

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

**Audit of Financial Statements**

**As of and for the years ended  
December 31, 2024 and 2023**

**Shadow Lakes II Association**  
**(An Illinois Homeowner's Association)**  
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**As of and for the years ended December 31, 2024 and 2023**

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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, 2024 and 2023, 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, 2024 and 2023, 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.

#### **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.

Management has omitted certain information related to future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the omitted information.

SKDO, P.C.

Bourbonnais, Illinois  
June 19, 2025

**Shadow Lakes II Association**  
**(An Illinois Homeowner's Association)**  
**Balance Sheet**  
**As of December 31, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 152,127	\$ 617,641
Reserved cash	49,644	16,596
Reserved investments	196,107	236,069
Accounts receivable, net of \$0 allowance for credit loss	73,753	70,403
Property and equipment, net	1,624,585	1,646,337
<b>Total assets</b>	<b>\$ 2,096,216</b>	<b>\$ 2,587,046</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 60,826	\$ 466,982
Long-term debt - amount due within one year	19,247	14,202
Other liabilities	106,441	92,939
Long-term debt - amount due after one year	15,408	7,039
<b>Total liabilities</b>	<b>201,922</b>	<b>581,162</b>
<b>Members' equity</b>	<b>1,894,294</b>	<b>2,005,884</b>
<b>Total liabilities and members' equity</b>	<b>\$ 2,096,216</b>	<b>\$ 2,587,046</b>

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, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
Revenue:		
Dues revenue	\$ 1,345,622	\$ 1,210,420
Fees charged	20,658	20,576
Violation and penalties income	70,703	69,895
Miscellaneous income	20,654	19,768
Total revenue	<u>1,457,637</u>	<u>1,320,659</u>
Expenses:		
Administrative and general	413,898	325,284
Beautification committee	910	197
Security committee	64,548	63,363
Fishing committee	20,048	18,000
Activities committee	49,122	47,566
Maintenance committee	<u>1,052,478</u>	<u>792,197</u>
Total expenses	<u>1,601,004</u>	<u>1,246,607</u>
Other income (expense):		
Interest income	29,758	19,158
Rent income	10,800	10,800
Gain/loss on disposal of assets	(835)	3,312
Income tax expense	<u>(7,946)</u>	<u>(5,647)</u>
Other income (expense), net	<u>31,777</u>	<u>27,623</u>
Excess (deficiency) of revenues over expenses	(111,590)	101,675
Members' equity, beginning	<u>2,005,884</u>	<u>1,904,209</u>
Members' equity, end of year	<u><u>\$ 1,894,294</u></u>	<u><u>\$ 2,005,884</u></u>

See accompanying notes and independent accountant's audit report.

**Shadow Lakes II Association**  
**(An Illinois Homeowner's Association)**  
**Statement of Cash Flows**  
**For the years ended December 31, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
<b>Cash flows from operating activities:</b>		
Excess (deficiency) of revenues over expenses	\$ (111,590)	\$ 101,675
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	140,208	130,048
Credit loss expense	33,545	901
(Gain) loss on disposition of assets	835	(3,312)
Net (increase) decrease in accounts receivable and prepaid expenses	(36,895)	(43,903)
Net increase (decrease) in accounts payable and other liabilities	(392,654)	246,021
Net cash provided (used) by operating activities	<u>(366,551)</u>	<u>431,430</u>
<b>Cash flows from investing activities:</b>		
Purchases of certificates of deposit	(196,107)	(236,069)
Maturities of certificates of deposit	236,069	135,471
Purchase of property and equipment	(89,756)	(109,982)
Net cash provided (used) by investing activities	<u>(49,794)</u>	<u>(210,580)</u>
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(16,121)	(7,735)
Net cash provided (used) by financing activities	<u>(16,121)</u>	<u>(7,735)</u>
Net increase (decrease) in cash and cash equivalents	(432,466)	213,115
Cash, beginning of year	<u>634,237</u>	<u>421,122</u>
Cash, end of year	<u><u>\$ 201,771</u></u>	<u><u>\$ 634,237</u></u>
<b>Cash and cash equivalents consist of:</b>		
Cash and cash equivalents	\$ 152,127	\$ 617,641
Reserved cash	49,644	16,596
	<u><u>\$ 201,771</u></u>	<u><u>\$ 634,237</u></u>
<b>Supplementary cash flow information</b>		
Income taxes paid	<u><u>\$ 7,078</u></u>	<u><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, 2024 and 2023**

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**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.

There is no policy or requirement to fund future repairs and replacements. The board annually determines the portion of the budget intended for reserves. These funds are being accumulated based on estimated future and current costs. Actual expenditures may vary from these estimates, and those variances may be material. Future major repairs and replacements can be funded by special assessments, at the discretion of the board.

*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.

The Association has title to all reported property, equipment, and land improvements and all of these assets are common property of the Association. No study has been conducted to estimate the remaining useful lives of property or the costs of future major repairs and replacements.



**Shadow Lakes II Association  
(An Illinois Homeowner's Association)  
Notes to the Financial Statements  
As of and for the years ended December 31, 2024 and 2023**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

*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.

*Revenues*

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, 2024 and December 31, 2023 the Association has elected to be taxed as a Homeowners' Association. Federal income taxes of \$5,836 and \$4,167 and Illinois income taxes of \$2,110 and \$1,480 were expensed for the years ended December 31, 2024 and December 31, 2023, respectively, based on the excess of non-membership income over non-membership expenses.

Tax returns for years ended December 31, 2020 and prior are closed from tax assessments under the Internal Revenue Service statute of limitations.

**Shadow Lakes II Association  
(An Illinois Homeowner's Association)  
Notes to the Financial Statements  
As of and for the years ended December 31, 2024 and 2023**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

*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.

*Leases*

The Association's leases are accounted for in accordance with FASB's Topic 842, Leases. Leases with an initial term of 12 months or less do not qualify under Topic 842 and therefore are not recorded on the balance sheet. Rent payments for those leases that do not qualify under Topic 842 are expensed as incurred. Rent income received is recorded as rental income in the period it is received.

*Financial Instruments-Credit Losses*

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. The Association adopted these ASUs effective 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, loan payments, and capital acquisitions. Any excess assessments at year-end are retained by the Association for use in subsequent years.

Annual member assessments for common charges ranged from \$390 to \$2,440 during the year ended December 31, 2024 and \$353 to \$2,208 during the year ended December 31, 2023.

The Association reviews outstanding receivables for collectability and establishes a reserve for uncollectible amounts when deemed necessary. Accounts receivable were \$73,753 and \$70,403 as of December 31, 2024 and 2023 respectively. Both amounts are net of an allowance for credit loss of \$0.

**Shadow Lakes II Association**  
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**Notes to the Financial Statements**  
**As of and for the years ended December 31, 2024 and 2023**

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**Note 4 – Property and Equipment**

Property and equipment consists of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 75,000	\$ 75,000
Building and land improvements	2,690,739	2,625,053
Transportation equipment	207,856	171,101
Office and other equipment	<u>197,469</u>	<u>193,254</u>
	3,171,064	3,064,408
Less: accumulated depreciation	<u>(1,546,479)</u>	<u>(1,418,071)</u>
	<u>\$ 1,624,585</u>	<u>\$ 1,646,337</u>

Depreciation expense amounted to \$140,208 and \$130,048 for the years ended December 31, 2024 and December 31, 2023, 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>2024</u>	<u>2023</u>
0.00% note payable, due in monthly installments of \$391, including interest, through June 2026, secured by a Ford F150.	\$ 7,015	\$ 11,732
0.00% note payable, due in monthly installments of \$507, including interest, through December 2025, secured by an ExMark Mower.	4,709	9,509
0.00% note payable, due in monthly installments of \$820, including interest, through April 2027, secured by a Kubota Tractor.	<u>22,931</u>	<u>-0-</u>
	34,655	21,241
Less current maturities	<u>(19,247)</u>	<u>(14,202)</u>
Net notes payable	<u>\$ 15,408</u>	<u>\$ 7,039</u>

Maturities on long-term debt subsequent to December 31, 2024 are as follows:

2025	\$19,247
2026	12,167
2027	<u>3,241</u>
Total	<u>\$34,655</u>

Interest paid and reported as expense was \$0 for the years ended December 31, 2024 and December 31, 2023.

**Shadow Lakes II Association  
(An Illinois Homeowner's Association)  
Notes to the Financial Statements  
As of and for the years ended December 31, 2024 and 2023**

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**Note 7 – Subsequent Events**

Shadow Lakes II Association, has evaluated subsequent events through June 19, 2025, 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, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
<b>Administrative and general expenses</b>		
Administrative wages	\$ 110,227	\$ 64,336
FICA	8,432	4,922
State unemployment	317	327
Federal unemployment	126	126
Computer/website	3,867	2,206
Accounting fee	12,575	12,150
Payroll services	3,901	2,974
Legal fees	35,004	46,014
Bank fees	104	665
Telephone	4,609	4,947
Postage/shipping	3,593	3,836
Office supplies	3,108	5,165
Copier fees	5,867	5,454
Newsletter postage fee	1,886	2,388
Real estate taxes	6,802	6,143
Drainage taxes	2,382	2,382
Miscellaneous administrative expenses	8,081	12,257
Capital expenses	2,767	-
Credit loss expense	33,545	901
Property insurance	9,206	8,542
Umbrella insurance	8,588	2,042
Directors errors and omission insurance	1,396	1,775
Crime insurance	1,044	927
Inland marine insurance	90	1,069
Workman's compensation insurance	3,988	2,084
Depreciation expense	140,208	130,048
Merchant deposit fees	2,185	1,604
<b>Total administrative and general</b>	<b>\$ 413,898</b>	<b>\$ 325,284</b>
<b>Beautification committee expenses</b>		
Common area supplies	\$ 910	\$ 197
<b>Total beautification committee</b>	<b>\$ 910</b>	<b>\$ 197</b>

**Shadow Lakes II Association**  
**(An Illinois Homeowner's Association)**  
**Schedule of Expenses**  
**For the years ended December 31, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
<b>Security committee expenses</b>		
Security wages	\$ 35,864	\$ 32,579
FICA	2,806	2,502
State unemployment	312	259
Federal unemployment	161	137
Vehicle fuel expense	2,762	3,435
Vehicle maintenance	222	1,660
Vehicle insurance	-	2,707
Vehicle licenses and fees	154	154
Monitoring fees	13,661	4,967
Gate maintenance and repair	4,793	12,581
Telephone	668	666
Clothing and supplies	157	-
Security expense	1,159	1,716
Security expense-capital expenses	1,797	-
Security - IL SC deduction	32	-
<b>Total security committee</b>	<b>\$ 64,548</b>	<b>\$ 63,363</b>
<b>Fishing committee expenses</b>		
Fishing club - restocking fund	\$ 20,048	\$ 18,000
<b>Total fishing committee</b>	<b>\$ 20,048</b>	<b>\$ 18,000</b>
<b>Activities committee expenses</b>		
Activity department wages	\$ 19,761	\$ 18,874
FICA	1,492	1,454
State unemployment	166	162
Federal unemployment	117	114
Clothing and supplies	2,131	6,033
Telephone	-	20
Advertising	34	72
Concession supplies	964	1,568
Outside services	5,662	7,441
Swimming pool supplies and chemicals	6,471	5,305
Swimming pool maintenance	4,976	1,714
Janitorial supplies	1,854	1,542
Capital expense	3,283	1,153
Licenses and fees	2,211	2,114
<b>Total activities committee</b>	<b>\$ 49,122</b>	<b>\$ 47,566</b>

**Shadow Lakes II Association**  
**(An Illinois Homeowner's Association)**  
**Schedule of Expenses**  
**For the years ended December 31, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
<b>Maintenance committee expenses</b>		
Maintenance wages	\$ 112,450	\$ 100,397
FICA	8,575	7,660
State unemployment	338	330
Federal unemployment	137	352
Vehicle insurance	2,606	1,587
Fuel	4,871	4,848
Truck and equipment repairs and maintenance	9,018	6,671
Water	211,410	157,434
Water system repair	27,867	12,476
Sewer	360,898	278,719
Sewer repairs	39,188	16,220
Refuse removal	42,770	40,482
Road maintenance	85,341	97,045
Snow removal	8,263	1,000
Weed boat maintenance and repair	10,582	1,004
Nature trail and EV boat ramp	19,668	-
Maintenance tools	2,100	914
Garage maintenance and repairs	615	2,508
Telephone	1,454	1,458
General maintenance and repairs	23,372	10,822
Licenses and fees	154	154
Capital expenses	8,450	-
Clothing and personal gear	303	492
Community center repair and maintenance	786	1,265
Tree removal	14,150	5,575
Chemical weed removal treatment	12,780	-
Propane and heat	7,984	10,060
Electricity	21,018	16,374
Community center electricity	2,549	1,809
Community center heat	1,619	1,837
Beach house maintenance	120	-
Outside janitorial service	9,758	9,750
Amenity center maintenance and repair	1,284	2,954
<b>Total maintenance committee</b>	<b>\$ 1,052,478</b>	<b>\$ 792,197</b>