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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, 2014 and 2013, 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.

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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, 2014 and 2013, 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 13 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
November 25, 2014

3900 TUNLAW COOPERATIVE, INC.
BALANCE SHEETS
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash and Cash Equivalents	$ 1,203,310	$ 763,175
Real Estate and Insurance Escrows	45,640	17,065
Assessments Receivable	3,141	2,958
Income Taxes Receivable	1,025	-
Accounts Receivable - Other	-	1,667
Prepaid Expenses	22,613	9,897
Land	818,130	818,130
Building	2,968,617	2,968,617
Building Equipment	2,655,840	2,283,019
Exercise Room and Equipment	15,171	15,171
Less: Accumulated Depreciation	(4,031,675)	(3,855,932)
Deferred Financing Costs - Net	88,811	4,313
Total Assets	$ 3,790,623	$ 3,028,080
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts Payable	$ 61,067	$ 47,663
Prepaid Assessments	9,384	5,446
Accrued Real Estate Taxes	26,809	26,019
Deferred Marketing Commission	6,500	-
Mortgage Interest Payable	14,705	18,881
Mortgage Payable	3,921,414	3,285,338
Total Liabilities	$ 4,039,879	$ 3,383,347
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	759,108	953,769
Stockholders' Equity (Deficit)	(1,058,585)	(1,359,257)
Total Stockholders' Equity (Deficit)	$ (249,256)	$ (355,267)
Total Liabilities and Stockholders' Equity	$ 3,790,623	$ 3,028,080

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
INCOME:		
Cooperative Fees	$ 734,140	$ 752,878
Mortgage Fees	331,479	295,761
Real Estate Tax Fees	99,999	81,261
Interest	321	59
Marketing Commission	1,833	1,667
Other	31,650	31,625
Total Income	$ 1,199,422	$ 1,163,251
EXPENSES:		
Legal	$ 15,342	$ 11,609
Audit and Tax Preparation	8,150	8,050
Insurance	38,857	37,487
Management	38,894	37,693
Administrative	18,412	16,987
Electricity	81,647	73,708
Gas	44,929	42,363
Water and Sewer	50,371	49,184
Telephone	6,916	6,576
Payroll and Related Costs	103,153	84,590
Repairs and Maintenance	86,365	81,849
Maintenance Service Agreements	112,969	91,713
Licenses and Other	2,018	134
Interest	198,004	224,396
Real Estate Taxes	95,947	92,565
Income Taxes	250	250
Total Expenses	$ 902,224	$ 859,154
Net Income before Contribution to Reserves and Depreciation and Amortization	$ 297,198	$ 304,097
Contribution to Reserves	(150,000)	(150,000)
Depreciation and Amortization	(184,731)	(202,784)
Net Income (Loss)	$ (37,533)	$ (48,687)

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Common Stock	Treasury Stock	Cooperative Reserves	Stockholders' Equity (Deficit)	Total Stockholders' Equity (Deficit)
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)
Addition:					
Contribution to Reserves			150,000		150,000
Inter-Equity Transfer			34,615	(34,615)	
Deductions:					
Canopies			(2,482)		(2,482)
Roof - Engineering Service			(16,466)	16,466	
Roof Replacement			(356,354)	356,354	
Window Replacement - Engineering Service			(3,974)		(3,974)
Net Loss				(37,533)	(37,533)
Balance as of June 30, 2014	$ 51,267	$ (1,046)	$ 759,108	$ (1,058,585)	$ (249,256)

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (37,533)	$ (48,687)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	184,731	202,784
Decrease (Increase) in:		
Real Estate and Insurance Escrows	(28,575)	19,718
Assessments Receivable	(183)	(1,593)
Income Taxes Receivable	(1,025)	-
Accounts Receivable - Other	1,667	2,019
Prepaid Expenses	(12,716)	936
Increase (Decrease) in:		
Accounts Payable	(9,225)	4,397
Prepaid Assessments	3,938	(3,392)
Accrued Real Estate Taxes	790	8,548
Deferred Marketing Commission	6,500	-
Mortgage Interest Payable	(4,176)	-
Net Cash Flows from Operating Activities	$ 104,193	$ 184,730
CASH FLOWS FROM INVESTING ACTIVITIES:		
Received from Assessments (Reserves)	$ 150,000	$ 150,000
Disbursed for Reserve Expenditures	(356,649)	(198,080)
Net Cash Flows from Investing Activities	$ (206,649)	$ (48,080)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Received from Mortgage Proceeds	$ 4,000,000	$ -
Disbursed for Mortgage Payable	(3,363,924)	(71,365)
Disbursed for Loan Fees	(93,485)	-
Net Cash Flows from Financing Activities	$ 542,591	$ (71,365)

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(CONTINUED)

	2014	2013
Net Change in Cash and Cash Equivalents	$ 440,135	$ 65,285
Cash and Cash Equivalents at Beginning of Year	763,175	697,890
Cash and Cash Equivalents at End of Year	$ 1,203,310	$ 763,175

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash Paid for Interest	$ 204,641	$ 224,396
Cash Paid for Income Taxes	$ 1,275	$ 250

See Accompanying Notes to Financial Statements

3900 TUNLAW COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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. The board of directors administers the Cooperative's operations.

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 2014. For fiscal year 2014, 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, 2014 and 2013, the Cooperative had designated $759,108 and $953,769, respectively, for replacement reserves. These designated reserves were funded by cash and cash equivalents as of June 30, 2014.

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, 2014 and 2013, 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, 2014, the Cooperative had maintained its funds in the following manner:

Institution	Type Account	Cash and Cash Equivalents
Alliance	Checking	$ 125,752
National Cooperative Bank	Controlled Money Market	297,092
Morgan Stanley	Money Fund	1,048
Morgan Stanley	Money Fund	779,418
	Total	$ 1,203,310

The Cooperative maintains a money market account established to fund various replacement reserve projects. As of June 30, 2014, the balance in the National Cooperative Bank account established for this purpose was $297,092.

The Cooperative has funds maintained in two Morgan Stanley 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, 2014 and 2013 was $780,466 and $699,500, respectively.

Balances at banks are insured by the FDIC for up to $250,000 per financial institution. Amounts in excess of the insured limits were approximately $47,092 and $0 as of June 30, 2014 and 2013, 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 $280,466 and $199,500 as of June 30, 2014 and 2013, respectively.

NOTE 6 - DEFERRED FINANCING COSTS - NET:

Deferred financing costs represent permanent financing fees and are amortized over the life of the mortgage. During fiscal year 2014, the remaining deferred financing costs on the 2003 mortgage were fully amortized, and costs associated with the new mortgage were recorded as deferred financing costs.

	2014	2013
Deferred Financing Costs	$ 93,485	$ 98,471
Less: Accumulated Amortization	(4,674)	(94,158)
Deferred Financing Costs - Net	$ 88,811	$ 4,313

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 of $3,235,794 was refinanced with a new mortgage issued by Columbia National Real Estate Finance, LLC on December 20, 2013. The Cooperative borrowed an additional $632,125 to fund repairs and renovations to the building. The principal amount was $4,000,000 at an interest rate of 4.50% per annum over a term of 15 years. Beginning on February 1, 2014, the monthly payments were $30,600. The mortgage is secured by the land and building. As part of the terms of the borrowing agreement, the Cooperative must maintain operating and replacement reserves equal to at least 10% of the annual operating budget.

The future principal payments are as follows:

2015	$ 194,717
2016	203,662
2017	213,018
2018	222,804
2019	233,040
Thereafter	2,854,173
Total	$ 3,921,414

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, 2014 and 2013, the stockholders' deficit balance was $1,058,585 and $1,359,257, respectively.

NOTE 9 - DEFERRED MARKETING COMMISSION:

The Cooperative signed a 5 year marketing agreement with a vendor that gives them the non-exclusive right to provide telephone, internet and video services to the Cooperative. As part of the agreement the Cooperative received a marketing commission for a total of $10,000 in March 2014. Upon early termination of the agreement, a proportion of the fee would be due back to vendor based on the terms of the contract. Therefore, this fee has been deferred and will be recognized as portions of the fee become non-refundable to the vendor. As of June 30, 2014, $6,500 remained in the deferred marketing income.

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 November 25, 2014, the date the financial statements were available to be issued.

3900 TUNLAW COOPERATIVE, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
JUNE 30, 2014
(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. The estimated replacement costs presented below 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