Goldklang Group CPAs, P.C.

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Independent Auditor's Report

To the Board of Directors of
Presidential Owners, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Presidential Owners, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, owners' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Presidential Owners, Inc. as of December 31, 2015 and 2014, 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 11 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 22, 2016

PRESIDENTIAL OWNERS, INC.
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and Cash Equivalents	$ 379,053	$ 366,541
Cooperative Fees Receivable	8,353	1,823
Prepaid Expenses	4,902	4,544
Land, Building and Improvements - Net	1,093,389	1,124,951
Total Assets	$ 1,485,697	$ 1,497,859
LIABILITIES AND OWNERS' EQUITY		
Accounts Payable	$ 30,036	$ 18,292
Accrued Real Estate Taxes	26,310	24,680
Prepaid Cooperative Fees	3,904	4,611
Security Deposits	-	375
Total Liabilities	$ 60,250	$ 47,958
Ownership Contracts	$ 1,060,000	$ 1,060,000
Replacement Reserves	201,678	132,921
Retained Earnings	163,769	256,980
Total Owners' Equity	$ 1,425,447	$ 1,449,901
Total Liabilities and Owners' Equity	$ 1,485,697	$ 1,497,859

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
INCOME:		
Cooperative Fees	$ 464,542	$ 459,942
Non-Resident Fees	10,550	10,467
Interest	124	18
Other	368	68
Total Income	$ 475,584	$ 470,495
EXPENSES:		
Payroll and Related Costs	$ 72,068	$ 73,393
Management	23,976	23,508
Insurance	15,674	14,382
Legal, Audit and Tax Preparation	18,285	14,936
Administrative	8,355	12,191
Electricity	29,689	28,615
Gas	20,161	22,737
Water and Sewer	12,480	8,639
Trash Removal	9,961	9,380
Elevator	12,699	12,300
HVAC Maintenance	19,092	18,532
Repairs and Maintenance	117,287	48,960
Real Estate Taxes	98,324	91,404
Depreciation	41,737	41,873
Income Taxes	250	250
Total Expenses	$ 500,038	$ 421,100
Net Income (Loss) before Contribution to Reserves	$ (24,454)	$ 49,395
Contribution to Reserves	(68,757)	(54,317)
Net Income (Loss)	$ (93,211)	$ (4,922)

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF OWNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Ownership Contracts	Replacement Reserves	Retained Earnings	Total Shareholders' Equity
Balance as of December 31, 2013	$ 1,060,000	$ 78,604	$ 261,902	$ 1,400,506
Addition:				
Contribution to Reserves		54,317		54,317
Deduction:				
Net Loss			(4,922)	(4,922)
Balance as of December 31, 2014	$ 1,060,000	$ 132,921	$ 256,980	$ 1,449,901
Addition:				
Contribution to Reserves		68,757		68,757
Deduction:				
Net Loss			(93,211)	(93,211)
Balance as of December 31, 2015	$ 1,060,000	$ 201,678	$ 163,769	$ 1,425,447

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (93,211)	$ (4,922)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	41,737	41,873
Decrease (Increase) in:		
Cooperative Fees Receivable	(6,530)	3,591
Prepaid Expenses	(358)	(375)
Increase (Decrease) in:		
Accounts Payable	11,744	(2,606)
Accrued Real Estate Taxes	1,630	991
Prepaid Cooperative Fees	(707)	2,640
Security Deposits	(375)	-
Net Cash Flows from Operating Activities	$ (46,070)	$ 41,192
CASH FLOWS FROM INVESTING ACTIVITIES:		
Received from Assessments (Reserves)	$ 68,633	$ 54,299
Received from Interest (Reserves)	124	18
Disbursed for Fixed Assets (Operations)	(10,175)	-
Net Cash Flows from Investing Activities	$ 58,582	$ 54,317
Net Change in Cash and Cash Equivalents	$ 12,512	$ 95,509
Cash and Cash Equivalents at Beginning of Year	366,541	271,032
Cash and Cash Equivalents at End of Year	$ 379,053	$ 366,541
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Income Taxes	$ 250	$ 250

See Accompanying Notes to Financial Statements

PRESIDENTIAL OWNERS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - NATURE OF OPERATIONS:

The Cooperative is organized under the laws of the State of Delaware for the purposes of maintaining and preserving the common property of the Cooperative. The Cooperative is located at 1026 16th Street, N.W., Washington, D.C. and consists of 41 residential and three commercial units. The Board of Directors administers the Cooperative's 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) Cooperative Fees - Cooperative members are subject to assessments to provide funds for the Cooperative's operating expenses, future capital acquisitions, and major repairs and replacements. Cooperative fees receivable at the balance sheet date represent fees due from shareholders. The Cooperative's policy is to assess late and interest charges and to retain legal counsel and take legal action against delinquent shareholders. 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 building, improvements and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

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.

F) Reclassification - Certain amounts have been reclassified in the accompanying 2014 financial statements to conform to the 2015 presentation.

NOTE 3 - REPLACEMENT RESERVES:

The Cooperative's governing documents do not require that funds be accumulated for future major repairs and replacements. However, the Cooperative has elected to set aside funds for replacement reserves. Accumulated funds are generally not available for expenditures for normal operations.

The Cooperative's Board of Directors conducted a reserve study during 2011. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study does not recommend any contribution to the reserves for 2015. For 2015, the Cooperative budgeted to contribute $68,633 to reserves. Additionally, the Cooperative contributed interest income of $124 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and 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 December 31, 2015 and 2014, the Cooperative had designated $201,678 and $132,921, respectively, for replacement reserves. These designated reserves were funded by cash and cash equivalents.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Cooperative files as a non-exempt 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. Any excess patronage income is returned to shareholders through patronage dividends. For 2015 and 2014, the Cooperative's financial statements reflect an income tax expense of $250, per year.

The Cooperative's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2015 and 2014, 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 December 31, 2015, the Cooperative maintained its funds in the following manner:

Institution	Type Account	Cash and Cash Equivalents
SunTrust	Checking	$ 94,860
Vanguard Group	Money Fund	284,193
	Total	$ 379,053

The Cooperative has funds maintained in a Vanguard Group money fund. Although the value per share of this account has not changed since it was opened and its goal is to maintain a per share value of $1, this account is subject to market fluctuation risk. Therefore, the market fluctuation risk as of December 31, 2015 and 2014 was $278,469 and $215,435, respectively.

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to $500,000, which includes $250,000 limit for cash. The Cooperative maintains funds in a brokerage account which are subject to SIPC limits.

NOTE 6 - NCB STOCK:

The Cooperative receives patronage dividends from the National Cooperative Bank (NCB) in the form of cash, Class B2 and Class C stock. Because NCB restricts the transferability of the stock and the stock is non-redeemable and not publicly traded, the amount of stock maintained by the Cooperative is not recorded on the financial statements. As of December 31, 2015 and 2014, the Cooperative's NCB Stock totaled $29,693.

NOTE 7 - LAND, BUILDING AND IMPROVEMENTS - NET:

The land, building and improvements are carried at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of seven to fifty years. Depreciation expense was $41,737 and $41,873 for 2015 and 2014, respectively.

	2015	2014
Land	$ 584,113	$ 584,113
Building, Improvements and Equipment	1,552,721	1,542,546
Less: Accumulated Depreciation	(1,043,445)	(1,001,708)
Land, Building and Improvements - Net	$ 1,093,389	$ 1,124,951

NOTE 8 - MANAGEMENT SERVICES:

The Cooperative retains William C. Smith & Company, Inc. (WCS) as its management agent. Additionally, WCS owns its electrical division, District Electrical Service, Inc. and Washington Heating and Cooling. During 2015 and 2014, District Electrical Services, Inc. and Washington Heating and Cooling provided general repair and maintenance services for the Cooperative. The payments for these services during 2015 and 2014 were $8,839 and $15,045, respectively. As of December 31, 2015 and 2014, $560 and $1,188, respectively, were owed to WCS and its maintenance services division.

NOTE 9 - MANAGEMENT PAYROLL REIMBURSEMENTS:

The Cooperative is professionally managed by William C. Smith & Company, Inc. (WCS). WCS 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 WCS for wages, payroll taxes, workers' compensation and health insurance for employees that performed work for the Cooperative during 2015 and 2014. For 2015 and 2014, the Cooperative incurred $337 and $273, respectively, in employer 401k match.

NOTE 10 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through December 22, 2016, the date the financial statements were available to be issued.

The Cooperative budgeted $6,138 for legal fee expenses for 2016. During 2016, the Cooperative incurred $33,619 in legal fee expenses of which $24,324 related to preventing a proposed demolition of a building near the Cooperative.

PRESIDENTIAL OWNERS, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2015
(UNAUDITED)

The Cooperative had a replacement reserve study conducted during 2011 by the board of directors 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	2011 Estimated Remaining Useful Life (Years)	2011 Estimated Replacement Cost
Roof	2-35	$ 487,800
Pavements	2-11	4,000
Decorating	3-13	60,100
Mechanical/Electrical	4-29	1,876,500
Other Property Features	5-10	55,000
Annual Allowance	1	11,500