Goldklang Group®
CPAs, P.C.

Principals
Howard A. Goldklang, CPA, MBA
Donald E. Harris, CPA
Anne M. Sheehan, CPA
S. Gail Moore, CPA

1801 Robert Fulton Drive, Suite 200
Reston, VA 20191

Associate Principals
Jeremy W. Powell, CPA
Renee L. Watson, CPA

Managers
Allison A. Day, CPA
Matthew T. Stiefvater, CPA

Independent Auditor's Report

To the Board of Directors of
3900 Tunlaw Cooperative, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of 3900 Tunlaw Cooperative, Inc., which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of income, stockholders' equity and cash flows for the years 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from 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 auditor's 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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

phone 703 391 9003 fax 703 391 9004 www.GGroupCPAs.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 3900 Tunlaw Cooperative, Inc. as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on page 12 be presented to supplement the basic financial statements. Such 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Goldklang Group CPAs, P.C.

Reston, Virginia
December 11, 2013

3900 TUNLAW COOPERATIVE, INC.
BALANCE SHEETS
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	$ 763,175	$ 697,890
Real Estate Escrow	17,065	36,783
Assessments Receivable	2,958	1,365
Accounts Receivable - Other	1,667	3,686
Prepaid Expenses	9,897	10,833
Land	818,130	818,130
Building	2,968,617	2,968,617
Building Equipment	2,283,019	2,283,019
Exercise Room and Equipment	15,171	15,171
Less: Accumulated Depreciation	(3,855,932)	(3,662,995)
Deferred Financing Costs - Net	4,313	14,160
Total Assets	$ 3,028,080	$ 3,186,659
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts Payable	$ 47,663	$ 235,468
Prepaid Assessments	5,446	8,838
Accrued Real Estate Taxes	26,019	17,471
Mortgage Interest Payable	18,881	18,881
Mortgage Payable	3,285,338	3,356,703
Total Liabilities	$ 3,383,347	$ 3,637,361
Common Stock - 100,000 Shares Authorized, Par Value $1.00 Per Share, 51,267 Shares Issued and Outstanding	$ 51,267	$ 51,267
Less: Treasury Stock	(1,046)	(1,046)
Cooperative Reserves	953,769	809,647
Stockholders' Equity (Deficit)	(1,359,257)	(1,310,570)
Total Stockholders' Equity (Deficit)	$ (355,267)	$ (450,702)
Total Liabilities and Stockholders' Equity	$ 3,028,080	$ 3,186,659

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
INCOME:		
Cooperative Fees	$ 752,878	$ 806,000
Mortgage Fees	295,761	295,900
Real Estate Tax Fees	81,261	28,000
Interest	59	63
Cable Income	1,667	-
Other	31,625	27,551
Total Income	$ 1,163,251	$ 1,157,514
EXPENSES:		
Legal	$ 11,609	$ 5,790
Audit and Tax Preparation	8,050	7,050
Insurance	37,487	35,697
Management	37,693	35,955
Administrative	16,987	18,631
Electricity	73,708	80,735
Gas	42,363	40,995
Water and Sewer	49,184	48,254
Telephone	6,576	6,936
Payroll and Related Costs	84,590	103,033
Repairs and Maintenance	81,849	106,506
Maintenance Service Agreements	91,713	83,853
Licenses and Other	134	1,660
Interest	224,396	228,316
Real Estate Taxes	92,565	64,868
Income Taxes	250	250
Total Expenses	$ 859,154	$ 868,529
Net Income before Contribution to Reserves and Depreciation and Amortization	$ 304,097	$ 288,985
Contribution to Reserves	(150,000)	(150,000)
Depreciation and Amortization	(202,784)	(195,044)
Net Income (Loss)	$ (48,687)	$ (56,059)

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	Common Stock	Treasury Stock	Cooperative Reserves	Stockholders' Equity (Deficit)	Total Stockholders' Equity (Deficit)
Balance as of June 30, 2011	$ 51,267	$ (1,046)	$ 903,471	$ (1,536,591)	$ (582,899)
Addition:					
Contribution to Reserves			200,006		200,006
Inter-Equity Transfer			100,000	(100,000)	
Deductions:					
Boiler			(192,800)	184,000	(8,800)
Chiller			(198,080)	198,080	
Reserve Study			(2,950)		(2,950)
Net Loss				(56,059)	(56,059)
Balance as of June 30, 2012	$ 51,267	$ (1,046)	$ 809,647	$ (1,310,570)	$ (450,702)
Addition:					
Contribution to Reserves			150,000		150,000
Deductions:					
Roof - Engineering Service			(5,878)		(5,878)
Net Loss				(48,687)	(48,687)
Balance as of June 30, 2013	$ 51,267	$ (1,046)	$ 953,769	$ (1,359,257)	$ (355,267)

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (48,687)	$ (56,059)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	202,784	195,044
Decrease (Increase) in:		
Real Estate Escrow	19,718	48,265
Assessments Receivable	(1,593)	(500)
Income Taxes Receivable	-	25
Accounts Receivable - Other	2,019	9,710
Prepaid Expenses	936	(2,250)
Increase (Decrease) in:		
Accounts Payable	4,397	8,338
Prepaid Assessments	(3,392)	8,057
Accrued Real Estate Taxes	8,548	829
Mortgage Interest Payable	-	(727)
Net Cash Flows from Operating Activities	$ 184,730	$ 210,732
CASH FLOWS FROM INVESTING ACTIVITIES:		
Received from Assessments (Reserves)	$ 150,000	$ 150,000
Received from Special Assessments (Reserves)	-	50,006
Disbursed for Reserve Expenditures	(198,080)	(195,750)
Net Cash Flows from Investing Activities	$ (48,080)	$ 4,256
CASH FLOWS FROM FINANCING ACTIVITIES:		
Disbursed for Mortgage Payable	$ (71,365)	$ (66,719)
Net Change in Cash and Cash Equivalents	$ 65,285	$ 148,269
Cash and Cash Equivalents at Beginning of Year	697,890	549,621
Cash and Cash Equivalents at End of Year	$ 763,175	$ 697,890
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid for Interest	$ 224,396	$ 229,042
Cash Paid for Income Taxes	$ 250	$ 225

See Accompanying Notes to Financial Statements

NOTE 1 - NATURE OF OPERATIONS:

The Cooperative was incorporated on November 9, 1978 under the Delaware general corporation law and received cooperative eligibility from the District of Columbia. The purpose of the Cooperative is to own the land and building located at 3900 Tunlaw Road, N.W., Washington, D.C. and to provide homes for its shareholders by leasing apartments to them under proprietary leases. The Cooperative consists of 100 units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The Cooperative follows the accrual method of accounting, whereby revenues are recognized when earned and expenses as incurred, not necessarily when received or paid. As the Cooperative makes payments against the principal of the permanent mortgage, shareholders' equity is increased accordingly.

B) Member Assessments - Cooperative members are subject to assessments to provide funds for the shareholders' operating expenses, future capital acquisitions, debt retirement and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from shareholders. The Cooperative policy is to retain legal counsel and take legal action against shareholders whose assessments are delinquent. Any excess assessments at year-end are retained by the Cooperative for use in future years. The Cooperative utilizes the allowance method of accounting for bad debt.

C) Depreciation - The cost of land and building includes the applicable fees, title insurance, transfer tax and related costs paid at settlement on March 22, 1979. The appraisal values of the land and improvements by the District of Columbia real estate tax assessor were used to allocate the cost between the land and the building. The building is depreciated over thirty-five years beginning March 23, 1979 using the straight-line depreciation method. Other Cooperative property is being depreciated on a straight-line basis over estimated useful lives of five to forty years.

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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Cooperative considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F) Amortization - The Cooperative's financing costs are being amortized over the term of the mortgage using the straight-line method

NOTE 3 - COOPERATIVE RESERVES:

The Cooperative's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

The Cooperative had a replacement reserve study conducted by Miller Dodson Associates, Inc. in 2012. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the study.

The study recommends a contribution to reserves of $139,360 for fiscal year 2013. For fiscal year 2013, the Cooperative budgeted to contribute $150,000 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for replacement of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors on behalf of the Cooperative may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of June 30, 2013 and 2012, the Cooperative had designated $953,769 and $809,647, respectively, for replacement reserves. These designated reserves were not fully funded by cash and cash equivalents as of June 30, 2013.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Cooperative files as a nonexempt cooperative under subchapter T (IRC Sections 1381-1388). The Cooperative's income is allocated between patronage and non-patronage income. Non-patronage income, such as rental income and other third party income, is considered taxable at the normal corporate rates. Income derived from shareholders and interest income is considered patronage income. Under certain circumstances, patronage income may be returned to shareholders through patronage dividends.

NOTE 4 - INCOME TAXES: (CONTINUED)

The Cooperative's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended June 30, 2013 and 2012, the Cooperative did not incur any penalties and interest related to income taxes. The Cooperative's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the District of Columbia.

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of June 30, 2013, the Cooperative had maintained its funds in the following manner:

Institution	Type Account	Cash and Cash Equivalents
Union Bank	Checking	$ 63,675
Morgan Stanley Smith Barney	Money Fund	1,193
Morgan Stanley Smith Barney	Money Fund	698,307
	Total	$ 763,175

The Cooperative has funds maintained in two Morgan Stanley Smith Barney money funds. Although the value per share of these accounts has not changed since they were opened and their goal is to maintain a share value of $1, these accounts are subject to market fluctuation risk. Therefore, the market fluctuation risk as of June 30, 2013 and 2012 was $699,500 and $613,924, respectively.

Cash and securities accounts at certain financial institutions are insured by the SIPC for up to $500,000. Amounts in excess of insured limits were approximately $199,500 and $113,924 as of June 30, 2013 and 2012, respectively.

NOTE 6 - DEFERRED FINANCING COSTS - NET:

Deferred financing costs represent permanent financing fees and are amortized over the life of the mortgage. During 2005, the remaining deferred financing costs on the 1997 mortgage were written off, and costs associated with the new mortgage were recorded as deferred financing costs.

	2013	2012
Deferred Financing Costs	$ 98,471	$ 98,471
Less: Accumulated Amortization	(94,158)	(84,311)
Deferred Financing Costs - Net	$ 4,313	$ 14,160

NOTE 7 - MORTGAGE PAYABLE:

On December 12, 2003, the Cooperative refinanced its master mortgage with a new mortgage issued by John Hancock Mutual Life Insurance Company. The Cooperative borrowed an additional $1,337,319 to fund repairs and renovations to the building. The principal amount was $3,800,000 at an interest rate of 6.75% per annum over a term of 10 years. Beginning on February 1, 2005, the monthly payments were $24,647. The remaining balance will be due on January 1, 2014. The Cooperative intends to refinance the mortgage.

The future principal payments are as follows:

2014	$ 3,285,338

NOTE 8 - STOCKHOLDERS' EQUITY (DEFICIT):

Due to the nature of not-for-profit housing cooperatives, a deficit in equity will naturally occur because of the faster depreciation of the building compared to the principal curtailment associated with the debt.

As of June 30, 2013 and 2012, the stockholders' deficit balance was $1,359,257 and $1,310,570, respectively.

NOTE 9 - SPECIAL ASSESSMENT:

The Cooperative passed a special assessment of $50,000 to fund a portion of the cost of the boiler replacement. The special assessment equaled to $500 per share, due either in full in July 2011 or in five monthly payments beginning July 2011. As of June 30, 2012, the Cooperative charged and collected $50,006 for the special assessment and contributed these funds to replacement reserves.

NOTE 10 - PAYROLL AND RELATED COSTS:

The Cooperative's management agent utilizes a central management payroll system, whereby payroll returns were filed under the management agent's name and federal identification number. In addition to the payment of management fees, the Cooperative reimbursed management for wages, payroll taxes, workers' compensation and health insurance for employees that performed work for the Cooperative.

NOTE 11 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through December 11, 2013, the date the financial statements were available to be issued.

Subsequent to year end, the Cooperative entered into a contract for roof replacement at a total cost of $382,604. The project will be funded through cooperative reserves.

In addition, the Cooperative refinanced the mortgage payable of $4,000,000 at an interest of 4.5% per annum with Columbia National Real Estate Finance, LLC effective February 1, 2014. The maturity date is January 1, 2029. The Cooperative is responsible for monthly payments of $41,781 effective February 1, 2014.

3900 TUNLAW COOPERATIVE, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
JUNE 30, 2013
(UNAUDITED)

The Cooperative had a replacement reserve study conducted by Miller Dodson Associates Inc., in 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Cooperative's replacement reserve study and presents significant information about the components of common property.

Component	2012 Estimated Remaining Useful Life (Years)	2012 Estimated Replacement Cost
Site Components	4-19	$ 73,720
Concrete Components	0-36	33,873
Retaining Wall	7-37	59,500
Building Exterior	0-23	996,982
Building Interiors	0-32	303,793
Parking Garage	2-18	15,285
Building System	0-39	844,950
Elevators & Piping	0-40	906,000