

MONTAGE AT MISSION HILLS, INC.  
RANCHO MIRAGE, CALIFORNIA

DECEMBER 31, 2007

**GLEN A. PERRY**  
CERTIFIED PUBLIC ACCOUNTANT  
777 EAST TAHQUITZ CANYON WAY, SUITE 200  
PALM SPRINGS, CALIFORNIA 92262

(760) 320-8366  
Fax (760) 416-5129  
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, 2007, 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.

Footnote 3 discusses the Replacement Fund and the unaudited Supplementary Information on Future Major Repairs and Replacements



February 15, 2008

MONTAGE AT MISSION HILLS, INC.  
BALANCE SHEET  
DECEMBER 31, 2007  
(See Accountant's Review Report)

<b>ASSETS</b>	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
Cash and cash equivalents	\$ 12,760	\$ 20,132	\$ 32,892
Certificates of deposit:			
5.2%, matures 1/10/08	-	10,483	10,483
5.2%, matures 1/30/08	-	21,884	21,884
4.6%, matures 2/15/08	-	10,155	10,155
5.0%, matures 5/23/08		10,810	10,810
4.5%, matures 9/15/08		10,663	10,663
Assessments receivable	8,497	-	8,497
Prepaid insurance	3,445	-	3,445
	<u>\$ 24,702</u>	<u>\$ 84,127</u>	<u>\$ 108,829</u>
 <b>LIABILITIES</b>			
Assessments collected in advance	\$ 2,488	\$ -	\$ 2,488
Architectural deposits	3,500	-	3,500
	5,988	-	5,988
 <b>FUND BALANCES</b>	<u>18,714</u>	<u>84,127</u>	<u>102,841</u>
	<u>\$ 24,702</u>	<u>\$ 84,127</u>	<u>\$ 108,829</u>

(See Notes to Financial Statements)

MONTAGE AT MISSION HILLS, INC.  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2007  
(See Accountant's Review Report)

	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Assessments	\$ 175,692	\$ 20,916	\$ 196,608
Interest	-	3,016	3,016
Late fees and miscellaneous	4,069	-	4,069
	<u>179,761</u>	<u>23,932</u>	<u>203,693</u>
<b>EXPENSES</b>			
Insurance	3,649	-	3,649
Landscape maintenance	29,344	-	29,344
Management	22,680	-	22,680
Office and miscellaneous	4,364	-	4,364
Pest control	1,500	-	1,500
Printing and postage	1,859	-	1,859
Professional fees	5,592	-	5,592
Repairs & maintenance - fountains	2,184	-	2,184
- general	1,941	-	1,941
- security/gates	5,898	-	5,898
- streets	3,840	-	3,840
Social membership	80,640	-	80,640
Telephone - gate	1,013	-	1,013
Utilities - electricity	13,659	-	13,659
- water	3,284	-	3,284
Total expenses	<u>181,447</u>	<u>-</u>	<u>181,447</u>
<b>REVENUES MORE THAN (LESS THAN) EXPENSES</b>	<b>(1,686)</b>	<b>23,932</b>	<b>22,246</b>
<b>FUND BALANCES</b>			
- Beginning of year	16,751	60,195	76,946
- Prior period adjustment*	3,649	-	3,649
- End of year	<u>\$ 18,714</u>	<u>\$ 84,127</u>	<u>\$ 102,841</u>

\*Regarding insurance

(See Notes to Financial Statements)

MONTAGE AT MISSION HILLS, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2007  
(See Accountant's Review Report)

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
INCREASE (DECREASE) IN CASH			
AND CASH EQUIVALENTS			
Cash flows from Operating Activities			
Revenues more than (less than) expenses	\$ (1,686)	\$ 23,932	\$ 22,246
Adjustments to reconcile above to net			
cash provided by operating activities:			
Increase in assessments receivable	(8)	-	(8)
Increase in prepaid insurance	(3,445)	-	(3,445)
Decrease in assessments collected			
in advance	(1,323)	-	(1,323)
Decrease in architectural deposits	(1,000)	-	(1,000)
Prior period adjustment	<u>3,649</u>	<u>-</u>	<u>3,649</u>
Net cash provided by (used by) operating			
activities	(3,813)	23,932	20,119
Cash Flows from investing activities			
Certificate of Deposit matured	-	41,223	41,223
Purchase of Certificates of Deposit	-	(63,995)	(63,995)
Cash Flows from financing activities			
	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH			
EQUIVALENTS	(3,813)	1,160	(2,653)
CASH - beginning of year	<u>16,573</u>	<u>18,972</u>	<u>35,545</u>
CASH - end of year	<u>\$ 12,760</u>	<u>\$ 20,132</u>	<u>\$ 32,892</u>

Note: \$391 was expended for income taxes

(See Notes to Financial Statements)

MONTAGE AT MISSIONS HILLS, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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 \$128, of which \$14 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, 2007

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 November 2007, 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 \$19,344 is included in the 2008 budget.

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.

**GLEN A. PERRY**

CERTIFIED PUBLIC ACCOUNTANT

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

(760) 320-8366

Fax (760) 416-5179

gaperrycpa@msn.com

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT**  
**ON SUPPLEMENTARY INFORMATION**

The Supplementary Information on future Major Repairs and Replacements on the following page is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

February 15, 2008





**MONTAGE AT MISSION HILLS, INC,**  
**SUPPLEMENTAL INFORMATION ON FUTURE REPAIRS AND REPLACEMENTS**  
DECEMBER 31, 2007  
(UNAUDITED)

An independent study was conducted in November 2007, to estimate the remaining useful lives and current replacement costs of the components of common area property. An annual inflation factor of 2% was assumed, as was 2% investment return, net of income taxes. The following table is based on that study.

	Estimated Remaining <u>Life</u>	Estimated Replacement <u>Cost</u>	2008 Funding <u>Requirements*</u>	Component <u>12/31/07*</u>
Access system	5-8	\$ 35,640	\$ -	\$ -
Asphalt/concrete	1-24	341,850	-	-
Electrical	7-18	40,530	-	-
Fence/Gates	5-25	30,100	-	-
Landscape/Drainage	5-13	30,550	-	-
Mailboxes	10	9,600	-	-
Monuments	6	6,000	-	-
Paint	3	17,200	-	-
Water Features	1-8	14,332	-	-
Contingency	1	2,629	-	-
		<u>\$ 528,431</u>	<u>\$ 19,344</u>	<u>\$ 84,127</u>

\*Unallocated