

MONTAGE AT MISSION HILLS HOMEOWNERS ASSOCIATION

Professionally managed by



*Personalized
Property
Management*

68-950 Adelina Road
Cathedral City, CA 92234
Phone: (760) 325-9500
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March 15, 2016

Dear Homeowner(s):

Your Board of Directors is complying with The Davis–Stirling 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 enclosed a copy of the 2015 Financial Review for Montage at Mission Hills. After reviewing the report if you have any questions, please place them in writing addressed to the Board of Directors to the address above.

Sincerely,

A handwritten signature in black ink, appearing to be 'Shelly Ruegsegger', written over a horizontal line.

Shelly Ruegsegger, CMCA
Montage at Mission Hills
Community Manager

**MONTAGE AT MISSION HILLS, INC.
REVIEWED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

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BECK and COMPANY, CPA'S, INC.

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of MONTAGE AT MISSION HILLS, INC. which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Summarized Comparative Information

The prior year summarized comparative information has been derived from the December 31, 2014 financial statements, which were reviewed by us. Our report dated March 4, 2015 stated that we were unaware of any material modifications that should be made to those financial statements in order for them to be in conformity with generally accepted accounting principles.

Accountant's Conclusion on the Financial Statements

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 of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on the last page 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 not audited, reviewed or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

Beck and Company, CPA's, Inc.

March 5, 2016

MONTAGE AT MISSION HILLS, INC.
BALANCE SHEET
DECEMBER 31, 2015
(With Comparative Totals for 12/31/2014)

	2015			2014
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<u>ASSETS:</u>				
Cash	\$ 28,428	\$ 73,284	\$ 101,712	\$ 91,487
Investments		10,000	10,000	10,000
Assessments Receivable	2,810		2,810	1,167
Prepaid Income Taxes	-		-	77
Prepaid Insurance	3,309		3,309	3,255
TOTAL ASSETS	\$ 34,547	\$ 83,284	\$ 117,831	\$ 105,986
<u>LIABILITIES:</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ 1,656
Prepaid Assessments	15,642		15,642	11,536
TOTAL LIABILITIES	15,642	-	15,642	13,192
FUND BALANCES	18,905	83,284	102,189	92,794
TOTAL LIABILITIES AND FUND BALANCES	\$ 34,547	\$ 83,284	\$ 117,831	\$ 105,986

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2015
(With Comparative Totals for 12/31/2014)

	2015			2014
	Operating Fund	Replacement Fund	Total Funds	Total Funds
REVENUES				
Member Assessments	\$ 238,128	\$ 30,672	\$ 268,800	\$ 254,976
Interest Income		98	98	125
Other Income	818	2,470	3,288	2,644
TOTAL REVENUES	238,946	33,240	272,186	257,745
EXPENSES				
Utilities				
Electricity	8,845		8,845	11,221
Water	2,665		2,665	3,288
Telephone	1,423		1,423	1,325
Maintenance				
Landscape Contract	16,875		16,875	16,200
Landscape Extras	9,562		9,562	8,294
Fountain Contract	2,030		2,030	1,680
Fountain Maintenance	2,088		2,088	260
Pest Control	2,100		2,100	2,200
Buildings & Grounds	11,683		11,683	14,810
Property Protection	12,600		12,600	3,675
Administrative				
Review/Tax Prep/Rsv Study	1,400		1,400	1,400
Insurance	3,744		3,744	3,498
Legal & Professional	1,538		1,538	7,722
Management Fee	30,744		30,744	26,448
Office & Administrative	5,576		5,576	8,901
Taxes, Licenses & Permits	122		122	10
Social Membership	124,062		124,062	118,272
Major Repairs and Replacements				
Fountain		12,063	12,063	4,715
Gates		12,171	12,171	410
Irrigation		1,500	1,500	
Painting			-	275
Telephone			-	679
TOTAL EXPENSES	237,057	25,734	262,791	235,284
Excess of Revenues over Expenses or (Expenses over Revenue)	1,889	7,506	9,395	22,461
Beginning Fund Balances	17,766	75,028	92,794	70,333
Net Interfund Transfers	(750)	750	0	0
ENDING FUND BALANCES	<u>\$ 18,905</u>	<u>\$ 83,284</u>	<u>\$ 102,189</u>	<u>\$ 92,794</u>

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015
(With Comparative Totals for 12/31/2014)

	2015			2014
	Operating Fund	Replacement Fund	Total Funds	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 1,889	\$ 7,506	\$ 9,395	\$ 22,461
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Assessments Receivable	(1,643)		(1,643)	702
Prepaid Insurance	(54)		(54)	(3,255)
Increase (decrease) in:				
Accounts Payable	(1,656)	-	(1,656)	1,656
Prepaid Assessments	4,106		4,106	3,499
	<u>2,719</u>	<u>7,506</u>	<u>10,225</u>	<u>25,063</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
CASH FLOWS FROM INVESTING ACTIVITIES				
Change in Certificates of Deposit		-	-	12,484
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund transfers	(750)	750	0	0
Sub Total	<u>1,969</u>	<u>8,256</u>	<u>10,225</u>	<u>37,547</u>
NET INCREASE (DECREASE) IN CASH	1,969	8,256	10,225	37,547
CASH AT BEGINNING OF YEAR	<u>26,459</u>	<u>65,028</u>	<u>91,487</u>	<u>53,940</u>
CASH AT END OF YEAR	<u>\$ 28,428</u>	<u>\$ 73,284</u>	<u>\$ 101,712</u>	<u>\$ 91,487</u>
SUPPLEMENTAL DISCLOSURE				
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

**MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 the date of the review report, which is 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. The Association uses a guideline of 100% provision for Allowance for Doubtful Accounts for all accounts delinquent over one year, foreclosed on, in bankruptcy, or abandoned, as well as on a case by case basis of other facts and circumstances.

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, 2015**

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

Investments

The Associations investment consist of one Certificates of Deposit totaling \$10,000 with a maturity date of November 13, 2017 held in a brokers account. Certificates of Deposit with maturities in excess of 90 days are classified as investments and considered held to maturity and therefore are stated per the following Note 4. Any gain or loss at time of sale or redemption will be recorded then.

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 – FAIR VALUE MEASUREMENTS

Fair values are measured along the following criteria:

- Level 1 input: Quoted prices in active markets for identical assets
- Level 2 input: Significant observable inputs
- Level 3 input: Significant unobservable inputs

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Investment in Certificate of Deposit: The fair value of certificates of deposit is determined based on quoted market prices.

Fair values of the Association's financial instruments at December 31, 2015 are as follows, and all values are classified as Level 1 inputs:

	<u>Carrying Amount</u>	<u>Fair Value</u>
CD at Wells Fargo Advisors: Amex Central Bank 1.2% 11/13/2017	\$ 10,000.00	\$ 9,981.00

MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 – 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's income tax returns are subject to examination by the Internal Revenue Service generally for three years after they are filed, and by the Franchise Tax Board for four years after they are filed. In evaluating the Association's tax positions and accruals, the Association believes that the estimates are appropriate based on the current facts and circumstances.

NOTE 6 – 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 conducted a study in November of 2015 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 over certain percentages, to increase regular assessments, levy special assessments or delay major repairs and replacements until funds become available.

NOTE 7 – RELATED PARTY DISCLOSURE

During 2015, the Association paid \$300 for collection fees and \$6,300 for property protection services to entities related to the owners of the management company.

**MONTAGE AT MISSION HILLS, INC.
REQUIRED SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2015
(COMPILED)**

The Association conducted a study to estimate the remaining useful lives and the replacement costs of the common area replacement components during November of 2015. 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
Asphalt	3-16	\$ 546,436	\$ 27,686
Concrete	3-9	39,500	3,667
Electrical & Lighting	6-13	11,520	670
Mechanical	1-12	39,308	3,730
Water Fountain	5-11	15,460	1,768
Paint	1-6	9,528	1,677
Fences & Gates	4-19	30,200	1,538
Landscape/Drainage	5-21	42,900	3,700
Mailboxes & Signage	2-4	16,240	1,283
Totals		\$ 751,092	\$ 45,719

As of December 31, 2015, the annual budgeted allocation to replacements is \$30,672 and the cash and investment balance in replacement funds as of December 31, 2015 total \$83,284.

California Civil Code Section 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.

(See accompanying notes and Independent Accountant's Report)