

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

Audit of Financial Statements

As of and for the years ended
December 31, 2020 and 2019

Shadow Lakes II Association
(An Illinois Homeowner’s Association)
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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, 2020 and 2019, and the related statements of revenue, expenses and changes in members' equity 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

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, 2020 and 2019, and the changes in its members' equity and its cash flows for the years 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 11 to 13 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.

SKDO, P.C.

Bourbonnais, Illinois
March 4, 2021

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Balance Sheet
As of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 119,822	\$ 131,934
Reserved cash	2,605	2,308
Reserved investments	179,869	199,201
Accounts receivable, net	48,442	60,884
Property and equipment, net	<u>1,766,497</u>	<u>1,700,983</u>
Total assets	<u>\$ 2,118,197</u>	<u>\$ 2,095,310</u>
Liabilities		
Accounts payable and accrued expenses	\$ 7,175	\$ 34,556
Long-term debt - amount due within one year	9,823	115,958
Other liabilities	75,767	62,309
Long-term debt - amount due after one year	<u>26,691</u>	<u>1,925</u>
Total liabilities	119,456	214,748
Members' equity	<u>1,998,741</u>	<u>1,880,562</u>
Total liabilities and members' equity	<u>\$ 2,118,197</u>	<u>\$ 2,095,310</u>

See accompanying notes and independent accountant's audit report.

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Statement of Revenue, Expenses and Changes in Members' Equity
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue:		
Dues revenue	\$ 1,057,635	\$ 1,047,212
Fees charged	16,688	14,421
Violation and penalties income	18,443	27,741
Miscellaneous income	40,289	61,166
Total revenue	<u>1,133,055</u>	<u>1,150,540</u>
Expenses:		
Administrative and general	290,723	283,595
Beautification committee	683	963
Security committee	44,652	46,885
Fishing committee	18,000	17,991
Activities committee	11,175	35,043
Maintenance committee	667,762	679,977
Total expenses	<u>1,032,995</u>	<u>1,064,454</u>
Other income (expense):		
Interest income	3,690	7,023
Rent income	10,200	9,600
Gain on sale of asset	6,321	-
Interest expense	(654)	(5,190)
Income tax expense	(1,438)	(2,187)
Other income (expense), net	<u>18,119</u>	<u>9,246</u>
Excess of revenues over expenses	<u>118,179</u>	<u>95,332</u>
Members' equity, beginning	<u>1,880,562</u>	<u>1,785,230</u>
Members' equity, end of year	<u>\$ 1,998,741</u>	<u>\$ 1,880,562</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 years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 118,179	\$ 95,332
Adjustments to reconcile revenues over expenses to net cash provided (used) by operating activities:		
Depreciation	115,227	106,190
(Gain) loss on disposition of assets	(6,321)	-
Net increase (decrease) in accounts receivable	11,480	(703)
Net increase (decrease) in accounts payable and other liabilities	<u>(13,923)</u>	<u>6,251</u>
Net cash provided (used) by operating activities	<u>224,642</u>	<u>207,070</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	7,651	-
Purchase of property and equipment	<u>(144,336)</u>	<u>(133,826)</u>
Net cash provided (used) by investing activities	<u>(136,685)</u>	<u>(133,826)</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(119,104)</u>	<u>(38,082)</u>
Net cash provided (used) by financing activities	<u>(119,104)</u>	<u>(38,082)</u>
Net increase (decrease) in cash and cash equivalents	(31,147)	35,162
Cash, beginning of year	<u>333,443</u>	<u>298,281</u>
Cash, end of year	<u>\$ 302,296</u>	<u>\$ 333,443</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 119,822	\$ 131,934
Reserved cash	2,605	2,308
Reserved investments	<u>179,869</u>	<u>199,201</u>
	<u>\$ 302,296</u>	<u>\$ 333,443</u>
Supplementary cash flow information		
Interest paid	<u>\$ 654</u>	<u>\$ 5,190</u>
Income taxes paid	<u>\$ 3,507</u>	<u>\$ 987</u>
Supplementary Schedule of Noncash Operating And Investing Activities		
Acquisition of equipment financed directly	<u>\$ 37,735</u>	<u>\$ -</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 years ended December 31, 2020 and 2019

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.

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
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Note 2 – Summary of Significant Accounting Policies (Continued)

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The Association adopted the standard on January 1, 2019.

Management analyzed the provisions of FASB's ASC Topic 606 and have concluded no changes were necessary to conform to the new standard. The majority of the Association's revenue is from assessment dues from members. Association dues are billed yearly and due at the beginning of the year for services received in the current year. The timing of revenue recognition is not affected by the new standard.

Income taxes

The Association qualifies as tax-exempt under Internal Revenue Code Section 528. 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 years ended December 31, 2020 and December 31, 2019 the Association has elected to be taxed as a Homeowners' Association. Federal income taxes of \$1,065 and \$1,620 and Illinois income taxes of \$373 and \$567 were expensed for the years ended December 31, 2020 and December 31, 2019, respectively, based on the excess of non-membership income over non-membership expenses.

Tax returns for years ended December 31, 2016 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-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 subsequent years.

Shadow Lakes II Association
Notes to the Financial Statements
(An Illinois Homeowner’s Association)
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Note 3-Member Assessments, Net (Continued)

Annual member assessments for common charges ranged from \$320 to \$2,000 during the years ending December 31, 2020 and December 31, 2019.

The Association reviews outstanding receivables for collectability and establishes a reserve for uncollectible amounts when deemed necessary. Accounts receivable were \$48,442 and \$60,884 as of December 31, 2020 and 2019 respectively. Both amounts are net of an allowance for doubtful accounts of \$0.

Note 4 - Property and Equipment

Property and equipment consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 75,000	\$ 75,000
Building and land improvements	2,500,158	2,391,852
Transportation equipment	133,116	116,061
Office and other equipment	<u>116,653</u>	<u>116,653</u>
	2,824,927	2,699,566
Less: accumulated depreciation	<u>(1,058,430)</u>	<u>(998,583)</u>
	<u>\$ 1,766,497</u>	<u>\$ 1,700,983</u>

Depreciation expense amounted to \$115,227 and \$106,190 for the years ended December 31, 2020 and December 31, 2019, respectively.

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 – Operating Lease

The Company has an agreement for the rental of a Xerox printer/copier. Rent expense for the equipment was \$3,480 and \$3,480 for the years ended December 31, 2020 and December 31, 2019, respectively.

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

2021	\$3,480
2022	3,480
2023	<u>2,900</u>
Total	<u>\$9,860</u>

Shadow Lakes II Association
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Note 7 – Notes Payable

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

	<u>2020</u>	<u>2019</u>
4.5% 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.	\$ -0-	\$111,241
0.00% note payable, due in monthly installments of \$393, including interest, through July 2021, secured by a Kubota Tractor	1,926	6,642
0.00% note payable, due in monthly installments of \$267, including interest, through July 2021, secured by an ExMark Mower	8,778	-0-
0.00% note payable, due in monthly installments of \$391, including interest, through July 2021, secured by a Ford F150	<u>25,810</u>	<u>-0-</u>
	36,514	117,883
Less current maturities	<u>(9,823)</u>	<u>(115,958)</u>
Net notes payable	<u>\$ 26,691</u>	<u>\$ 1,925</u>

Maturities on long-term debt subsequent to December 31, 2020 are as follows:

2021	\$9,823
2022	7,897
2023	7,063
2024	4,693
2025	4,693
Thereafter	<u>2,345</u>
Total	<u>\$36,514</u>

Interest paid and reported as expense was \$654 and \$5,190 for the years ended December 31, 2020 and December 31, 2019, respectively.

Note 8 – Contingencies

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in global exposure. As a result, the Governor of Illinois issued Executive Orders mandating non-essential businesses, school districts, and others to close or operate with significant restrictions and residents were initially mandated to shelter in place. The Governor of Illinois has since issued a 5-phase plan to reopen Illinois. As of the date of this report, Illinois is in Phase 4 of that plan which includes various restrictions and requirements.

Shadow Lakes II Association
Notes to the Financial Statements
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Note 8 – Contingencies (Continued)

The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. Although the Association cannot estimate the length or effect of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on Association's results of future operations and financial position in 2021.

Note 9 – Subsequent Events

Shadow Lakes II Association has evaluated subsequent events through March 4, 2021, 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 years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Administrative expenses		
Administrative wages	\$ 67,663	\$ 68,910
FICA	5,176	5,274
State unemployment	(1,250)	2,740
Federal unemployment	122	126
Computer/website	1,757	3,574
Accounting fee	10,500	11,500
Advertising and promotion	930	1,750
Payroll services	3,472	3,139
Legal fees	11,401	8,165
Legal fees	-	51
Bank fees	288	232
Telephone	5,828	5,920
Postage/shipping	3,050	4,454
Office supplies	2,879	2,921
Copier lease fees	3,691	3,821
Newsletter postage fee	1,870	599
Real estate taxes	5,931	6,435
Drainage taxes	937	947
Miscellaneous administrative expenses	4,972	7,537
Capital expenses	-	797
Bad debt expense	30,554	21,983
Property insurance	8,453	8,766
Umbrella insurance	1,500	1,500
Directors errors and omission insurance	1,644	1,644
Crime insurance	731	731
Inland marine insurance	1,357	1,357
Workman's compensation insurance	2,040	2,532
Depreciation expense	115,227	106,190
	<u> </u>	<u> </u>
Total administrative	\$ 290,723	\$ 283,595
	<u> </u>	<u> </u>
Beautification committee expenses		
Common area supplies	\$ 683	\$ 963
	<u> </u>	<u> </u>
Total beautification committee	\$ 683	\$ 963
	<u> </u>	<u> </u>

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2020 and 2019

Security committee expenses

Security wages	\$ 28,524	\$ 27,185
FICA	2,199	2,112
State unemployment	905	1,033
Federal unemployment	118	155
Vehicle fuel expense	2,817	3,303
Vehicle maintenance	1,522	1,014
Vehicle insurance	1,124	1,059
Vehicle licenses and fees	155	101
Monitoring fees	5,104	4,582
Gate maintenance and repair	656	2,747
Telephone	987	638
Clothing and supplies	195	-
Security expense	346	2,632
Security expense-capital expenses	-	324
	<u>\$ 44,652</u>	<u>\$ 46,885</u>

Fishing committee expenses

Fishing club - restocking fund	\$ 18,000	\$ 17,991
	<u>\$ 18,000</u>	<u>\$ 17,991</u>

Activities committee expenses

Activity department wages	\$ 490	\$ 12,362
FICA	37	945
State unemployment	15	405
Federal unemployment	11	74
Clothing and supplies	1,709	3,996
Telephone	926	812
Advertising	21	51
Outside services	350	5,276
Swimming pool supplies and chemicals	-	2,482
Swimming pool maintenance	3,264	2,477
Janitorial supplies	2,019	1,321
Capital expense	193	2,812
Licenses and fees	2,140	2,030
	<u>\$ 11,175</u>	<u>\$ 35,043</u>

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2020 and 2019

Maintenance committee expenses		
Maintenance Wages	\$ 83,350	\$ 76,322
FICA	6,369	5,845
State unemployment	1,235	1,721
Federal unemployment	131	132
Vehicle insurance	1,904	1,134
Fuel	3,452	4,613
Truck and equipment repairs and maintenance	11,590	10,265
Water	153,596	159,424
Water system repair	12,736	13,456
Sewer	175,181	175,030
Sewer repairs	22,755	27,073
Refuse removal	72,361	63,525
Road maintenance	13,481	29,575
Snow removal	15,252	15,244
Weed boat maintenance and repair	366	620
Nature trail and EV boat ramp	6,500	10,644
Maintenance tools	712	1,093
Garage maintenance and repairs	481	1,285
Telephone	1,042	1,343
General maintenance and repairs	12,098	13,834
Licenses and fees	-	101
Clothing and personal gear	386	885
Community center repair and maintenance	2,532	190
Erosion abatement	19,500	6,271
Tree removal	5,050	5,050
Chemical weed removal treatment	9,185	10,530
Propane and heat	3,816	6,533
Electricity	17,439	20,815
Community center electricity	1,642	1,925
Community center heat	1,163	1,256
Outside janitorial service	9,512	9,546
Amenity center maintenance and repair	2,945	4,697
	<u> </u>	<u> </u>
Total maintenance committee	\$ 667,762	\$ 679,977

