

COMMONWEALTH TERRACE COOPERATIVE, INC.
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

COMMONWEALTH TERRACE COOPERATIVE, INC.
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JUDD, OSTERMANN & DEMRO, LTD.

Certified Public Accountants

NORTHLAND PLAZA, SUITE 105
3800 AMERICAN BOULEVARD WEST
BLOOMINGTON, MINNESOTA 55431

TELEPHONE: (952) 546-4766
FAX: (952) 546-5059

Offices:

*Bloomington
Faribault
Owatonna*

Thomas V. Judd, CPA
Everett S. Ostermann, CPA
Gary A. Demro, CPA
Alan W. Struss, CPA
Steven R. Bolz, CPA
• • •
James Klein, CPA

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors,
Commonwealth Terrace Cooperative, Inc.

We have audited the accompanying balance sheets of Commonwealth Terrace Cooperative, Inc. as of June 30, 2007 and 2006, and the related statements of revenue and expenses, changes in member's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Terrace Cooperative, Inc. as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with auditing standards generally accepted in the United States of America.

Judd, Ostermann & Demro, Ltd.

February 12, 2008
Bloomington, Minnesota

COMMONWEALTH TERRACE COOPERATIVE INC.
BALANCE SHEETS
JUNE 30, 2007 AND 2006

ASSETS		<u>2007</u>	<u>2006</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	67,630	\$ 241,005
Due from the University		44,103	20,893
Miscellaneous receivables		20,785	23,802
Prepaid expenses		12,288	5,803
Supplies inventory		<u>8,900</u>	<u>8,900</u>
Total current assets		<u>153,706</u>	<u>300,403</u>
RESTRICTED DEPOSITS AND RESERVES			
Investments		<u>943,005</u>	<u>904,569</u>
EQUIPMENT at cost			
Office equipment		52,883	36,621
Maintenance equipment		77,693	91,293
Capital improvements		104,956	104,956
Community Center equipment		34,570	34,101
Accumulated depreciation		<u>(243,660)</u>	<u>(236,482)</u>
Net equipment		<u>26,442</u>	<u>30,489</u>
		<u>\$ 1,123,153</u>	<u>\$ 1,235,461</u>
LIABILITIES AND MEMBERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$	142,462	\$ 158,622
Accrued expenses		21,503	25,175
Security deposits		<u>259,735</u>	<u>258,116</u>
Total current liabilities		<u>423,700</u>	<u>441,913</u>
IMPROVEMENT RESERVES		<u>588,221</u>	<u>682,116</u>
MEMBERS' EQUITY			
Common stock		2,140	2,340
Retained earnings		<u>109,092</u>	<u>109,092</u>
Total members' equity		<u>111,232</u>	<u>111,432</u>
		<u>\$ 1,123,153</u>	<u>\$ 1,235,461</u>

See notes to financial statements.

COMMONWEALTH TERRACE COOPERATIVE INC.
STATEMENTS OF REVENUE AND EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUE		
Management fees and surcharges	\$ 1,731,621	\$ 1,766,655
Vending concessions	29,850	30,000
Late fees and penalties	4,841	1,791
Service fees	10,631	29,009
Investment income and realized losses	60,611	(14,968)
Change in unrealized gain on investments	(14,529)	13,923
Leases and rents	7,520	5,792
Repair charges	3,938	3,607
Miscellaneous	(4,447)	5,541
Transfer from reserves	106,040	163,803
Total revenue	1,936,076	2,005,153
 EXPENSES		
General and administrative	392,864	381,727
Maintenance	685,568	763,698
Utilities	563,197	558,214
Other expenses	294,147	301,214
Income taxes	300	300
Total expenses	1,936,076	2,005,153
Excess of revenue over expenses	\$ -	\$ -

See notes to financial statements.

COMMONWEALTH TERRACE COOPERATIVE INC.
 STATEMENTS OF CHANGES IN MEMBERS' EQUITY
 YEARS ENDED JUNE 30, 2007 AND 2006

	<u>COMMON STOCK</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL MEMBERS' EQUITY</u>
BALANCE, June 30, 2005	\$ 2,400	\$ 109,092	\$ 111,492
Common stock issued	830	-	830
Common stock redeemed	(890)	-	(890)
Excess of revenue over expenses	<u>-</u>	<u>-</u>	<u>-</u>
BALANCE, June 30, 2006	2,340	109,092	111,432
Common stock issued	140	-	140
Common stock redeemed	(340)	-	(340)
Excess of revenue over expenses	<u>-</u>	<u>-</u>	<u>-</u>
BALANCE, June 30, 2007	<u>\$ 2,140</u>	<u>\$ 109,092</u>	<u>\$ 111,232</u>

See notes to financial statements.

COMMONWEALTH TERRACE COOPERATIVE INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ -	\$ -
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	15,210	12,346
Unrealized gain (loss) on investments	14,529	(13,923)
Loss on sale of investments	7,564	14,968
Loss on sale of equipment	6,347	-
(Increase) decrease in:		
Due from the University	(23,210)	(2,220)
Receivables	3,017	63
Prepaid expenses	(6,485)	2,361
Supplies inventory	-	200
Increase (decrease) in:		
Accounts payable	(16,160)	95,800
Accrued expenses	(3,672)	(23,500)
Security deposits	<u>1,619</u>	<u>24,980</u>
Net cash provided (used) by operating activities	<u>(1,241)</u>	<u>111,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(22,511)	(10,442)
Purchase of investments	(504,061)	(803,721)
Sale of investments	443,533	803,849
Proceeds from sale of equipment	<u>5,000</u>	<u>-</u>
Net cash used by investing activities	<u>(78,039)</u>	<u>(10,314)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease to common stock	(200)	(60)
Increase (decrease) in improvement reserves	<u>(93,895)</u>	<u>(66,986)</u>
Net cash used by financing activities	<u>(94,095)</u>	<u>(67,046)</u>
NET INCREASE (DECREASE) IN CASH	(173,375)	33,715
CASH AT BEGINNING OF YEAR	<u>241,005</u>	<u>207,290</u>
CASH AT END OF YEAR	<u>\$ 67,630</u>	<u>\$ 241,005</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 1,822	\$ 3,131
Income taxes paid	1,000	300

See notes to financial statements.

COMMONWEALTH TERRACE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Commonwealth Terrace Cooperative, Inc. is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Cooperative's management, which is responsible for their integrity and objectivity. These accounting policies conform to United States generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Organization

Commonwealth Terrace Cooperative, Inc. (the Cooperative) is a Minnesota corporation providing family rental housing to students who attend the University of Minnesota at its St. Paul campus. Residents may become members of the Cooperative.

Basis of Accounting

The Cooperative uses the accrual basis of accounting whereby revenues are reported when earned and expenses are recognized when they are incurred.

Investments

The Cooperative makes short-term investments in money market funds, mutual funds and government securities funds. The investments are presented in the financial statements at fair market value. Unrealized appreciation or depreciation in the fair value of investments held at year-end is recognized in the statement of revenues and expenses. At June 30, 2007 the market value of investments exceeded cost by \$ 12,462.

Income Taxes

The Cooperative is a non-exempt cooperative and pays income taxes on income not distributed to members and patrons.

Depreciation, for income tax reporting purposes, is computed using allowable accelerated methods and lives. For financial statement purposes, depreciation is computed using the straight-line method over the estimated useful lives. Gain or loss on marketable securities is recorded, for income tax purposes, when the security is sold. Deferred income taxes have not been provided for since financial statement income, after patronage refunds and taxable income, are basically the same.

Security Deposits

Security deposits are received from tenants when they move in. When a tenant moves out, the deposit is refunded with interest, net of any expenses incurred.

Depreciation

Property and equipment is stated at cost of acquisition. Maintenance, repairs, and minor renewals are expensed as incurred. Depreciation is provided for in amounts sufficient to allocate the cost of depreciable assets to operations over their estimated useful lives using the straight line and declining balance methods.

COMMONWEALTH TERRACE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management Agreements

The University of Minnesota owns the housing properties which are operated by the Cooperative under a management agreement. The Cooperative receives a fee for managing the facilities which covers obtaining tenants, hiring employees to maintain the properties, contracting for services, collection of rents and other responsibilities. The Cooperative has no obligation for major renovation and replacement of the housing properties.

The Cooperative also has an agreement to provide bookkeeping services. Under terms of this agreement a fee is paid monthly for these services.

Retirement Plans

The Cooperative had a money purchase pension plan which covered substantially all employees. The Plan was discontinued at June 30, 2006. Pension expense charged to operations at June 30, 2006 was \$11,905. The Cooperative also has a 401(k) savings plan that employees can contribute up to 15 percent of their compensation. The Cooperative contributed \$6,072 to this plan for the year ended June 30, 2007.

Cash and Cash Equivalents

The Cooperative considers all highly liquid investments with an original maturity of three months or less when purchased as cash equivalents. The Cooperative places substantially all of its cash and cash equivalents, with high quality major financial institutions and limits the exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits of \$100,000.

NOTE 2 - CAPITAL STOCK

The authorized capital consists of 10,000 shares of common stock with a par value of \$10 per share and 2,000 shares of preferred nonvoting stock with a par value of \$10 per share. At June 30, 2007 there were 214 shares of common stock outstanding.

NOTE 3 - UNIVERSITY RESERVES

As owners of the land and buildings, the University of Minnesota maintains reserves for major renovation and replacement of the housing properties. The money for these reserves is obtained through rents charged to tenants of the buildings. The reserves are currently funded in accordance with the University's long-term planning.

COMMONWEALTH TERRACE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - IMPROVEMENT RESERVES

Reserves for major expenditures have been established through funds received from the University of Minnesota. The reserves are as follows:

	<u>2007</u>	<u>2006</u>
Utility reserve	\$ 43,800	\$ 149,840
Special utility reserve	12,461	12,461
Maintenance reserve	102,949	102,949
Equipment reserve	10,579	12,992
Playground reserve	32,005	17,447
Snow removal reserve	74,997	74,997
Administrative reserve	86,200	86,200
Vehicle reserve	13,971	13,971
Contingency reserve	51,825	51,825
Heating repair and bathroom remodeling reserve	60,000	60,000
Landscaping reserve	6,000	6,000
FEMA reserve	14,954	14,954
Education reserve	3,900	3,900
Sidewalk reserve	19,000	19,000
Contract mold reserve	4,000	4,000
Section 8 mandated reserve	18,000	18,000
Curb and street repairs reserve	4,000	4,000
Capital improvements reserve	<u>29,580</u>	<u>29,580</u>
	<u>\$ 588,221</u>	<u>\$ 682,116</u>

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Independent Auditor's Supplemental Report

To The Board of Directors
Commonwealth Terrace Cooperative, Inc.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Judd, Ostermann & Demro, Ltd.

February 12, 2008
Bloomington, Minnesota

COMMONWEALTH TERRACE COOPERATIVE INC.
SCHEDULE OF EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
GENERAL AND ADMINISTRATIVE		
Salaries	\$ 135,356	\$ 123,670
Temporary help	17,008	14,710
Payroll taxes	13,578	15,530
Pension benefits	3,054	9,187
Medical benefits	15,035	33,234
Staff support	292	1,406
Office supplies	7,660	8,042
Postage	2,384	1,639
Telephone	11,301	10,006
Professional and consulting services	172,629	150,025
Printing and copying	7,970	7,580
Advertising	<u>6,597</u>	<u>6,698</u>
 Total General and Administrative	 <u>\$ 392,864</u>	 <u>\$ 381,727</u>
 MAINTENANCE		
Salaries	\$ 191,561	\$ 239,017
Payroll taxes	18,095	22,940
Pension benefits	3,019	2,717
Medical benefits	23,762	30,250
Pest control	7,200	8,403
Contract services	80,362	100,216
Contract cleaning	49,215	30,026
Uniforms cleaning	3,402	4,239
Maintenance supplies	83,516	88,410
Recycling and rubbish removal	76,361	72,024
Snow removal	11,604	26,033
Painting contract	64,034	68,964
General maintenance	39,206	45,372
Vehicle expense	7,611	6,236
Grounds maintenance	<u>26,620</u>	<u>18,851</u>
 Total Maintenance	 <u>\$ 685,568</u>	 <u>\$ 763,698</u>
 UTILITIES		
Water and sewer	\$ 111,686	\$ 111,727
Gas	290,088	313,942
Electricity	<u>161,423</u>	<u>132,545</u>
 Total Utilities	 <u>\$ 563,197</u>	 <u>\$ 558,214</u>

COMMONWEALTH TERRACE COOPERATIVE INC.
SCHEDULE OF EXPENSES (Continued)
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OTHER EXPENSES		
Insurance	\$ 120,542	\$ 130,459
Ward funds	4,176	4,176
Interest on security deposits	1,822	3,131
Community education and involvement	9,698	12,309
Newsletter	3,502	4,007
Community Center	3,493	322
Employee development	710	1,453
Board support	6,242	3,861
Miscellaneous	9,660	8,119
Depreciation	15,210	12,346
Cable TV	85,663	83,852
Executive rent credits	3,312	8,260
Rent concessions	20,000	6,300
Active member expenses	<u>10,117</u>	<u>22,619</u>
 Total Other Expenses	 <u>\$ 294,147</u>	 <u>\$ 301,214</u>

COMMONWEALTH TERRACE COOPERATIVE INC.
SCHEDULE OF CASH AND MISCELLANEOUS RECEIVABLES
JUNE 30, 2007 AND 2006

CASH

	<u>2007</u>	<u>2006</u>
Petty cash	\$ -	\$ 200
Checking	(102,539)	213,435
Savings	<u>170,169</u>	<u>27,370</u>
	<u>\$ 67,630</u>	<u>\$ 241,005</u>

MISCELLANEOUS RECEIVABLES

Laundry	\$ 2,500	\$ 2,500
Advances	334	334
Fidelity bond	16,330	16,330
Other	<u>1,621</u>	<u>4,638</u>
	<u>\$ 20,785</u>	<u>\$ 23,802</u>

COMMONWEALTH TERRACE COOPERATIVE INC.
SCHEDULE OF ACCRUED EXPENSES
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Garden deposits payable	\$ -	\$ 25
Moveouts payable	-	7,939
Accrued fees	5,400	5,200
Income taxes	(1,571)	(871)
Accrued pension	6,073	11,905
Member fees payable to NASCO	10,699	-
Other	<u>902</u>	<u>977</u>
	<u>\$ 21,503</u>	<u>\$ 25,175</u>

COMMONWEALTH TERRACE COOPERATIVE INC.
SCHEDULE OF IMPROVEMENT RESERVES
YEAR ENDED JUNE 30, 2007

	BALANCE 6-30-2006	ADDITIONS	DISBURSEMENTS	BALANCE 6-30-2007
Utility reserve	\$ 149,840	\$ -	\$ 106,040	\$ 43,800
Special utility reserve	12,461	-	-	12,461
Maintenance reserve	102,949	-	-	102,949
Equipment reserve	12,992	-	2,413	10,579
Playground reserve	17,447	14,558	-	32,005
Snow removal reserve	74,997	-	-	74,997
Administrative reserve	86,200	-	-	86,200
Vehicle reserve	13,971	-	-	13,971
Contingency reserve	51,825	-	-	51,825
Heating repair and bathroom remodeling reserve	60,000	-	-	60,000
Landscaping reserve	6,000	-	-	6,000
FEMA reserve	14,954	-	-	14,954
Education reserve	3,900	-	-	3,900
Sidewalk reserve	19,000	-	-	19,000
Contract mold reserve	4,000	-	-	4,000
Section 8 mandated reserve	18,000	-	-	18,000
Curb and street repairs reserve	4,000	-	-	4,000
Capital improvements reserve	<u>29,580</u>	<u>-</u>	<u>-</u>	<u>29,580</u>
	<u>\$ 682,116</u>	<u>\$ 14,558</u>	<u>\$ 108,453</u>	<u>\$ 588,221</u>