

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

Audit of Financial Statements

**As of and for the years ended
December 31, 2021 and 2020**

Shadow Lakes II Association
(An Illinois Homeowner's Association)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shadow Lakes II Association

Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Shadow Lakes II Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Shadow Lakes II Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Shadow Lakes II Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Shadow Lakes II Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 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 23, 2022

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Balance Sheet
As of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 137,144	\$ 119,822
Reserved cash	1,007	2,605
Reserved investments	164,552	179,869
Accounts receivable, net	55,961	48,442
Prepaid expenses	1,269	962
Property and equipment, net	<u>1,765,627</u>	<u>1,766,497</u>
Total assets	<u><u>\$ 2,125,560</u></u>	<u><u>\$ 2,118,197</u></u>
Liabilities		
Accounts payable and accrued expenses	\$ 11,359	\$ 7,175
Long-term debt - amount due within one year	11,654	9,823
Other liabilities	83,463	75,767
Long-term debt - amount due after one year	<u>25,310</u>	<u>26,691</u>
Total liabilities	131,786	119,456
Members' equity	<u>1,993,774</u>	<u>1,998,741</u>
Total liabilities and members' equity	<u><u>\$ 2,125,560</u></u>	<u><u>\$ 2,118,197</u></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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue:		
Dues revenue	\$ 1,077,528	\$ 1,057,635
Fees charged	20,315	16,688
Violation and penalties income	24,771	18,443
Miscellaneous income	28,911	40,289
Total revenue	<u>1,151,525</u>	<u>1,133,055</u>
Expenses:		
Administrative and general	265,392	290,723
Beautification committee	1,074	683
Security committee	48,518	44,652
Fishing committee	18,000	18,000
Activities committee	43,875	11,175
Maintenance committee	783,415	667,762
Total expenses	<u>1,160,274</u>	<u>1,032,995</u>
Other income (expense):		
Interest income	348	3,690
Rent income	11,050	10,200
Gain/loss on disposal of assets	(7,285)	6,321
Interest expense	-	(654)
Income tax expense	(331)	(1,438)
Other income (expense), net	<u>3,782</u>	<u>18,119</u>
Excess of revenues over expenses	(4,967)	118,179
Members' equity, beginning	<u>1,998,741</u>	<u>1,880,562</u>
Members' equity, end of year	<u>\$ 1,993,774</u>	<u>\$ 1,998,741</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ (4,967)	\$ 118,179
Adjustments to reconcile revenues over expenses to net cash provided (used) by operating activities:		
Depreciation	124,062	115,227
(Gain) loss on disposition of assets	7,285	(6,321)
Net (increase) decrease in accounts receivable and prepaid expenses	(7,826)	11,480
Net increase (decrease) in accounts payable and other liabilities	11,880	(13,923)
Net cash provided (used) by operating activities	<u>130,434</u>	<u>224,642</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	7,651
Purchase of property and equipment	<u>(119,207)</u>	<u>(144,336)</u>
Net cash provided (used) by investing activities	<u>(119,207)</u>	<u>(136,685)</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(10,820)</u>	<u>(119,104)</u>
Net cash provided (used) by financing activities	<u>(10,820)</u>	<u>(119,104)</u>
Net increase (decrease) in cash and cash equivalents	407	(31,147)
Cash, beginning of year	<u>302,296</u>	<u>333,443</u>
Cash, end of year	<u>\$ 302,703</u>	<u>\$ 302,296</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 137,144	\$ 119,822
Reserved cash	1,007	2,605
Reserved investments	<u>164,552</u>	<u>179,869</u>
	<u>\$ 302,703</u>	<u>\$ 302,296</u>
Supplementary cash flow information		
Interest paid	<u>\$ -</u>	<u>\$ 654</u>
Income taxes paid	<u>\$ 1,600</u>	<u>\$ 987</u>
Supplementary Schedule of Noncash Financing And Investing Activities		
Acquisition of equipment financed directly	<u>\$ 11,271</u>	<u>\$ 37,735</u>

See accompanying notes and independent accountant's audit report.

**Shadow Lakes II Association
(An Illinois Homeowner's Association)
Notes to the Financial Statements
As of and for the years ended December 31, 2021 and 2020**

Note 1 – Nature of Business

Shadow Lakes II Association, Inc. (the Association) is a not-for-profit corporation and common interest community association as established under the "General Not for Profit Corporation Act of 1986" and the "Common Interest Community Association Act" 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
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Notes to the Financial Statements
As of and for the years ended December 31, 2021 and 2020**

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 majority of the Association's revenue consists of assessment dues and other fees and income from members. These revenues constitute transactions with owners rather than contracts with customers and therefore are not within the scope of Topic 606. Association dues are billed yearly and due at the beginning of the year for services received in the current year. Other fees and charges are assessed when the transaction occurs.

Sales of nonfinancial assets are within the scope of Topic 606. Rent income is exempt from Topic 606 because it is within the scope of Topic 840/842 as leasing of property.

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, 2021 and December 31, 2020 the Association has elected to be taxed as a Homeowners' Association. Federal income taxes of \$245 and \$1,065 and Illinois income taxes of \$86 and \$373 were expensed for the years ended December 31, 2021 and December 31, 2020, respectively, based on the excess of non-membership income over non-membership expenses.

Tax returns for years ended December 31, 2017 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.

**Shadow Lakes II Association
 (An Illinois Homeowner's Association)
 Notes to the Financial Statements
 As of and for the years ended December 31, 2021 and 2020**

Note 3 – Member Assessments, Net

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.

Annual member assessments for common charges ranged from \$320 to \$2,000 during the years ending December 31, 2021 and December 31, 2020.

The Association reviews outstanding receivables for collectability and establishes a reserve for uncollectible amounts when deemed necessary. Accounts receivable were \$55,961 and \$48,442 as of December 31, 2021 and 2020 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>2021</u>	<u>2020</u>
Land	\$ 75,000	\$ 75,000
Building and land improvements	2,576,132	2,500,158
Transportation equipment	144,387	133,116
Office and other equipment	<u>150,279</u>	<u>116,653</u>
	2,945,798	2,824,927
Less: accumulated depreciation	<u>(1,180,171)</u>	<u>(1,058,430)</u>
	<u>\$ 1,765,627</u>	<u>\$ 1,766,497</u>

Depreciation expense amounted to \$124,062 and \$115,227 for the years ended December 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, respectively.

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

2022	\$3,480
2023	<u>2,900</u>
Total	<u>\$6,380</u>

**Shadow Lakes II Association
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 Notes to the Financial Statements
 As of and for the years ended December 31, 2021 and 2020**

Note 7 – Notes Payable

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

	<u>2021</u>	<u>2020</u>
0.00% note payable, due in monthly installments of \$393, including interest, through July 2021, secured by a Kubota Tractor	\$ -0-	\$ 1,926
0.00% note payable, due in monthly installments of \$267, including interest, through September 2023, secured by an ExMark Mower	5,574	8,778
0.00% note payable, due in monthly installments of \$391, including interest, through June 2026, secured by a Ford F150	21,118	25,810
0.00% note payable, due in monthly installments of \$313, including interest, through August 2024, secured by an ExMark Mower	<u>10,272</u>	<u>-0-</u>
	36,964	36,514
Less current maturities	<u>(11,654)</u>	<u>(9,823)</u>
Net notes payable	<u>\$ 25,310</u>	<u>\$ 26,991</u>

Maturities on long-term debt subsequent to December 31, 2021 are as follows:

2022	\$11,654
2023	10,820
2024	7,452
2025	4,693
2026	<u>2,345</u>
Total	<u>\$36,964</u>

Interest paid and reported as expense was \$0 and \$654 for the years ended December 31, 2021 and December 31, 2020, 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, and the pandemic continues as of the date of this report. Although the Association cannot estimate the length or effect of the impact of the COVID-19 outbreak at this time, it may have an adverse effect on the Association's results of future operations and financial position in fiscal year 2022.

Note 9 – Subsequent Events

Shadow Lakes II Association has evaluated subsequent events through March 23, 2022, 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, 2021 and 2020

	2021	2020
Administrative and general expenses		
Administrative wages	\$ 45,297	\$ 67,663
FICA	3,410	5,176
State unemployment	(285)	(1,250)
Federal unemployment	126	122
Computer/website	1,966	1,757
Accounting fee	10,800	10,500
Advertising and promotion	900	930
Payroll services	3,590	3,472
Legal fees	15,415	11,401
Bank fees	368	288
Telephone	6,391	5,828
Postage/shipping	2,943	3,050
Office supplies	3,870	2,879
Copier lease fees	4,623	3,691
Newsletter postage fee	2,099	1,870
Real estate taxes	5,703	5,931
Drainage taxes	927	937
Miscellaneous administrative expenses	5,404	4,972
Capital expenses	9,100	-
Bad debt expense	-	30,554
Property insurance	10,161	8,453
Umbrella insurance	1,897	1,500
Directors errors and omission insurance	1,746	1,644
Crime insurance	731	731
Inland marine insurance	1,315	1,357
Workman's compensation insurance	1,933	2,040
Depreciation expense	124,062	115,227
Merchant deposit fees	900	-
Total administrative and general	\$ 265,392	\$ 290,723
Beautification committee expenses		
Common area supplies	\$ 1,074	\$ 683
Total beautification committee	\$ 1,074	\$ 683

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Security committee expenses		
Security wages	\$ 30,064	\$ 28,524
FICA	2,300	2,199
State unemployment	324	905
Federal unemployment	126	118
Vehicle fuel expense	3,912	2,817
Vehicle maintenance	1,415	1,522
Vehicle insurance	863	1,124
Vehicle licenses and fees	200	155
Monitoring fees	3,389	5,104
Gate maintenance and repair	3,791	656
Telephone	981	987
Clothing and supplies	330	195
Security expense	823	346
	<u>823</u>	<u>346</u>
Total security committee	<u>\$ 48,518</u>	<u>\$ 44,652</u>
Fishing committee expenses		
Fishing club - restocking fund	\$ 18,000	\$ 18,000
	<u>18,000</u>	<u>18,000</u>
Total fishing committee	<u>\$ 18,000</u>	<u>\$ 18,000</u>
Activities committee expenses		
Activity department wages	\$ 18,270	\$ 490
FICA	1,391	37
State unemployment	126	15
Federal unemployment	111	11
Clothing and supplies	6,807	1,709
Telephone	935	926
Advertising	91	21
Outside services	4,183	350
Swimming pool supplies and chemicals	3,390	-
Swimming pool maintenance	4,625	3,264
Janitorial supplies	1,174	2,019
Capital expense	947	193
Licenses and fees	1,825	2,140
	<u>1,825</u>	<u>2,140</u>
Total activities committee	<u>\$ 43,875</u>	<u>\$ 11,175</u>

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Maintenance committee expenses		
Maintenance Wages	\$ 91,867	\$ 83,350
FICA	7,084	6,369
State unemployment	648	1,235
Federal unemployment	130	131
Vehicle insurance	1,151	1,904
Fuel	4,619	3,452
Truck and equipment repairs and maintenance	6,853	11,590
Water	179,160	153,596
Water system repair	13,751	12,736
Sewer	180,842	175,181
Sewer repairs	14,700	22,755
Refuse removal	73,254	72,361
Road maintenance	95,167	13,481
Snow removal	26,058	15,252
Weed boat maintenance and repair	849	366
Nature trail and EV boat ramp	7,100	6,500
Maintenance tools	1,726	712
Garage maintenance and repairs	1,147	481
Telephone	1,187	1,042
General maintenance and repairs	10,487	12,098
Licenses and fees	154	-
Clothing and personal gear	305	386
Community center repair and maintenance	652	2,532
Erosion abatement	6,923	19,500
Tree removal	8,675	5,050
Chemical weed removal treatment	8,690	9,185
Propane and heat	7,332	3,816
Electricity	19,464	17,439
Community center electricity	1,647	1,642
Community center heat	1,114	1,163
Outside janitorial service	9,537	9,512
Amenity center maintenance and repair	1,142	2,945
	<u>\$ 783,415</u>	<u>\$ 667,762</u>
Total maintenance committee	\$ 783,415	\$ 667,762