

Personalized Property Management
68-950 Adelina Road
Cathedral City, CA 92234
(760) 325-9500
(760) 325-9300 fax

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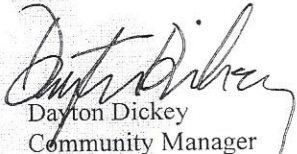
Montage @ Mission Hills HOA

March 16, 2005

Dear Homeowner:

Your Board of Directors is complying with the Davis-Sterling Common Interest Development Act. The Act states a review of the Association's financial statements be prepared in accordance with generally accepted accounting principals 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 2004 Accountant's Review Report for Montage @ Mission Hills HOA. Glen A. Perry, a Certified Public Accountant, completed the report. After reviewing the report should you have any questions, please place them in writing, addressed to the Board of Directors at the above address.

Sincerely,



Dayton Dickey
Community Manager
Montage @ Mission Hills HOA

GLEN A. PERRY

CERTIFIED PUBLIC ACCOUNTANT
777 EAST TAHQUITZ CANYON WAY, SUITE 200
PALM SPRINGS, CALIFORNIA 92262

(760) 320-8366
Fax (760) 320-8366
gaperrycpa@msn.com

ACCOUNTANT'S REVIEW REPORT

Board of Directors and Members
Montage at Mission Hills, Inc.
Rancho Mirage, California

I have reviewed the accompanying Balance Sheet of Montage at Mission Hills, Inc., as of December 31, 2004, and the related Statements of Revenues, Expenses and Changes in Fund Balances and Cash Flows, for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Montage at Mission Hills, Inc.

A review consists principally of inquiries of management personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am 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 of America.

February 21, 2005



MONTAGE AT MISSION HILLS, INC.
BALANCE SHEET
DECEMBER 31, 2004
(See Accountant's Review Report)

ASSETS	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 27,457	\$ 20,002	\$ 47,459
Assessments receivable	<u>4,441</u>	<u>-</u>	<u>4,441</u>
	<u>\$ 31,898</u>	<u>\$ 20,002</u>	<u>\$ 51,900</u>
LIABILITY			
Assessments collected in advance	\$ 5,245	\$ -	\$ 5,245
FUND BALANCES			
	<u>26,653</u>	<u>20,002</u>	<u>46,655</u>
	<u>\$ 31,898</u>	<u>\$ 20,002</u>	<u>\$ 51,900</u>

(See Notes to Financial Statements)

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2004
(See Accountant's Review Report)

	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Total</u>
REVENUES			
Assessments*	\$ 141,189	\$ -	\$ 141,189
Interest	-	2	2
Miscellaneous	2,550	-	2,550
	<u>143,739</u>	<u>2</u>	<u>143,741</u>
EXPENSES			
Insurance	2,563	-	2,563
Landscape maintenance	17,817	-	17,817
Management	19,588	-	19,588
Office and miscellaneous	3,133	-	3,133
Professional fees	1,600	-	1,600
Repairs & maintenance - general	1,831	-	1,831
- security/gates	5,425	-	5,425
- streets	3,840	-	3,840
Social membership	64,240	-	64,240
Telephone	990	-	990
Utilities - electricity	9,536	-	9,536
- water	3,168	-	3,168
Total expenses	<u>133,731</u>	<u>-</u>	<u>133,731</u>
REVENUE MORE THAN EXPENSES	10,008	2	10,010
FUND BALANCES			
- Beginning of year	36,645	-	36,645
- Interfund transfer	(20,000)	20,000	-
- End of year	<u>\$ 26,653</u>	<u>\$ 20,002</u>	<u>\$ 46,655</u>

*Includes a reduction of \$11,966 for excess billings to the developer from October 2003 through January 2004 for homes not yet sold.

(See Notes to Financial Statements)

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004
(See Accountant's Review Report)

	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Total</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash flows from Operating Activities			
Revenues more than expenses	\$ 10,008	\$ 2	\$ 10,010
Adjustments to reconcile above to net cash provided by operating activities:			
Decrease in assessments receivable	7,358	-	7,358
Increase in assessments collected in advance	3,458	-	3,458
Interfund transfer	(20,000)	20,000	-
Net cash provided by operating activities	824	20,002	20,826
Cash Flows from investing activities	-	-	-
Cash Flows from financing activities	-	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	824	20,002	20,826
CASH - beginning of year	26,633	-	26,633
CASH - end of year	<u>\$ 27,457</u>	<u>\$ 20,002</u>	<u>\$ 47,459</u>

(See Notes to Financial Statements)

MONTAGE AT MISSIONS HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. ORGANIZATION

The Association was incorporated as a General Non-Profit Mutual Benefit Corporation in California on February 26, 2002. The main purpose of the Association is to manage and maintain the common areas for the 128 single family homes located in Rancho Mirage, California.

Initial improvements to the common areas, contributed by the developer, are not recorded on the books because these items are owned by the individual owners in common and not by the Association.

2. SIGNIFICANT ACCOUNTING POLICIES

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.

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Monthly assessments to owners were \$100, of which none was designated for the replacement fund. Management believes that accounts receivable are substantially collectible. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears.

Preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(continued)

MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

3. REPLACEMENT FUND

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds generally are not available for expenditures for normal operations.

A reserve study was conducted in late 2004, by an outside company, to estimate the remaining useful lives and the replacement costs of the components of common property. Based on this study and amounts already accumulated, a funding requirement of \$12,000 is included in the 2005 budget. Details of the study and final amounts have not been released, and therefore, are not available to be included in these notes.

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 the variations may be material. Therefore, 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 to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. Increased assessments greater than 20% of the annual budget or special assessments greater than 5% of the annual budget must be approved by the members.

4. INCOME TAXES

The Association qualifies as an exempt membership corporation for both Federal and State income taxes. Accordingly, a tax liability is only incurred on income from nonmember sources such as interest income. The Association elects to allocate any excess revenue over expenses from the operating fund, as applicable, to the replacement fund.