

**SHADOW LAKES II ASSOCIATION
(An Illinois Homeowner's Association)**

Audit of Financial Statements

**As of and for the Year Ended
December 31, 2018**

Shadow Lakes II Association
(An Illinois Homeowner's Association)
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As of and for the year ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of
Shadow Lakes II Association

We have audited the accompanying financial statements of Shadow Lakes II Association (an Illinois Homeowners' Association), which comprise the balance sheet as of December 31, 2018, and the related statements of revenue, expenses and changes in members' equity and cash flows for the year 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shadow Lakes II Association as of December 31, 2018, and the changes in its members' equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses on pages 10 to 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Smith, Kelling, Dykstra and Ahm, P.C.

Bourbonnais, Illinois
April 4, 2019

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Balance Sheet
As of December 31, 2018

Assets

Cash and cash equivalents	\$ 90,900
Reserved cash	2,414
Reserved investments	204,967
Accounts receivable	60,181
Property and equipment, net	<u>1,673,347</u>

Total assets \$ 2,031,809

Liabilities

Accounts payable and accrued expenses	\$ 28,483
Long-term debt - amount due within one year	29,875
Other liabilities	62,131
Long-term debt - amount due after one year	<u>126,090</u>

Total liabilities 246,579

Members' equity 1,785,230

Total liabilities and retained earnings \$ 2,031,809

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Statement of Revenue, Expenses and Changes in Members' Equity
For the year ended December 31, 2018

Revenue:	
Dues revenue	\$ 1,006,409
Fees charged	13,564
Violation and penalties income	28,421
Miscellaneous income	14,465
Total revenue	<u>1,062,859</u>
Expenses:	
Administrative and general	242,831
Beautification committee	1,030
Security committee	43,839
Fishing committee	17,999
Activities committee	37,540
Maintenance committee	<u>626,961</u>
Total expenses	<u>970,200</u>
Other income (expense):	
Interest income	2,204
Rent income	9,600
Interest expense	(8,418)
Income tax expense	<u>(933)</u>
Other income (expense), net	<u>2,453</u>
Excess of revenues over expenses	95,112
Members' equity, beginning	<u>1,690,118</u>
Members' equity, end of year	<u><u>\$ 1,785,230</u></u>

See accompanying notes and independent accountant's audit report.

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Statement of Cash Flows
For the year ended December 31, 2018

Cash flows from operating activities:

Excess of revenues over expenses	\$ 95,112
Adjustments to reconcile revenues over expenses to net cash provided (used) by operating activities:	
Depreciation	109,074
Net increase (decrease) in accounts receivable	(18,163)
Net increase (decrease) in accounts payable and other liabilities	(14,408)
Net cash provided (used) by operating activities	<u>171,615</u>

Cash flows from investing activities:

Purchase of property and equipment	<u>(92,132)</u>
Net cash provided (used) by investing activities	<u>(92,132)</u>

Cash flows from financing activities:

Payments on long-term debt	<u>(46,900)</u>
Net cash provided (used) by financing activities	<u>(46,900)</u>

Net increase (decrease) in cash and cash equivalents 32,583

Cash, beginning of year 265,698

Cash, end of year \$ 298,281

Cash and cash equivalents consist of:

Cash and cash equivalents	\$ 90,900
Reserved cash	2,414
Reserved investments	204,967
	<u>\$ 298,281</u>

Supplementary cash flow information

Interest paid	<u>\$ 8,418</u>
Income taxes paid	<u>\$ 978</u>

See accompanying notes and independent accountant's audit report.

**Shadow Lakes II Association
Notes to the Financial Statements
(An Illinois Homeowner's Association)
As of and for the year ended December 31, 2018**

Note 1 – Nature of Business

Shadow Lakes II Association, Inc. (the Association) is a not-for-profit corporation as established under the "General Not for Profit Corporation Act of 1986" of the State of Illinois. The purpose of the Association is to provide the operation and maintenance of the common property on Shadow Lakes II. The Association property consists of 944 residential parcels located in the City of Braidwood, Illinois.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenditures are recognized when incurred.

Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits, and temporary investments with original maturities of three months or less.

Reserved cash and investments

These funds are used to accumulate resources designated for future major repairs and replacements. These funds are held in separate accounts and are generally not available for expenditures for normal operations.

Property and equipment

Purchases of property and equipment and land improvements are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for maintenance and repairs are charged to expense in the period incurred with major upgrades/betterments being capitalized and depreciated. When property and equipment are retired or otherwise disposed of, the asset and accumulated depreciation accounts are adjusted accordingly, and the gain or loss arising from the disposition is credited or charged to earnings.

Accounts receivable

Accounts receivable consist mainly of assessments due from members. Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Association provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect collectability. It is the Association's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Shadow Lakes II Association
Notes to the Financial Statements
(An Illinois Homeowner's Association)
As of and for the year ended December 31, 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Income taxes

The Association qualifies as tax-exempt under Internal Revenue Code Section 528 for the year ended December 31, 2018. Under that section, the Association is not taxed on income and expenses related to its exempt purpose, which is the preservation and maintenance of the Association's common facilities. The Association is taxed on non-exempt income including interest income.

Under the Internal Revenue Code, Homeowners' Associations may be taxed as either a Homeowners' Association or as a regular corporation, at their election. The Association may select either method in any year and will generally select the method that results in the lowest tax due. A method selected in one year affects only that year and the Association is free to select either method in future years.

For the year ended December 31, 2018, the Association has elected to be taxed as a Homeowners' Association. Federal income taxes of \$691 and Illinois income taxes of \$242 were expensed in 2018 based on the excess of non-membership income over non-membership expenses.

Tax returns for fiscal years ended December 31, 2014 and prior are closed from tax assessments under the Internal Revenue Service statute of limitations.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3-Accounts Receivable, Net

The Association reviews outstanding receivables for collectability and establishes a reserve for uncollectible amounts when deemed necessary. As of December 31, 2018 the assessment receivable from owners is net of an allowance for doubtful accounts of \$0.

Member Assessments

Unit owners (members) of the Association are subject to annual assessments to provide funds for the Association's operating expenses, capital acquisitions, and future major repairs and replacements. Any excess assessments at year-end are retained by the Association for use in succeeding years.

Annual member assessments for common charges ranged from \$310 to \$1,938 during the year ended December 31, 2018.

Shadow Lakes II Association
Notes to the Financial Statements
(An Illinois Homeowner's Association)
As of and for the year ended December 31, 2018

Note 4 - Property and Equipment

Property and equipment consists of the following:

Land	\$ 75,000
Buildings and land improvements	2,261,565
Transportation equipment	115,305
Office and other equipment	<u>115,843</u>
	2,567,713
Less: accumulated depreciation	<u>(894,366)</u>
	<u>\$1,673,347</u>

Depreciation expense amounted to \$109,074.

Note 5 - Compensated Absences

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Association's policy is to recognize these costs when actually paid.

Note 6 - Notes Payable

The Association's obligation under notes payable consists of the following:

4.50% note payable, due in monthly installments of \$2,596, including interest, through June 2020 with a balloon payment at the end of the loan, secured by all assets of the Association	\$144,605
0.00% note payable, due in monthly installments of \$393, including interest, through July 2021, secured by a Kubota Tractor	<u>11,360</u>
	155,965
Less current maturities	<u>(29,875)</u>
Net notes payable	<u>\$126,090</u>

Maturities on long-term debt subsequent to December 31, 2018 are as follows:

2019	\$ 29,875
2020	124,164
2021	<u>1,926</u>
Total	<u>\$155,965</u>

Interest paid and reported as expense was \$8,418.

**Shadow Lakes II Association
Notes to the Financial Statements
(An Illinois Homeowner's Association)
As of and for the year ended December 31, 2018**

Note 7 – Operating Lease

The Company has an agreement for the rental of a Xerox printer/copier. Rent expense for the equipment was \$580 for the year ended December 31, 2018.

Future minimum rental payments due under the lease are as follows:

2019	\$ 3,480
2020	3,480
2021	3,480
2022	3,480
2023	<u>2,900</u>
Total	<u>\$16,820</u>

Note 8 – Subsequent Events

Shadow Lakes II Association has evaluated subsequent events through April 4, 2019, the date which the financial statements were available to be issued.

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the year ended December 31, 2018

Administrative expenses	
Administrative wages	\$ 69,082
FICA	5,287
State unemployment	1,679
Federal unemployment	154
Computer/website	1,718
Accounting fee	3,100
Advertising and promotion	1,554
Payroll services	3,149
Bank fees	1
Telephone	5,284
Postage/shipping	2,186
Licenses and fees	10
Office supplies	3,003
Copier lease fees	4,703
Newsletter postage fee	1,562
Real estate taxes	5,626
Drainage taxes	937
Miscellaneous administrative expenses	5,620
Capital expenses	599
Bad debt expense	1,538
Property insurance	8,766
Umbrella insurance	1,500
Directors errors and omission insurance	1,644
Crime insurance	731
Inland marine insurance	1,357
Workman's compensation insurance	2,967
Depreciation expense	109,074
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Total administrative	\$ 242,831
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Beautification committee expenses	
Common area supplies	\$ 1,030
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Total beautification committee	\$ 1,030
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Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the year ended December 31, 2018

Security committee expenses

Security wages	\$ 22,714
FICA	2,610
State unemployment	1,616
Federal unemployment	130
Vehicle fuel expense	2,740
Vehicle maintenance	4,367
Vehicle insurance	1,076
Vehicle licenses and fees	103
Monitoring fees	4,340
Gate maintenance and repair	978
Telephone	974
Clothing and supplies	214
Security expense	1,977

Total security committee \$ 43,839

Fishing committee expenses

Fishing club - restocking fund	<u>\$ 17,999</u>
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Total fishing committee \$ 17,999

Activities committee expenses

Activity department wages	\$ 13,406
FICA	1,026
State unemployment	873
Federal unemployment	80
Clothing and supplies	3,654
Telephone	802
Advertising	52
Outside services	5,536
Swimming pool supplies and chemicals	4,133
Swimming pool maintenance	3,780
Janitorial supplies	1,446
Capital expense	602
Licenses and fees	2,150

Total activities committee \$ 37,540

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the year ended December 31, 2018

Maintenance committee expenses	
Maintenance Wages	\$ 71,267
FICA	5,371
State unemployment	2,505
Federal unemployment	127
Vehicle insurance	1,076
Fuel	4,988
Truck and equipment repairs and maintenance	11,232
Water	142,702
Water system repair	23,242
Sewer	159,131
Sewer repairs	10,721
Refuse removal	72,643
Road maintenance	1,369
Snow removal	17,408
Weed boat maintenance and repair	1,135
Nature trail and EV boat ramp	8,300
Maintenance tools	1,739
Garage maintenance and repairs	308
Telephone	846
General maintenance and repairs	12,636
Licenses and fees	103
Capital expenses	14,250
Clothing and personal gear	405
Community center repair and maintenance	98
Erosion abatement	6,700
Tree removal	9,550
Chemical weed removal treatment	10,340
Propane and heat	4,727
Electricity	18,963
Community center electricity	1,640
Community center heat	1,123
Outside janitorial service	9,000
Amenity center maintenance and repair	1,316
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Total maintenance committee	\$ 626,961
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