

**MONTAGE AT MISSION HILLS, INC.
REVIEWED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023**

TABLE OF CONTENTS

| | |
|--|-----|
| Independent Accountant’s Review Report | 1 |
| Financial Statements | |
| Balance Sheet | 2 |
| Statement of Revenues, 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 |

BECK and COMPANY, CPAs, INC.

34-220 Gateway Drive, Suite 120 Palm Desert, CA92211
760-295-2251 Fax 760-295-2273
chuck@beck-cpa.com

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, 2023, 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.

We are independent of the Association and meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Summarized Comparative Information

The prior year summarized comparative information has been derived from the December 31, 2022, financial statements, which were reviewed by us. Our report dated January 31, 2023, 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, CPAs, Inc.

Charles Beck, CPA
Palm Desert, California
February 16, 2024

MONTAGE AT MISSION HILLS, INC.
BALANCE SHEET
DECEMBER 31, 2023
(With Comparative Totals for 12/31/2022)

| | 2023 | | | 2022 |
|--|---------------------------|-----------------------------|------------------------|------------------------|
| | Operating Fund | Replacement Fund | Total Funds | Total Funds |
| <u>ASSETS:</u> | | | | |
| Cash & Cash Equivalents | \$ 40,508 | \$ 223,385 | \$ 263,893 | \$ 265,965 |
| Certificates of Deposit | - | 90,000 | 90,000 | 45,000 |
| Assessments Receivable | 9,527 | - | 9,527 | 6,182 |
| Allowance for Doubtful Accounts | (3,840) | - | (3,840) | - |
| Other Receivable | 747 | - | 747 | - |
| Prepaid Insurance | 5,714 | - | 5,714 | 6,058 |
| TOTAL ASSETS | \$ 52,656 | \$ 313,385 | \$ 366,041 | \$ 323,205 |
| <u>LIABILITIES:</u> | | | | |
| Accounts Payable | \$ 2,680 | \$ - | \$ 2,680 | \$ - |
| Income Taxes Payable | 601 | - | 601 | - |
| Prepaid Assessments | 22,871 | - | 22,871 | 25,787 |
| TOTAL LIABILITIES | 26,152 | - | 26,152 | 25,787 |
| FUND BALANCES | 26,504 | 313,385 | 339,889 | 297,418 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 52,656 | \$ 313,385 | \$ 366,041 | \$ 323,205 |

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2023
(With Comparative Totals for 12/31/2022)

| | 2023 | | | 2022 |
|---|---------------------------|-----------------------------|------------------------|------------------------|
| | Operating Fund | Replacement Fund | Total Funds | Total Funds |
| REVENUES | | | | |
| Member Assessments | \$ 345,612 | \$ 115,188 | \$ 460,800 | \$ 422,400 |
| Interest Income | - | 3,656 | 3,656 | 361 |
| Other Income | 5,418 | - | 5,418 | 1,469 |
| TOTAL REVENUES | 351,030 | 118,844 | 469,874 | 424,230 |
| EXPENSES | | | | |
| Utilities | | | | |
| Electricity | 18,019 | - | 18,019 | 18,128 |
| Water | 4,289 | - | 4,289 | 5,158 |
| Telephone | 913 | - | 913 | 1,249 |
| Maintenance | | | | |
| Landscape Contract | 32,160 | - | 32,160 | 29,540 |
| Landscape Extras | 12,383 | - | 12,383 | 16,666 |
| Fountain Contract | 3,600 | - | 3,600 | 2,400 |
| Fountain Maintenance | 1,223 | - | 1,223 | 2,057 |
| Pest Control | 2,460 | - | 2,460 | 2,549 |
| Buildings & Grounds | 2,930 | - | 2,930 | 5,224 |
| Electrical | 8,775 | - | 8,775 | 14,665 |
| Street Sweeping | 5,660 | - | 5,660 | 4,950 |
| Administrative | | | | |
| Review/Tax Prep/Rsv Study | 2,200 | - | 2,200 | 3,000 |
| Bad Debt | 3,840 | - | 3,840 | - |
| Insurance | 8,732 | - | 8,732 | 7,667 |
| Legal & Professional | 20,732 | - | 20,732 | 5,765 |
| Management Fee | 31,764 | - | 31,764 | 31,768 |
| Office & Administrative | 8,792 | - | 8,792 | 5,594 |
| Taxes, Licenses & Permits | 601 | - | 601 | - |
| Social Membership | 185,856 | - | 185,856 | 165,888 |
| Major Repairs and Replacements | - | 72,474 | 72,474 | 40,366 |
| TOTAL EXPENSES | 354,929 | 72,474 | 427,403 | 362,634 |
| Excess of Revenues over Expenses or (Expenses over Revenues) | (3,899) | 46,370 | 42,471 | 61,596 |
| Beginning Fund Balances | 30,403 | 267,015 | 297,418 | 235,822 |
| Net Interfund Transfers | - | - | - | - |
| ENDING FUND BALANCES | \$ 26,504 | \$ 313,385 | \$ 339,889 | \$ 297,418 |

See accompanying notes to financial statements
(3)

MONTAGE AT MISSION HILLS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023
(With Comparative Totals for 12/31/2022)

| | 2023 | | | 2022 |
|---|---------------------------|-----------------------------|------------------------|------------------------|
| | Operating Fund | Replacement Fund | Total Funds | Total Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Excess (deficiency) of revenues over expenses | \$ (3,899) | \$ 46,370 | \$ 42,471 | \$ 61,596 |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities: | | | | |
| (Increase) decrease in: | | | | |
| Assessments Receivable | (3,345) | - | (3,345) | (3,101) |
| Allowance for Doubtful Accounts | 3,840 | - | 3,840 | - |
| Other Receivable | (747) | - | (747) | - |
| Prepaid Insurance | 344 | - | 344 | (68) |
| Increase (decrease) in: | | | | |
| Accounts Payable | 2,680 | - | 2,680 | - |
| Prepaid Assessments | (2,916) | - | (2,916) | (5,859) |
| Deposits | - | - | - | - |
| Income Taxes Payable | 601 | - | 601 | - |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (3,442) | 46,370 | 42,928 | 52,568 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Change in Certificates of Deposit | - | (45,000) | (45,000) | (15,000) |
| NET INCREASE (DECREASE) IN CASH | (3,442) | 1,370 | (2,072) | 37,568 |
| CASH AT BEGINNING OF YEAR | 43,950 | 222,015 | 265,965 | 228,397 |
| CASH AT END OF YEAR | \$ 40,508 | \$ 223,385 | \$ 263,893 | \$ 265,965 |
| SUPPLEMENTAL DISCLOSURE | | | | |
| Income taxes paid | \$ - | \$ - | \$ - | \$ - |

See accompanying notes to financial statements

**MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

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 records both the Operating and Replacement Funds assessments as revenue when due and expenses when incurred, which, for a Homeowners Association, is in compliance with FASB ASC 606. See Footnote below for further discussion regarding ASC 606.

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, 2023

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Income

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

Cash, Cash Equivalents, Certificates of Deposit, and Investments

Per the provisions of U.S. generally accepted accounting principles in regard to the “Statement of Cash Flows,” cash and cash equivalents include the Association’s cash, checking accounts, money market funds and certificates of deposits with original maturities of 90 days or less. Certificates of Deposit with original maturities over 90 days are listed separately as Certificates of Deposit. Other investment accounts are listed as investments (if any).

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, 2022, 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 California Revenue and Taxation 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.

NOTE 5 – FASB TOPIC ASC 606

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606 (“Topic”), *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). The Association does not believe the attributes of the Topic fit with the nature, definitions, and practices of such revenues of the Association: The Association’s source of revenues are dues assessments from owners not “customers” and there is not a “contract” with the owners regarding such revenues.

MONTAGE AT MISSION HILLS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 engaged an independent consultant who conducted a study in October of 2023 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 to increase regular assessments, levy special assessments or delay major repairs and replacements until funds become available. The Association spent \$72,438 for buildings and grounds major repair and replacements during the year.

MONTAGE AT MISSION HILLS, INC.
REQUIRED SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2023
(UNAUDITED)

The Association engaged an independent consultant to estimate the remaining useful lives and the replacement costs of the common area replacement components during October of 2023.

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.

| | Estimated | Estimated | | Fully |
|-----------------------|--------------|---------------------|------------------|---------------------|
| | Remaining | Current | Annual | Funded |
| | Useful | Replacement | Funding | Reserve |
| Category | Lives(Years) | Costs | Requirement | Requirement |
| Access System | 2-13 | \$ 97,000 | \$ 3,074 | \$ 51,929 |
| Asphalt & Concrete | 0-21 | 1,481,372 | 56,797 | 841,696 |
| Electrical & Lighting | 16-17 | 34,070 | 620 | 10,469 |
| Gates and Walls | 1-29 | 94,050 | 3,387 | 57,211 |
| Irrigation | 3 | 2,200 | 112 | 1,888 |
| Landscape, Drainage | 0-12 | 255,050 | 18,877 | 117,446 |
| Mailboxes | 3 | 19,800 | 1,111 | 18,762 |
| Paint | 1-2 | 26,225 | 1,490 | 25,171 |
| Signage | 0-14 | 30,350 | 2,793 | 13,422 |
| Water Features | 0-10 | 37,800 | 2,364 | 31,830 |
| Totals | | <u>\$ 2,077,917</u> | <u>\$ 90,625</u> | <u>\$ 1,169,824</u> |

For the year of December 31, 2023, the annual budgeted allocation to replacements is \$115,188 and the cash, cash equivalents, and certificates of deposit balance in replacement funds as of December 31, 2023, total \$313,385.

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)