

NORTHSTAR PROPERTY OWNERS ASSOCIATION

FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

NORTHSTAR PROPERTY OWNERS ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northstar Property Owners Association

I have audited the accompanying financial statements of the Northstar Property Owners Association, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northstar Property Owners Association as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion on Supplementary Information

My audit was made primarily for the purpose of expressing an opinion on the basic financial statements taken as a whole. The information included in the accompanying Schedules of Operating Expenses - Budget (Compiled) and Actual by Department, is presented only for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on pages 15 and 16 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Michael T. Doody

Sacramento, California
March 14, 2018

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Balance Sheets

December 31, 2017

(With Summarized Totals for 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 907,913	\$ 127,202	\$ 1,035,115	\$ 1,412,507
Assessments receivable	1,109	-	1,109	2,918
Accrued interest receivable	2,039	6,570	8,609	3,920
Interfund receivable (payable)	881	(881)	-	-
Prepaid expenses	8,651	-	8,651	7,830
Investments (Note 2)	835,000	1,790,000	2,625,000	1,982,000
Restricted assets for design review:				
Cash and cash equivalents	55,750	-	55,750	50,001
Property and equipment (Note 3)	2,967,646	-	2,967,646	2,975,928
Total Assets	\$ 4,778,989	\$ 1,922,891	\$ 6,701,880	\$ 6,435,104
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable	\$ 41,911	\$ 304	\$ 42,215	\$ 19,432
Income taxes payable	15,685	-	15,685	133
Accrued wages and payroll taxes	16,424	-	16,424	10,067
Accrued vacation	28,925	-	28,925	28,607
Design review deposits	55,750	-	55,750	50,100
Dues collected in advance	1,117,625	-	1,117,625	1,134,160
Total Liabilities	1,276,320	304	1,276,624	1,242,499
Fund Balances	3,502,669	1,922,587	5,425,256	5,192,605
Total Liabilities and Fund Balances	\$ 4,778,989	\$ 1,922,891	\$ 6,701,880	\$ 6,435,104

The accompanying notes are an integral part of these financial statements.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Statements of Revenues, Expenses, and
Changes in Fund Balances
For the Year Ended December 31, 2017
(With Summarized Totals for 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
Revenues				
Member assessments	\$ 1,328,000	\$ 300,000	\$ 1,628,000	\$ 1,628,000
Member services	128,733	-	128,733	100,537
Vending machines	29,525	-	29,525	25,945
Transfer fees	20,250	-	20,250	24,250
Design review fees	11,600	-	11,600	22,650
Interest income	9,079	27,296	36,375	16,464
Newsletter advertising	9,000	-	9,000	9,000
Snack bar	4,930	-	4,930	4,998
Design review fines	3,350	-	3,350	2,000
Adult center activities	5,382	-	5,382	5,115
Finance and late charges	4,485	-	4,485	5,915
Other	7,331	-	7,331	9,066
Total Revenues	<u>1,561,665</u>	<u>327,296</u>	<u>1,888,961</u>	<u>1,853,940</u>
Expenses				
Pool and spa	141,006	-	141,006	163,123
Summer programs	87,417	-	87,417	91,206
Member services	98,787	-	98,787	93,935
General repairs and maintenance	489,389	-	489,389	472,954
Major repairs and replacements	-	13,557	13,557	-
Administration	549,597	-	549,597	561,860
Depreciation	242,972	-	242,972	232,562
Provision for income taxes	33,585	-	33,585	17,439
Total Expenses	<u>1,642,753</u>	<u>13,557</u>	<u>1,656,310</u>	<u>1,633,079</u>
Excess (Deficit) of Revenues over Expenses	(81,088)	313,739	232,651	220,861
Fund Balances, Beginning of Year	3,467,908	1,724,697	5,192,605	4,971,744
Capitalized assets funded by the Replacement Fund (Note 6)	215,849	(215,849)	-	-
Permanent transfer (Note 8)	(100,000)	100,000	-	-
Fund Balances, End of Year	<u>\$ 3,502,669</u>	<u>\$ 1,922,587</u>	<u>\$ 5,425,256</u>	<u>\$ 5,192,605</u>

The accompanying notes are an integral part of these financial statements.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Statements of Cash Flows

For the Year Ended December 31, 2017

(With Summarized Totals for 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
Cash Flows from Operating Activities:				
Cash received from owners and others	\$ 1,543,511	\$ 300,000	\$ 1,843,511	\$ 1,860,685
Cash paid to suppliers and employees	(1,337,624)	(13,492)	(1,351,116)	(1,401,362)
Interest received	7,830	23,855	31,685	16,923
Income taxes paid	(18,033)	-	(18,033)	(20,341)
Net Cash Provided by Operating Activities	<u>195,684</u>	<u>310,363</u>	<u>506,047</u>	<u>455,905</u>
Cash Flows from Investing Activities:				
Purchases of property and equipment	(234,690)	-	(234,690)	(186,618)
Purchases of certificates of deposit	(1,200,000)	(1,355,000)	(2,555,000)	(1,352,000)
Proceeds from certificates of deposit	1,042,000	870,000	1,912,000	599,000
Net Cash Used In Investing Activities	<u>(392,690)</u>	<u>(485,000)</u>	<u>(877,690)</u>	<u>(939,618)</u>
Cash Flows from Financing Activities:				
Property and equipment funded by the Replacement Fund	215,849	(215,849)	-	-
Permanent transfer to Replacement Fund	(100,000)	100,000	-	-
Temporary borrowing	(881)	881	-	-
Net Cash Provided By (Used In) Financing Activities	<u>114,968</u>	<u>(114,968)</u>	<u>-</u>	<u>-</u>
Net Decrease in Cash	(82,038)	(289,605)	(371,643)	(483,713)
Cash, Beginning of Year	1,045,701	416,807	1,462,508	1,946,221
Cash, End of Year	<u>\$ 963,663</u>	<u>\$ 127,202</u>	<u>\$ 1,090,865</u>	<u>\$ 1,462,508</u>
Analysis of Cash:				
Cash and cash equivalents	\$ 907,913	\$ 127,202	\$ 1,035,115	\$ 1,412,507
Cash and cash equivalents-restricted	55,750	-	55,750	50,001
Total Cash and Cash Equivalents	<u>\$ 963,663</u>	<u>\$ 127,202</u>	<u>\$ 1,090,865</u>	<u>\$ 1,462,508</u>
Reconciliation of Revenue Over (Under) Expenses to				
Net Cash Provided by Operating Activities:				
Excess (Deficit) of Revenues over Expenses	\$ (81,088)	\$ 313,739	\$ 232,651	\$ 220,861
Adjustments:				
Depreciation	242,972	-	242,972	232,562
Change in assets other than cash and cash equivalents	(260)	(3,441)	(3,701)	1,212
Change in liabilities	34,060	65	34,125	1,270
Total Adjustments	<u>276,772</u>	<u>(3,376)</u>	<u>273,396</u>	<u>235,044</u>
Net Cash Provided by Operating Activities	<u>\$ 195,684</u>	<u>\$ 310,363</u>	<u>\$ 506,047</u>	<u>\$ 455,905</u>
Supplemental Disclosure				
Income taxes paid	<u>\$ 18,033</u>	<u>\$ -</u>	<u>\$ 18,033</u>	<u>\$ 20,341</u>

The accompanying notes are an integral part of these financial statements.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements
December 31, 2017 and 2016

Note 1: **Organization and Summary of Significant Accounting Policies**

A. **Organization**

Northstar Property Owners Association (the "Association") is an incorporated association of property owners at Northstar near Truckee, California, organized for the purpose of providing management, administration, maintenance, preservation, repair and operation of the recreational facilities, including tennis courts, pools, spas, recreation center buildings and certain common lands. The Association is supported by annual assessments of the 1,480 units comprising the membership of the Association which is located within the Northstar, California resort.

B. **Date of Management Review**

In preparing the financial statements, the Association evaluated events and transactions for potential recognition or disclosure through March 14, 2018, the date the financial statements were available to be issued.

C. **Financial Statement Presentation**

Basis of Accounting

The Association's policy is to prepare its financial statements on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses when the related liability is incurred.

Fund Accounting

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 - Used to account for financial resources available for the general operations of the Association and property and equipment.

Replacement Fund - Used to accumulate financial resources designated for future major repairs and replacements.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements
December 31, 2017 and 2016

Note 1: **Organization and Summary of Significant Accounting Policies** (continued)

D. Capitalization Policy

Real property owned by the Association includes certain land and improvements turned over to the Association by the developer. This primarily includes parcels of land surrounding the recreation center and in the annexed subdivision, as well as buildings, tennis courts, and pool and spas. These items are not reported in the accompanying financial statements.

Subsequent improvements to Association-owned property and acquisition of personal property are capitalized at cost and depreciated using the straight-line method over estimated useful lives of 5 to 10 years for personal property and 15 to 39 years for real property improvements.

E. Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are billed annually. Assessments receivable at the balance sheet date represent fees due from owners.

F. Assessments Receivable

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain a collection agency and/or legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. The collection policy is explained in greater detail in the annual disclosure document. Because of the collection procedures available to the Board, subject to a reasonable allowance for uncollectible accounts, all assessments are deemed collectible.

G Design Review Fees

The Association charges a fee to review all single-family home building plans, and a refundable deposit for compliance with construction guidelines. Fees previously accumulated in the design review deposit account may be used to offset charges incurred related to design review guidelines.

H. Income Taxes

The Association is taxed on net income as a regular corporation. Member revenue can be offset to the extent of member expenses. In general, dues allocated for future major repairs and replacements can be set aside on a tax-free basis if applicable guidelines are followed.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements
December 31, 2017 and 2016

Note 1: **Organization and Summary of Significant Accounting Policies** (continued)

H. **Income Taxes** (continued)

Additionally, other amounts received by the Association, such as investment income, advertising, and certain vending machine income, are taxed net of related expenses for federal and state purposes.

I. **Interest Income**

Interest income is allocated to the Operating and Replacement Funds in proportion to the interest-bearing deposits of each fund.

J. **Statements of Cash Flows Information**

For purposes of the Statements of Cash Flows, the Association considers all short-term investments with a maturity date, from date of purchase, of three months or less to be cash equivalents.

K. **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: **Investments**

Investments consist solely of certificates of deposit with stated rates ranging from 1.05 to 2.59% with maturities ranging from five months to five years. Because management intends and has the ability to hold the certificates until maturity, they are stated at cost which approximates market. Each certificate is insured up to \$250,000 by the Federal Deposit Insurance Corporation (the "FDIC"). None of the certificates acquired are above the \$250,000 threshold.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are classified into three tiers: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; Level 3, defined as unobservable inputs that reflect the entity's own assumptions. The Association measures fair value under Level 1.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements
December 31, 2017 and 2016

Note 3: **Property and Equipment**

Property and equipment consist of the following:

	2017	2016
Facility improvements	\$ 3,681,744	\$ 3,517,195
Equipment	698,530	683,603
Buildings	1,925,996	1,904,871
Vehicle	32,110	32,110
Land improvements	275,589	241,499
	6,613,969	6,379,279
Less: accumulated depreciation	(3,646,323)	(3,403,351)
Net property and equipment	\$ 2,967,646	\$ 2,975,928

Depreciation expense for the years ended December 31, 2017 and 2016 was \$242,972 and \$232,562, respectively.

Note 4: **Income Taxes**

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the years ended December 31, 2017 and 2016. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership and nonmembership transactions.

For federal tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income in future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Federal Form 1120, which has graduated effective tax rates of 15% to 39% that are applied to net taxable income.

For California state income tax purposes, the Association also is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses. Net nonmembership income is taxed at 8.84%.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed, and the Association's federal and state income tax returns for 2014, 2015 and 2016 remain open to examination.

The provision for income taxes, based on nonmembership income is as follows:

	2017	2016
Federal	\$ 22,194	\$ 9,720
State	11,391	7,719
	\$ 33,585	\$ 17,439

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements
December 31, 2017 and 2016

Note 5: Concentration of Credit Risk

At December 31, 2017, the Association had demand deposit accounts at financial institutions that exceeded the federally insured limits of \$250,000 per institution, in the aggregate amount of \$126,838. Management believes that the Association is not exposed to any significant credit risk related to cash.

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 held in separate savings and institutional brokerage accounts and generally are not available for expenditures for normal operations. At December 31, 2017, these funds aggregated approximately \$1,924,000.

An independent reserve specialist conducted a reserve study update for 2017 in order to estimate the remaining useful lives and the replacement costs of the components of common property. The Association is funding major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs, after considering amounts previously accumulated in the Replacement Fund. 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. Should the ultimate amount of required expenditures exceed the amount of funds available, the Association is authorized to levy a special assessment against the homeowners, provided there is a 51% majority vote in favor of the special assessments from all voting members constituting a quorum.

Amounts expended from the Replacement Fund for the years ended December 31, 2017 and 2016 consist of the following:

	2017	2016
Pools and spas	\$ 67,827	\$ 30,964
Building improvements and facilities	127,489	35,513
Grounds	34,090	78,802
Total expended	229,406	145,279
Transferred to the Operating Fund and capitalized	(215,849)	(145,279)
Reported as expenses in the Replacement Fund	\$ 13,557	\$ --

Note 7: Commitments

The Association has various contracts for pool, janitorial and accounting services. Generally, these contracts are renewable and are subject to cancellation upon thirty days notice.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements
December 31, 2017 and 2016

Note 8: **Permanent Transfer**

The Board authorized a permanent transfer of excess operating income from 2016 to the Replacement Fund in the amount of \$100,000.

SUPPLEMENTARY INFORMATION

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Schedules of Operating Expenses-Budget (Compiled) and Actual
by Department
For the Year Ended December 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Schedule 1- Pool and Spa</u>			
Pool supplies	\$ 9,000	\$ 9,110	\$ (110)
Pool repairs and maintenance	13,500	5,097	8,403
Spa supplies	9,000	9,017	(17)
Spa repairs and maintenance	9,500	6,492	3,008
Contract services	26,460	26,460	-
Utilities	82,500	84,830	(2,330)
Total Pool and Spa	<u>\$ 149,960</u>	<u>\$ 141,006</u>	<u>\$ 8,954</u>
<u>Schedule 2 - Summer Programs</u>			
Tennis Pro contract	\$ 13,200	\$ 13,200	\$ -
Social activity wages	8,162	7,240	922
Swim instructor salaries	5,400	2,768	2,632
Lifeguard salaries	39,585	32,627	6,958
Tennis Host(ess) salary	14,000	11,325	2,675
Aerobics class expense	-	4,722	(4,722)
Payroll taxes	7,317	5,304	2,013
Health and workmen's compensation insurance	4,200	3,700	500
Tennis supplies/repairs and maintenance	5,000	3,799	1,201
Swim program supplies	1,000	1,024	(24)
Other activities	3,500	1,708	1,792
Total Summer Programs	<u>\$ 101,364</u>	<u>\$ 87,417</u>	<u>\$ 13,947</u>

The accompanying notes are an integral part of these financial statements.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Schedules of Operating Expenses-Budget (Compiled) and Actual
by Department
For the Year Ended December 31, 2017

	Budget	Actual	Variance
<u>Schedule 3 - Member Services</u>			
Entry salaries	\$ 62,406	\$ 58,496	\$ 3,910
Payroll taxes	7,395	6,308	1,087
Retirement	700	-	700
Health and workmen's compensation insurance	22,679	22,668	11
Towels	7,500	9,185	(1,685)
Massage therapy expense	1,300	2,130	(830)
Total Member Services	<u>\$ 101,980</u>	<u>\$ 98,787</u>	<u>\$ 3,193</u>
<u>Schedule 4 - General Repairs and Maintenance</u>			
Salaries - maintenance	\$ 232,183	\$ 222,704	\$ 9,479
Payroll taxes	27,514	21,222	6,292
Retirement	16,645	13,338	3,307
Health and workmen's compensation insurance	57,117	57,108	9
Contract services	74,900	69,847	5,053
Water and sewer	44,000	41,265	2,735
Grounds keeping	8,000	6,729	1,271
Materials and supplies	12,000	10,745	1,255
Custodial supplies	9,000	9,831	(831)
Vending machines	4,500	4,280	220
Minor improvements	18,000	15,608	2,392
Furniture and equipment	12,000	6,159	5,841
Disposal fees	1,400	1,833	(433)
Equipment repairs	1,350	311	1,039
Snow removal	1,400	1,125	275
Equipment rental	500	-	500
Tennis court repairs	3,000	950	2,050
Parking lot expenses	4,500	3,032	1,468
Small tools and equipment	2,000	1,627	373
Signs	1,000	1,414	(414)
Game equipment	400	261	139
Travel and meetings	150	-	150
Total General Repairs and Maintenance	<u>\$ 531,559</u>	<u>\$ 489,389</u>	<u>\$ 42,170</u>

The accompanying notes are an integral part of these financial statements.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Schedules of Operating Expenses-Budget (Compiled) and Actual
by Department
For the Year Ended December 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Schedule 5 - Administration</u>			
Salaries	\$ 262,269	\$ 266,907	\$ (4,638)
Retirement	24,027	24,020	7
Payroll taxes	31,079	24,104	6,975
Health and workmen's compensation insurance	9,004	7,333	1,671
General insurance	56,459	56,459	0
Contract services	53,447	48,858	4,589
Utilities-building	34,000	27,101	6,899
Fuel reduction program	10,000	8,680	1,320
Contingency	55,742	14,645	41,097
Travel and meetings	18,300	14,879	3,421
Telephone	6,000	7,973	(1,973)
Operating lease	3,500	2,695	805
Printing and publications	6,500	6,610	(110)
Seminars and conferences	3,000	3,152	(152)
Employee uniforms	4,000	1,895	2,105
Licenses, fees and permits	7,000	7,270	(270)
Employee relations	5,000	3,261	1,739
Truck repairs	5,000	4,698	302
Postage	6,000	5,085	915
Computer repairs and maintenance	2,000	799	1,201
Office supplies and printing	3,500	3,879	(379)
Cable TV	2,100	2,127	(27)
Employee development and training	3,500	1,613	1,887
Employee advertising	750	1,987	(1,237)
Service agreements	1,800	2,213	(413)
Dues and subscriptions	3,000	1,354	1,646
Furniture and equipment	1,300	-	1,300
Total Administration	<u>\$ 618,277</u>	<u>\$ 549,597</u>	<u>\$ 68,680</u>
<u>Schedule 6 - Income Taxes</u>			
Federal income tax	\$ 5,600	\$ 22,194	\$ (16,594)
State income tax	3,000	11,391	(8,391)
Total Income Taxes	<u>\$ 8,600</u>	<u>\$ 33,585</u>	<u>\$ (24,985)</u>

The accompanying notes are an integral part of these financial statements.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Required Supplementary Information on Future Major
Repairs and Replacements
December 31, 2017
(Unaudited - See Independent Auditor's Report)

In accordance with California Civil Code §5500(a), every three years the Association is required to conduct a comprehensive replacement study of the accessible areas of the major components the Association is obligated to repair, replace, restore, or maintain. In the intervening years, the comprehensive study is required to be updated. In 2016, Hughes Reserve, an independent reserve specialist, conducted an update to the comprehensive replacement study. The update is effective for the 2017 year. The study included estimating the remaining useful lives and the replacement costs of those components of common area identified during a visual inspection of the property. The estimates were based on future estimated replacement costs. The determination of current and future funding requirements includes a compounded annual inflation rate of 3 percent on common area components and interest earnings of .5 percent before tax on amounts invested for future major repairs and replacements.

It should be noted that the reserve study does not contemplate the costs of total reconstruction or redevelopment of the common property at a given point in time. Rather, the focus of the study is on major repairs and replacements of common area components over a thirty-year horizon

The table on the following page presents consolidated information on the major components of common property that the Association is responsible for maintaining and is based on the study. The detailed study is available at the Association office.

NORTHSTAR PROPERTY OWNERS ASSOCIATION

Schedule of Supplementary Information on Future Major Repairs
and Replacements (Compiled)
As of December 31, 2017

<u>Cost Center/Components</u>	<u>Estimated Current Replacement Cost</u>	<u>Estimated Useful Life (Yrs.)</u>	<u>Estimated Remaining Useful Life (Yrs.)</u>	<u>Anticipated 2017 Annual Contribution</u>
<u>General Common</u>				
Buildings	\$ 565,003	5-30	0-19	\$ 59,972
Grounds	822,225	5-35	0-24	88,385
Pools and spas	698,829	3-30	0-12	62,268
Tennis center	396,300	6-25	0-23	39,375
Total	<u>\$ 2,482,357</u>			<u>\$ 250,000</u>