

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

Audit of Financial Statements

**As of and for the years ended
December 31, 2022 and 2021**

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, 2022 and 2021, 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, 2022 and 2021, 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 10, 2023

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Balance Sheet
As of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 275,944	\$ 137,144
Reserved cash	1,007	1,007
Reserved investments	279,642	164,552
Accounts receivable, net	26,132	55,961
Prepaid expenses	1,269	1,269
Property and equipment, net	<u>1,663,091</u>	<u>1,765,627</u>
Total assets	<u><u>\$ 2,247,085</u></u>	<u><u>\$ 2,125,560</u></u>
Liabilities		
Accounts payable and accrued expenses	\$ 240,775	\$ 11,359
Long-term debt - amount due within one year	13,188	11,654
Other liabilities	73,125	83,463
Long-term debt - amount due after one year	<u>15,788</u>	<u>25,310</u>
Total liabilities	342,876	131,786
Members' equity	<u>1,904,209</u>	<u>1,993,774</u>
Total liabilities and members' equity	<u><u>\$ 2,247,085</u></u>	<u><u>\$ 2,125,560</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenue:		
Dues revenue	\$ 1,114,050	\$ 1,077,528
Fees charged	18,571	20,315
Violation and penalties income	26,992	24,771
Miscellaneous income	30,212	28,911
Total revenue	<u>1,189,825</u>	<u>1,151,525</u>
Expenses:		
Administrative and general	271,689	265,392
Beautification committee	3,315	1,074
Security committee	52,935	48,518
Fishing committee	18,000	18,000
Activities committee	46,763	43,875
Maintenance committee	896,737	783,415
Total expenses	<u>1,289,439</u>	<u>1,160,274</u>
Other income (expense):		
Interest income	699	348
Rent income	9,350	11,050
Gain/loss on disposal of assets	-	(7,285)
Income tax expense	-	(331)
Other income (expense), net	<u>10,049</u>	<u>3,782</u>
Excess of revenues over expenses	(89,565)	(4,967)
Members' equity, beginning	<u>1,993,774</u>	<u>1,998,741</u>
Members' equity, end of year	<u>\$ 1,904,209</u>	<u>\$ 1,993,774</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ (89,565)	\$ (4,967)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	127,119	124,062
Bad debt expense	18,269	-
(Gain) loss on disposition of assets	-	7,285
Net (increase) decrease in accounts receivable and prepaid expenses	11,560	(7,826)
Net increase (decrease) in accounts payable and other liabilities	219,078	11,880
Net cash provided (used) by operating activities	<u>286,461</u>	<u>130,434</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(24,583)</u>	<u>(119,207)</u>
Net cash provided (used) by investing activities	<u>(24,583)</u>	<u>(119,207)</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(7,988)</u>	<u>(10,820)</u>
Net cash provided (used) by financing activities	<u>(7,988)</u>	<u>(10,820)</u>
Net increase (decrease) in cash and cash equivalents	253,890	407
Cash, beginning of year	<u>302,703</u>	<u>302,296</u>
Cash, end of year	<u>\$ 556,593</u>	<u>\$ 302,703</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 275,944	\$ 137,144
Reserved cash	1,007	1,007
Reserved investments	279,642	164,552
	<u>\$ 556,593</u>	<u>\$ 302,703</u>
Supplementary cash flow information		
Income taxes paid	<u>\$ -</u>	<u>\$ 1,200</u>
Supplementary Schedule of Noncash Financing And Investing Activities		
Acquisition of equipment financed directly	<u>\$ -</u>	<u>\$ 11,271</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, 2022 and 2021**

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
(An Illinois Homeowner's Association)
Notes to the Financial Statements
As of and for the years ended December 31, 2022 and 2021**

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. Other income is exempt from Topic 606.

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.

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, 2022 and December 31, 2021 the Association has elected to be taxed as a Homeowners' Association. Federal income taxes of \$0 and \$245 and Illinois income taxes of \$0 and \$86 were expensed for the years ended December 31, 2022 and December 31, 2021, respectively, based on the excess of non-membership income over non-membership expenses.

Tax returns for years ended December 31, 2018 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, 2022 and 2021

Note 2 – Summary of Significant Accounting Policies (Continued)

New Accounting Standard

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (ROU) assets and lease liabilities for operating leases on the balance sheet.

The Association adopted Topic 842 effective January 1, 2022 using a modified retrospective transition method with the effective date of initial application. The Association elected to use all available practical expedients provided in the transition guidance. In addition, the Association adopted ongoing accounting policies to not recognize right-of-use (ROU) assets and lease liabilities for leasing arrangements with terms of less than one year. Adoption of the new standard did not materially impact the balance sheet, net income, or cash flows.

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 \$326 to \$2,040 during the year ending December 31, 2022 and \$320 to \$2,000 during the year ending December 31, 2021.

The Association reviews outstanding receivables for collectability and establishes a reserve for uncollectible amounts when deemed necessary. Accounts receivable were \$26,132 and \$55,961 as of December 31, 2022 and 2021 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>2022</u>	<u>2021</u>
Land	\$ 75,000	\$ 75,000
Building and land improvements	2,576,132	2,576,132
Transportation equipment	155,057	144,387
Office and other equipment	<u>164,192</u>	<u>150,279</u>
	2,970,381	2,945,798
Less: accumulated depreciation	<u>(1,307,290)</u>	<u>(1,180,171)</u>
	<u>\$ 1,663,091</u>	<u>\$ 1,765,627</u>

**Shadow Lakes II Association
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 Notes to the Financial Statements
 As of and for the years ended December 31, 2022 and 2021**

Note 4 – Property and Equipment (Continued)

Depreciation expense amounted to \$127,119 and \$124,062 for the years ended December 31, 2022 and December 31, 2021, 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 – Notes Payable

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

	<u>2022</u>	<u>2021</u>
0.00% note payable, due in monthly installments of \$267, including interest, through September 2023, secured by an ExMark Mower	\$ 2,411	\$ 5,574
0.00% note payable, due in monthly installments of \$391, including interest, through June 2026, secured by a Ford F150	16,425	21,118
0.00% note payable, due in monthly installments of \$507, including interest, through August 2024, secured by an ExMark Mower	<u>10,140</u>	<u>10,272</u>
	28,976	36,964
Less current maturities	<u>(13,188)</u>	<u>(11,654)</u>
Net notes payable	<u>\$ 15,788</u>	<u>\$ 25,310</u>

Maturities on long-term debt subsequent to December 31, 2022 are as follows:

2023	\$13,188
2024	8,749
2025	4,693
2026	<u>2,346</u>
Total	<u>\$28,976</u>

Interest paid and reported as expense was \$0 and \$0 for the years ended December 31, 2022 and December 31, 2021, respectively.

**Shadow Lakes II Association
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Notes to the Financial Statements
As of and for the years ended December 31, 2022 and 2021**

Note 7 – Contingencies

The City of Braidwood provides water and sewer services to the Association and homeowners. In 2022 the City determined the Association had been under-billed in prior years and therefore significantly increased the monthly sewer fees. The Association disagrees with the increase and is currently in negotiations with the City regarding this issue. The Association made partial payments on amounts billed and recorded the remainder in accounts payable. As of December 31, 2022, \$229,430 of unpaid sewer fees is recorded in accounts payable. Since negotiations are ongoing, the total amount payable cannot be reasonably estimated at this time. However, the Association has sufficient funds in reserves to cover the accounts payable balance as of the report date.

Note 8 – Subsequent Events

Shadow Lakes II Association has evaluated subsequent events through March 10, 2023, 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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Administrative and general expenses		
Administrative wages	\$ 31,296	\$ 45,297
FICA	2,394	3,410
State unemployment	164	(285)
Federal unemployment	84	126
Computer/website	4,474	1,966
Accounting fee	11,635	10,800
Advertising and promotion	-	900
Payroll services	2,951	3,590
Legal fees	14,340	15,415
Bank fees	1,284	368
Telephone	4,970	6,391
Postage/shipping	1,456	2,943
Office supplies	1,987	3,870
Copier fees	4,918	4,623
Newsletter postage fee	1,715	2,099
Real estate taxes	7,426	5,703
Drainage taxes	2,429	927
Miscellaneous administrative expenses	14,298	5,404
Capital expenses	-	9,100
Bad debt expense	18,269	-
Property insurance	10,161	10,161
Umbrella insurance	1,911	1,897
Directors errors and omission insurance	1,775	1,746
Crime insurance	731	731
Inland marine insurance	64	1,315
Workman's compensation insurance	2,443	1,933
Depreciation expense	127,119	124,062
Merchant deposit fees	1,395	900
	<u>\$ 271,689</u>	<u>\$ 265,392</u>
Beautification committee expenses		
Common area supplies	\$ 3,315	\$ 1,074
	<u>\$ 3,315</u>	<u>\$ 1,074</u>

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Security committee expenses		
Security wages	\$ 29,942	\$ 30,064
FICA	2,373	2,300
State unemployment	222	324
Federal unemployment	126	126
Vehicle fuel expense	5,087	3,912
Vehicle maintenance	704	1,415
Vehicle insurance	883	863
Vehicle licenses and fees	154	200
Monitoring fees	3,981	3,389
Gate maintenance and repair	7,587	3,791
Telephone	662	981
Clothing and supplies	-	330
Security expense	1,214	823
	<u>1,214</u>	<u>823</u>
Total security committee	<u>\$ 52,935</u>	<u>\$ 48,518</u>
Fishing committee expenses		
Fishing club - restocking fund	<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	\$ 17,421	\$ 18,270
FICA	1,244	1,391
State unemployment	118	126
Federal unemployment	98	111
Clothing and supplies	5,362	6,807
Telephone	622	935
Advertising	58	91
Concession supplies	1,356	-
Outside services	7,373	4,183
Swimming pool supplies and chemicals	6,301	3,390
Swimming pool maintenance	3,486	4,625
Janitorial supplies	1,001	1,174
Capital expense	463	947
Licenses and fees	1,860	1,825
	<u>1,860</u>	<u>1,825</u>
Total activities committee	<u>\$ 46,763</u>	<u>\$ 43,875</u>

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2022 and 2021

	2022	2021
Maintenance committee expenses		
Maintenance wages	\$ 98,011	\$ 91,867
FICA	7,515	7,084
State unemployment	267	648
Federal unemployment	133	130
Vehicle insurance	2,526	1,151
Fuel	5,877	4,619
Truck and equipment repairs and maintenance	9,731	6,853
Water	146,039	179,160
Water system repair	10,839	13,751
Sewer	351,565	180,842
Sewer repairs	17,261	14,700
Refuse removal	40,839	73,254
Road maintenance	110,270	95,167
Snow removal	16,146	26,058
Weed boat maintenance and repair	1,186	849
Nature trail and EV boat ramp	1,700	7,100
Maintenance tools	717	1,726
Garage maintenance and repairs	1,402	1,147
Telephone	1,241	1,187
General maintenance and repairs	14,314	10,487
Licenses and fees	154	154
Clothing and personal gear	179	305
Community center repair and maintenance	521	652
Erosion abatement	7,200	6,923
Tree removal	850	8,675
Chemical weed removal treatment	8,830	8,690
Propane and heat	10,083	7,332
Electricity	17,536	19,464
Community center electricity	1,758	1,647
Community center heat	1,627	1,114
Outside janitorial service	9,513	9,537
Amenity center maintenance and repair	907	1,142
Total maintenance committee	\$ 896,737	\$ 783,415

