacements on page 8 is not a required part of the basic financial statements but is supplementary information required by the Financial Accounting Standards Board. We have compiled the supplementary information from information that is the representation of the management of MONTAGE AT MISSION HILLS, INC. without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Gandhi & Beck

March 14, 2011

(1)
34-220 Gateway Drive, Suite 120 Palm Desert, CA 92211
760-340-5547 Fax 760-340-2321
chuck@beck-cpa.com

**MONTAGE AT MISSION HILLS HOMEOWNERS
BALANCE SHEET
DECEMBER 31, 2010
(With Comparative Totals for 12/31/2009)**

	2010		
	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 23,909	\$ 22,377	\$ 46,286
Certificates of Deposit		89,605	89,605
Assessments Receivable	12,395		12,395
Allowance for Doubtful Accounts	(8,797)		(8,797)
Prepaid Income Taxes	143		143
Prepaid Insurance	3,159		3,159
TOTAL ASSETS	\$ 30,809	\$ 111,982	\$ 142,791
<u>LIABILITIES:</u>			
Accounts Payable	\$ 1,399	\$ -	\$ 1,399
Prepaid Assessments	9,019		9,019
TOTAL LIABILITIES	10,418	-	10,418
 FUND BALANCES	 20,391	 111,982	 132,373
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 30,809	 \$ 111,982	 \$ 142,791

MONTAGE AT MISSION HILLS HOMEOWNERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2010

	2010		
	Operating Fund	Replacement Fund	Total Funds
<u>REVENUES</u>			
Member Assessments	\$ 205,428	\$ 21,900	\$ 227,328
Interest Income		1,258	1,258
Other Income	2,540		2,540
TOTAL REVENUES	207,968	23,158	231,126
<u>EXPENSES</u>			
Maintenance			
Landscape Contract	20,949		20,949
Landscape Extras	5,604		5,604
Buildings & Grounds	23,329		23,329
Pool Maintenance	2,130		2,130
Pest Control	2,275		2,275
Utilities			
Electricity	11,791		11,791
Water	3,632		3,632
Telephone	1,182		1,182
Administrative			
Review/Tax Prep/Rsv Study	2,485		2,485
Bad Debt	8,797		8,797
Insurance	3,847		3,847
Legal & Professional	1,160		1,160
Management Fee	22,332		22,332
Office & Administrative	6,589		6,589
Taxes, Licenses & Permits	289		289
Social Membership	97,152		97,152
Major Repairs and Replacements		3,400	3,400
TOTAL EXPENSES	213,542	3,400	216,942
Excess of Revenues over Expenses or (Expenses over Revenue)	(5,574)	19,758	14,184
Beginning Fund Balances	27,408	90,781	118,189
Net Interfund Transfers	(1,443)	1,443	0
ENDING FUND BALANCES	\$ 20,391	\$ 111,982	\$ 132,373

**MONTAGE AT MISSION HILLS HOMEOWNERS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010**

	2010		
	Operating Fund	Replacement Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ (5,574)	\$ 19,758	\$ 14,184
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
(Increase) decrease in:			
Assessments Receivable	(565)		(565)
Allowance for Doubtful Accounts	8,797		8,797
Prepaid Insurance	(95)		(95)
Prepaid Taxes	(143)		(143)
Increase (decrease) in:			
Accounts Payable	1,399		1,399
Prepaid Assessments	105		105
Income Taxes Payable	-	(279)	(279)
	3,924	19,479	23,403
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,924	19,479	23,403
CASH FLOWS FROM FINANCING ACTIVITIES			
Due to/from other fund	2,163	(2,163)	-
Interfund transfers	(1,443)	1,443	0
Sub Total	4,644	18,759	23,403
	4,644	18,759	23,403
NET INCREASE (DECREASE) IN CASH	4,644	18,759	23,403
CASH AT BEGINNING OF YEAR	19,265	93,223	112,488
CASH AT END OF YEAR	\$ 23,909	\$ 111,982	\$ 135,891
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ 601	\$ -	\$ 601

**MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 – ORGANIZATION

MONTAGE AT MISSION HILLS, INC. was incorporated on February 26, 2002 as a nonprofit mutual benefit corporation in the State of California. Its primary purpose is to act as “management body” for the preservation, maintenance and architectural control of the common areas within the project. There are 128 homes in the residential development.

NOTE 2 – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 14, 2011, the date that the financial statements were available to be issued.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association’s accounting records are maintained on a modified accrual basis, however, the accompanying financial statements are presented on the accrual basis in accordance with generally accepted accounting principles whereby all revenues are recognized when earned and expenses are recognized when incurred.

Homeowners associations operate on a fund accounting basis whereby current expenses are paid from operating funds and major repairs and replacements are paid from accumulated replacement funds.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessments of owners are determined by the Board of Directors who are elected by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The Association’s policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. As of December 31, 2010, Assessments Receivable total \$12,395 and assessments paid in advance total \$9,019. The Association provided \$8,797 of Allowance for Doubtful Accounts.

Property and Equipment

Real property and common areas acquired from the developer and related improvements are not recognized as assets on the Association’s financial statements. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for the purpose of financial reporting.

**MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions, if made.

NOTE 4 – INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 and State Revenue & Tax Code 23701t whereby the Association incurs corporation income taxes on income from non-member sources only, such as interest. The applicable tax rate is 30% for the federal government and 8.84% for the Franchise Tax Board. Generally, the Association treats income tax expenses as an operating expense regardless of the fund through which the related taxable income was recognized. The Association incurred an income tax expense of \$178 for the year and has prepaid taxes of \$143 which are being applied toward next years taxes.

The Association's income tax returns are subject to examination by the Internal Revenue Service generally for three years after they were filed, and by the Franchise Tax Board for four years after they were filed.

NOTE 5 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are to be held in separate interest bearing accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study in January of 2011 to estimate the remaining useful lives and the replacement costs of the common property components. The Association should fund such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacements costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary materially from the estimates. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds turn out to be necessary, the Association has the right, subject to member approval, to increase regular assessments, levy special assessments or delay major repairs and replacements until funds become available. The Association spent \$3,400 for major repairs and replacements as follows:

**MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 – RELATED PARTY TRANSACTIONS

During the current year, the Association paid the following expenses to its property management company:

Administrative expenses	\$ 195
End of Year Closing Process	525
Printing and Postage	3,635

Collection fees of \$1,700 were paid to an entity related to the Association's property management company.

MONTAGE AT MISSION HILLS, INC.
REQUIRED SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2010
(COMPILED)

The Association engaged an independent consultant to estimate the remaining useful lives and the replacement costs of the common area replacement components during January of 2011. The estimates were based on inspection by the independent consultant, and the information provided by the Board of Directors, property manager and others familiar with the development. Replacement costs were based on the estimated costs to repair or replace the common area replacement components at the time of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

Category	Estimated Remaining Useful Lives(Years)	Estimated Current Replacement Costs	Annual Funding Requirement	Fully Funded Reserve Requirement	Actual Cash in Reserves
Asphalt and Concrete	5-28	\$ 326,963	\$ 15,306	\$ 85,053	\$ 72,139
Concrete	6-20	36,800	3,800	14,400	8,119
Electrical & Lighting	6-24	11,500	667	3,000	2,537
Mechanical	6-12	36,040	3,606	25,860	7,952
Water Fountain	10-12	12,000	1,167	6,333	2,648
Paint	3-10	17,850	2,414	9,889	3,938
Fences & Gates	1-27	30,100	1,592	9,941	6,641
Landscape	10-11	20,697	1,900	1,450	4,566
Mailboxes & Signage	4-7	15,600	1,240	8,720	3,442
Totals		<u>\$ 507,550</u>	<u>\$ 31,692</u>	<u>\$ 164,646</u>	<u>\$ 111,982</u>

As of December 31, 2010, the annual budgeted allocation to replacements is \$21,900 and the cash and certificate of deposits balance in replacement funds as of December 31, 2010 is \$111,982.

California Civil Code Section 1365.5 requires a physical inspection every three years. The reserve study must be reviewed annually and updated as necessary. The report must be available to all owners. Although the code does not require adequate funding, disclosure must be made.