Independent Auditors’ Report

Board of Directors
Two Worlds-Broadway Residents’ Association
Garland, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Two Worlds-Broadway Residents’ Association, which comprise the Balance Sheet as of December 31, 2017 and the related Statements of Income, Members’ Equity and Cash Flows for the year then ended, and the related Notes to the Financial Statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

420 Throckmorton Street
Suite 200
Fort Worth, Texas 76102-3713
(817) 502-1054
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Two Worlds-Broadway Residents' Association as of December 31, 2017 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted Supplementary Information on Future 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, who considers it to be an essential part of the financial reporting for placing the basic financial statements in the appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by the missing information.

June 7, 2018

[Signature]

Cavanaugh & Company, PLLC
TWO WORLDS-BROADWAY RESIDENTS' ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2017

ASSETS

Cash and Cash Equivalents $ 172,257
Assessments Receivable - Net 10,243
Account Receivable - Other 2,688
Prepaid Insurance 5,932
Foreclosed Property 15,259

Total Assets $ 206,379

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable $ 6,286
Prepaid Assessments 6,220
Storage Deposits 400
Total Liabilities $ 12,906

Replacement Reserves $ 42,154
Unappropriated Members' Equity 151,319
Total Members' Equity $ 193,473

Total Liabilities and
Members' Equity $ 206,379

See Accompanying Notes to Financial Statements
TWO WORLDS-BROADWAY RESIDENTS’ ASSOCIATION
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

INCOME:

Assessments $230,472
Late & Collection Fees 4,316
Recovery on Bad Debt 3,688
Storage Fees 1,215
Interest 403
Other 286
Total Income $240,380

EXPENSES:

Management $6,000
Legal, Audit & Tax Preparation 5,687
Insurance 10,124
Collections 2,990
Administrative 2,713
Water 6,730
Electricity 3,990
Pool & Clubhouse 8,610
Pool Deck 27,640
Painting 65,525
Landscape Maintenance 46,433
Repairs & Maintenance 796
Total Expenses $187,238

Net Income before Contribution to Reserves $53,142

Contribution to Reserves (5,101)

Net Income $48,041

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TWO WORLDS-BROADWAY RESIDENTS' ASSOCIATION
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FOR THE YEAR ENDED DECEMBER 31, 2017

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CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income $ 48,041

Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:

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Write-Offs (1,828)

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Increase (Decrease) in:
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Prepaid Assessments (1,508)

Net Cash Flows From Operating Activities $ 51,922

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves) $ 5,000
Received from Interest (Reserves) 101
Disbursed from Reserve Expenditures (16,592)
Increase in Foreclosed Property (15,259)

Net Cash Flows From Investing Activities $ (26,750)

Net Change in Cash and Cash Equivalents $ 25,172

Cash and Cash Equivalents at Beginning of Year 147,085

Cash and Cash Equivalents at End of Year $ 172,257

See Accompanying Notes to Financial Statements
TWO WORLDS-BROADWAY RESIDENTS’ ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the State of Texas as a non-profit corporation for the purposes of maintaining and preserving the common property of the association. The Association is located in Garland, Texas and consists of 194 homes. The Association’s Board of Directors administers the association operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) Member Assessments - Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association has lien rights against each home until all dues and assessments are paid, such lien rights being subordinate to governmental and mortgage liens and legal fees associated with foreclosure proceedings. Any excess assessments at year-end are retained by the Association for use in future years.

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D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. In 2017, the Association contributed $5,000 from assessments and $101 from interest earnings to the replacement reserves.

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As of December 31, 2017, the Association had designated $42,154 for replacement reserves. These designated reserves were funded by cash and cash equivalents.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt homeowners association, the Association's net assessment income would be exempt from income tax, but its interest income would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. For 2017, the Association's income taxes were calculated using the exempt method, which resulted in no tax liability.

Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed, currently those are 2015, 2016 and 2017. Management believes that the Association has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

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NOTE 7 - ASSESSMENTS RECEIVABLE - NET:

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Assessments Receivable $ 18,727
Less: Allowance for Doubtful Assessments (8,484)
Assessments Receivable - Net $ 10,243

NOTE 8 - COMMITMENTS:

The Association routinely enters into various contracts with vendors for services. All contracts generally have a one year term and are cancelable with a 30 to 60 day notification by either party.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 7, 2018, the date which the financial statements were available to be issued.

In 2018, the Association continued its painting project.
Communication with Those Charged with Governance
This communication is intended solely for the information and use of management and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

June 7, 2018

Board of Directors
Two Worlds-Broadway Residents' Association
Garland, Texas

Dear Board Members:

We have audited the financial statements of Two Worlds-Broadway Residents' Association for the year then ended December 31, 2017, and have issued our report thereon. Professional standards require that we provide you about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on the management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

The Association’s estimate of the allowance for bad debts is based on member balances and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance for bad debts in determining that it is reasonable in relation to the financial statements taken as a whole.

420 Throckmorton Street
Suite 200
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(817) 502-1054
The Association’s estimate of replacement reserves requirements.

The disclosures in the financial statements are neutral, consistent, and clear.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with the Association or professional management in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjusting journal entries have been provided to management. The journal entries are material, either individually or in the aggregate, to the financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter, a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management and Board of Directors Representations**

We have requested certain representations from the board of directors and professional management that are included in the representation letter.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Association’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Very truly yours,

[Signature]

CAVANAUGH & COMPANY, PLLC
Independent Auditors’ Report

Board of Directors
Two Worlds-Broadway Residents’ Association
Garland, Texas

Report on the Financial Statements

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June 7, 2018

[Signature]

Covarraugh & Company, PLLC
TWO WORLDS-BROADWAY RESIDENTS' ASSOCIATION
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