

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

Audit of Financial Statements

**As of and for the years ended
December 31, 2023 and 2022**

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 sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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 audits 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 audits. 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.

SKDC, P.C.

Bourbonnais, Illinois
April 22, 2024

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Balance Sheet
As of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 617,641	\$ 275,944
Reserved cash	1,057	1,007
Reserved investments	251,608	279,642
Accounts receivable, net of \$0 allowance for credit loss	70,403	26,132
Prepaid expenses	-	1,269
Property and equipment, net	<u>1,646,337</u>	<u>1,663,091</u>
Total assets	<u><u>\$ 2,587,046</u></u>	<u><u>\$ 2,247,085</u></u>
Liabilities		
Accounts payable and accrued expenses	\$ 466,982	\$ 240,775
Long-term debt - amount due within one year	14,202	13,188
Other liabilities	92,939	73,125
Long-term debt - amount due after one year	<u>7,039</u>	<u>15,788</u>
Total liabilities	581,162	342,876
Members' equity	<u>2,005,884</u>	<u>1,904,209</u>
Total liabilities and members' equity	<u><u>\$ 2,587,046</u></u>	<u><u>\$ 2,247,085</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue:		
Dues revenue	\$ 1,210,420	\$ 1,114,050
Fees charged	20,576	18,571
Violation and penalties income	69,895	26,992
Miscellaneous income	19,768	30,212
Total revenue	<u>1,320,659</u>	<u>1,189,825</u>
Expenses:		
Administrative and general	325,284	271,689
Beautification committee	197	3,315
Security committee	63,363	52,935
Fishing committee	18,000	18,000
Activities committee	47,566	46,763
Maintenance committee	<u>792,197</u>	<u>896,737</u>
Total expenses	<u>1,246,607</u>	<u>1,289,439</u>
Other income (expense):		
Interest income	19,158	699
Rent income	10,800	9,350
Gain/loss on disposal of assets	3,312	-
Income tax expense	<u>(5,647)</u>	<u>-</u>
Other income (expense), net	<u>27,623</u>	<u>10,049</u>
Excess of revenues over expenses	101,675	(89,565)
Members' equity, beginning	<u>1,904,209</u>	<u>1,993,774</u>
Members' equity, end of year	<u>\$ 2,005,884</u>	<u>\$ 1,904,209</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 101,675	\$ (89,565)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	130,048	127,119
Credit loss expense	901	18,269
(Gain) loss on disposition of assets	(3,312)	-
Net (increase) decrease in accounts receivable and prepaid expenses	(43,903)	11,560
Net increase (decrease) in accounts payable and other liabilities	246,021	219,078
Net cash provided (used) by operating activities	<u>431,430</u>	<u>286,461</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(109,982)</u>	<u>(24,583)</u>
Net cash provided (used) by investing activities	<u>(109,982)</u>	<u>(24,583)</u>
Cash flows from financing activities:		
Payments on long-term debt	<u>(7,735)</u>	<u>(7,988)</u>
Net cash provided (used) by financing activities	<u>(7,735)</u>	<u>(7,988)</u>
Net increase (decrease) in cash and cash equivalents	313,713	253,890
Cash, beginning of year	<u>556,593</u>	<u>302,703</u>
Cash, end of year	<u>\$ 870,306</u>	<u>\$ 556,593</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 617,641	\$ 275,944
Reserved cash	1,057	1,007
Reserved investments	251,608	279,642
	<u>\$ 870,306</u>	<u>\$ 556,593</u>
Supplementary cash flow information		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Property and equipment trade-in	<u>\$ 3,312</u>	<u>\$ -</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, 2023 and 2022**

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 credit losses. The Association provides for expected credit losses on accounts receivable through a charge to earnings and a credit to valuation allowance based on historical experience, current conditions, and reasonable and supportable forecasts. 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, 2023 and 2022**

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, 2023 and December 31, 2022 the Association has elected to be taxed as a Homeowners' Association. Federal income taxes of \$4,167 and \$0 and Illinois income taxes of \$1,480 and \$0 were expensed for the years ended December 31, 2023 and December 31, 2022, respectively, based on the excess of non-membership income over non-membership expenses.

Tax returns for years ended December 31, 2019 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, 2023 and 2022**

Note 2 – Summary of Significant Accounting Policies (Continued)

New Accounting Standards

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-of-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.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities, and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized.

Customer accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that have not been collected by the time the financial statements are available to be issued. The Association adopted Topic 326 as of January 1, 2023. 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.

**Shadow Lakes II Association
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Notes to the Financial Statements
As of and for the years ended December 31, 2023 and 2022**

Note 3 – Member Assessments, Net (Continued)

Annual member assessments for common charges ranged from \$353 to \$2,208 during the year ending December 31, 2023 and \$326 to \$2,040 during the year ending December 31, 2022.

The Association reviews outstanding receivables for collectability and establishes a reserve for uncollectible amounts when deemed necessary. Accounts receivable were \$70,403 and \$26,132 as of December 31, 2023 and 2022 respectively. Both amounts are net of an allowance for credit loss of \$0.

Note 4 – Property and Equipment

Property and equipment consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 75,000	\$ 75,000
Building and land improvements	2,625,053	2,576,132
Transportation equipment	171,101	155,057
Office and other equipment	<u>193,254</u>	<u>164,192</u>
	3,064,408	2,970,381
Less: accumulated depreciation	<u>(1,418,071)</u>	<u>(1,307,290)</u>
	<u>\$ 1,646,337</u>	<u>\$ 1,663,091</u>

Depreciation expense amounted to \$130,048 and \$127,119 for the years ended December 31, 2023 and December 31, 2022, 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>2023</u>	<u>2022</u>
0.00% note payable, due in monthly installments of \$267, including interest, through September 2023, secured by an ExMark Mower	\$ -0-	\$ 2,411
0.00% note payable, due in monthly installments of \$391, including interest, through June 2026, secured by a Ford F150	11,732	16,425
0.00% note payable, due in monthly installments of \$507, including interest, through August 2024, secured by an ExMark Mower	<u>9,509</u>	<u>10,140</u>
	21,241	28,976
Less current maturities	<u>(14,202)</u>	<u>(13,188)</u>
Net notes payable	<u>\$ 7,039</u>	<u>\$ 15,788</u>

**Shadow Lakes II Association
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Notes to the Financial Statements
As of and for the years ended December 31, 2023 and 2022**

Note 6 – Notes Payable (Continued)

Maturities on long-term debt subsequent to December 31, 2023 are as follows:

2024	\$14,202
2025	4,693
2026	<u>2,346</u>
Total	<u>\$21,241</u>

Interest paid and reported as expense was \$0 for the years ended December 31, 2023 and December 31, 2022.

Note 7 – Subsequent Events

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. Since June 2022, the Association has paid partial payments on amounts billed and recorded the remainder in accounts payable due to disagreeing with the amounts due. The Association signed an agreement with the City as of March 26, 2024 to settle the dispute. According to the agreement the association owes the City \$452,243 as of December 31, 2023 for sewer and water services provided from May 2022 through December 2023. This amount is included in accounts payable.

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Administrative and general expenses		
Administrative wages	\$ 64,336	\$ 31,296
FICA	4,922	2,394
State unemployment	327	164
Federal unemployment	126	84
Computer/website	2,206	4,474
Accounting fee	12,150	11,635
Payroll services	2,974	2,951
Legal fees	46,014	14,340
Bank fees	665	1,284
Telephone	4,947	4,970
Postage/shipping	3,836	1,456
Office supplies	5,165	1,987
Copier fees	5,454	4,918
Newsletter postage fee	2,388	1,715
Real estate taxes	6,143	7,426
Drainage taxes	2,382	2,429
Miscellaneous administrative expenses	12,257	14,298
Credit loss expense	901	18,269
Property insurance	8,542	10,161
Umbrella insurance	2,042	1,911
Directors errors and omission insurance	1,775	1,775
Crime insurance	927	731
Inland marine insurance	1,069	64
Workman's compensation insurance	2,084	2,443
Depreciation expense	130,048	127,119
Merchant deposit fees	1,604	1,395
	<u>\$ 325,284</u>	<u>\$ 271,689</u>
Beautification committee expenses		
Common area supplies	<u>\$ 197</u>	<u>\$ 3,315</u>
	<u>\$ 197</u>	<u>\$ 3,315</u>

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Security committee expenses		
Security wages	\$ 32,579	\$ 29,942
FICA	2,502	2,373
State unemployment	259	222
Federal unemployment	137	126
Vehicle fuel expense	3,435	5,087
Vehicle maintenance	1,660	704
Vehicle insurance	2,707	883
Vehicle licenses and fees	154	154
Monitoring fees	4,967	3,981
Gate maintenance and repair	12,581	7,587
Telephone	666	662
Security expense	1,716	1,214
	<u>1,716</u>	<u>1,214</u>
Total security committee	<u>\$ 63,363</u>	<u>\$ 52,935</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	\$ 18,874	\$ 17,421
FICA	1,454	1,244
State unemployment	162	118
Federal unemployment	114	98
Clothing and supplies	6,033	5,362
Telephone	20	622
Advertising	72	58
Concession supplies	1,568	1,356
Outside services	7,441	7,373
Swimming pool supplies and chemicals	5,305	6,301
Swimming pool maintenance	1,714	3,486
Janitorial supplies	1,542	1,001
Capital expense	1,153	463
Licenses and fees	2,114	1,860
	<u>2,114</u>	<u>1,860</u>
Total activities committee	<u>\$ 47,566</u>	<u>\$ 46,763</u>

Shadow Lakes II Association
(An Illinois Homeowner's Association)
Schedule of Expenses
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Maintenance committee expenses		
Maintenance wages	\$ 100,397	\$ 98,011
FICA	7,660	7,515
State unemployment	330	267
Federal unemployment	352	133
Vehicle insurance	1,587	2,526
Fuel	4,848	5,877
Truck and equipment repairs and maintenance	6,671	9,731
Water	157,434	146,039
Water system repair	12,476	10,839
Sewer	278,719	351,565
Sewer repairs	16,220	17,261
Refuse removal	40,482	40,839
Road maintenance	97,045	110,270
Snow removal	1,000	16,146
Weed boat maintenance and repair	1,004	1,186
Nature trail and EV boat ramp	-	1,700
Maintenance tools	914	717
Garage maintenance and repairs	2,508	1,402
Telephone	1,458	1,241
General maintenance and repairs	10,822	14,314
Licenses and fees	154	154
Clothing and personal gear	492	179
Community center repair and maintenance	1,265	521
Erosion abatement	-	7,200
Tree removal	5,575	850
Chemical weed removal treatment	-	8,830
Propane and heat	10,060	10,083
Electricity	16,374	17,536
Community center electricity	1,809	1,758
Community center heat	1,837	1,627
Outside janitorial service	9,750	9,513
Amenity center maintenance and repair	2,954	907
	<u>\$ 792,197</u>	<u>\$ 896,737</u>
Total maintenance committee		

