

Montage at Mission Hills HOA, Inc.

Professionally Managed by

**PERSONALIZED
PROPERTY
MANAGEMENT**

*The Coachella Valley's Community
Management Company*

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Cathedral City, CA 92234
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March 28, 2019

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 2018 Financial Review for Montage at Mission Hills.

After reviewing the report if you have any questions or comments, please place them in writing to the Board of Directors at the address above.

Sincerely,

Board of Directors
Montage at Mission Hills HOA, Inc

**MONTAGE AT MISSION HILLS, INC.
REVIEWED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018**

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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, 2018, 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, 2017 financial statements, which were reviewed by us. Our report dated February 26, 2018 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.

Charles Beck, CPA

Beck and Company, CPA's, Inc.

February 7, 2019

MONTAGE AT MISSION HILLS, INC.
BALANCE SHEET
DECEMBER 31, 2018
(With Comparative Totals for 12/31/2017)

	2018			2017
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<u>ASSETS:</u>				
Cash	\$ 33,773	\$ 106,921	\$ 140,694	\$ 83,854
Certificates of Deposit		-	-	50,000
Assessments Receivable	1,583		1,583	2,898
Prepaid Insurance	4,898		4,898	2,712
Due to/from other fund	(10,000)	10,000	-	-
TOTAL ASSETS	\$ 30,254	\$ 116,921	\$ 147,175	\$ 139,464
<u>LIABILITIES:</u>				
Accounts Payable	\$ 1,204	\$ -	\$ 1,204	\$ 6,776
Prepaid Assessments	25,339		25,339	20,020
TOTAL LIABILITIES	26,543	-	26,543	26,796
FUND BALANCES	3,711	116,921	120,632	112,668
TOTAL LIABILITIES AND FUND BALANCES	\$ 30,254	\$ 116,921	\$ 147,175	\$ 139,464

See accompanying notes to financial statements
(2)

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for 12/31/2017)

	2018		2017	
	Operating Fund	Replacement Fund	Total Funds	Total Funds
REVENUES				
Member Assessments	\$ 272,220	\$ 81,060	\$ 353,280	\$ 299,520
Interest Income		905	905	209
Other Income	1,358	-	1,358	2,614
TOTAL REVENUES	273,578	81,965	355,543	302,343
EXPENSES				
Utilities				
Electricity	11,103		11,103	10,723
Water	4,507		4,507	5,450
Telephone	1,760		1,760	1,778
Maintenance				
Landscape Contract	18,875		18,875	17,870
Landscape Extras	6,955		6,955	10,530
Fountain Contract	2,400		2,400	2,400
Fountain Maintenance	385		385	400
Pest Control	2,450		2,450	2,100
Buildings & Grounds	9,846		9,846	13,545
Street Sweeping	4,680		4,680	4,680
Property Protection	-		-	2,100
Administrative				
Review/Tax Prep/Rsv Study	1,450		1,450	1,850
Insurance	4,741		4,741	3,721
Legal & Professional	17,580		17,580	26,034
Management Fee	30,744		30,744	30,744
Office & Administrative	6,273		6,273	10,067
Taxes, Licenses & Permits	35		35	10
Social Membership	142,774		142,774	136,630
Major Repairs and Replacements				
Electrical & Lighting		2,325	2,325	-
Mechanical		6,973	6,973	-
Landscape		61,781	61,781	22,939
Mailboxes		9,943	9,943	850
Drainage		-	-	650
TOTAL EXPENSES	266,558	81,022	347,580	305,072
Excess of Revenues over Expenses or (Expenses over Revenue)	7,020	943	7,963	(2,729)
Beginning Fund Balances	(3,310)	115,978	112,668	115,397
Net Interfund Transfers	-	-	-	-
ENDING FUND BALANCES	\$ 3,711	\$ 116,921	\$ 120,631	\$ 112,668

See accompanying notes to financial statements
(3)

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for 12/31/2017)

	2018		2017	
	Operating Fund	Replacement Fund	Total Funds	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 7,020	\$ 943	\$ 7,963	\$ (2,729)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Assessments Receivable	1,316		1,316	(1,738)
Prepaid Insurance	(2,186)		(2,186)	95
Increase (decrease) in:				
Accounts Payable	(4,072)	(1,500)	(5,572)	5,456
Prepaid Assessments	5,319		5,319	5,950
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	7,397	(557)	6,840	7,034
CASH FLOWS FROM INVESTING ACTIVITIES				
Change in Certificates of Deposit		50,000	50,000	(40,000)
CASH FLOWS FROM FINANCING ACTIVITIES				
Due to/from other fund	10,000	(10,000)	-	-
Interfund transfers	-	-	-	-
Sub Total	17,397	39,443	56,840	(32,966)
NET INCREASE (DECREASE) IN CASH	17,397	39,443	56,840	(32,966)
CASH AT BEGINNING OF YEAR	16,376	67,478	83,854	116,820
CASH AT END OF YEAR	\$ 33,773	\$ 106,921	\$ 140,694	\$ 83,854
SUPPLEMENTAL DISCLOSURE				
Income taxes paid	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements
(4)

**MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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.

Summarized Prior Year Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. It is being shown for informational purposes only. Accordingly, such information should be read in conjunction with the Association's financial statements for the prior year ended December 31, 2017, from which the summarized information was derived.

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'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 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 conducted a study in January of 2017, and updated by the Board in January of 2018, 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.

**MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 – RELATED PARTY DISCLOSURE

During 2017, the Association paid \$375 for collection fees related to the owners of the management company.

NOTE 7 – LEGAL MATTER

The Association is a defendant in a case involving a homeowner regarding Breach of CCR's and various other breaches. The lawsuit was filed on March 28, 2018 and is pending a court hearing in May of 2019. The Association's defense is being covered by the Association's insurance, and is pending reimbursement from the insurance carrier. The financial outcome of the lawsuit is unknown at this time.

**MONTAGE AT MISSION HILLS, INC.
 REQUIRED SUPPLEMENTARY INFORMATION
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2018
 (UNAUDITED)**

The Association conducted a study to estimate the remaining useful lives and the replacement costs of the common area replacement components during January of 2017 and updated by the Board in January of 2018. 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 the update, 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
Asphalt	2-14	\$ 945,783	\$ 42,275	\$ 478,063
Concrete	7	45,000	2,250	29,250
Electrical & Lighting	4-11	11,520	670	5,923
Mechanical	3-23	49,308	3,004	18,865
Water Fountain	3-9	19,020	2,468	5,469
Paint	1-6	9,730	1,743	5,072
Fences & Gates	2-17	30,200	1,538	14,669
Landscape/Drainage	0-19	421,430	40,369	10,429
Mailboxes and Signage	2-3	16,960	1,245	13,871
Totals		\$1,548,951	\$ 95,562	\$ 581,611

As of December 31, 2018, the annual budgeted allocation to replacements is \$81,060 and the cash and certificates of deposit balance in replacement funds as of December 31, 2018 total \$106,921.

California Civil Code 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)