

Freedom Hill Cooperative, Inc.

Financial Report
September 30, 2016

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INDEPENDENT AUDITORS' REPORT

To Hodges Development Corporation,
Financial Manager for Freedom Hill
Cooperative, Inc.
Concord, New Hampshire

We have audited the accompanying balance sheet of Freedom Hill Cooperative, Inc. as of September 30, 2016, and the related statements of revenues, expenses and changes in fund balance 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 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 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 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 Freedom Hill Cooperative, Inc. as of September 30, 2016, 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 Matters

Management has omitted the schedule of future major repairs and replacements of common property 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 financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Information for the year ended September 30, 2015, is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which we stated that the financial statements presented fairly, in all material respects, the financial position of Freedom Hill Cooperative, Inc. as of September 30, 2015, 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.

Drouin Associates LLC

February 21, 2017

FREEDOM HILL COOPERATIVE, INC.

BALANCE SHEETS
September 30, 2016 (by fund) and 2015 (totals only)

	2016		2015	
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
PROPERTY				
Land	\$ 448,201	\$ -	\$ 448,201	\$ 448,201
Infrastructure	2,975,253	-	2,975,253	2,898,977
Buildings	357,355	-	357,355	353,430
Vehicles and equipment	175,060	-	175,060	173,484
	<u>\$ 3,955,869</u>	<u>\$ -</u>	<u>\$ 3,955,869</u>	<u>\$ 3,874,092</u>
Less accumulated depreciation	<u>1,657,951</u>	<u>-</u>	<u>1,657,951</u>	<u>1,505,625</u>
	<u>\$ 2,297,918</u>	<u>\$ -</u>	<u>\$ 2,297,918</u>	<u>\$ 2,368,467</u>
CASH - UNRESTRICTED				
Operating	\$ 88,270	\$ -	\$ 88,270	\$ 64,638
Savings	<u>47,923</u>	<u>-</u>	<u>47,923</u>	<u>30,403</u>
	<u>\$ 136,193</u>	<u>\$ -</u>	<u>\$ 136,193</u>	<u>\$ 95,041</u>
CASH - RESTRICTED				
Real estate tax escrow	\$ 49,016	\$ -	\$ 49,016	\$ 48,893
Capital improvement reserve	<u>-</u>	<u>161,572</u>	<u>161,572</u>	<u>137,319</u>
	<u>\$ 49,016</u>	<u>\$ 161,572</u>	<u>\$ 210,588</u>	<u>\$ 186,212</u>
PARK FEES RECEIVABLE, net of \$0 allowance for doubtful accounts				
	<u>\$ 3,008</u>	<u>\$ -</u>	<u>\$ 3,008</u>	<u>\$ 3,867</u>
OTHER ASSETS				
Goodwill	\$ 2,245,000	\$ -	\$ 2,245,000	\$ 2,245,000
Prepaid mortgage interest	513,869	-	513,869	543,515
Prepaid mortgage costs	36,304	-	36,304	38,398
Other receivables	1,457	-	1,457	-
Prepaid expenses	<u>2,027</u>	<u>-</u>	<u>2,027</u>	<u>4,205</u>
	<u>\$ 2,798,657</u>	<u>\$ -</u>	<u>\$ 2,798,657</u>	<u>\$ 2,831,118</u>
TOTAL ASSETS	<u>\$ 5,284,792</u>	<u>\$ 161,572</u>	<u>\$ 5,446,364</u>	<u>\$ 5,484,705</u>
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES				
Mortgage notes payable	\$ 5,077,448	\$ -	\$ 5,077,448	\$ 5,043,405
Accounts payable	1,699	-	1,699	1,495
Accrued expenses	9,277	-	9,277	9,351
Prepaid park fees	<u>8,841</u>	<u>-</u>	<u>8,841</u>	<u>5,494</u>
	<u>\$ 5,097,265</u>	<u>\$ -</u>	<u>\$ 5,097,265</u>	<u>\$ 5,059,745</u>
MEMBERS' EQUITY				
Fund balance - Unrestricted	\$ (678,487)	\$ -	\$ (678,487)	\$ (577,752)
Fund balance - Restricted	<u>49,016</u>	<u>161,572</u>	<u>210,588</u>	<u>186,212</u>
	<u>\$ (629,471)</u>	<u>\$ 161,572</u>	<u>\$ (467,899)</u>	<u>\$ (391,540)</u>
Memberships, \$500 or \$1,000 each, 145 participating	108,000	-	108,000	107,500
Paid-in capital - USDA Grant	<u>709,000</u>	<u>-</u>	<u>709,000</u>	<u>709,000</u>
	<u>\$ 187,529</u>	<u>\$ 161,572</u>	<u>\$ 349,101</u>	<u>\$ 424,960</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 5,284,794</u>	<u>\$ 161,572</u>	<u>\$ 5,446,366</u>	<u>\$ 5,484,705</u>

The accompanying notes are an integral part of these financial statements.

FREEDOM HILL COOPERATIVE, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
 Years Ended September 30, 2016 (by fund) and 2015 (totals only)

	2016			2015
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member fees	\$ 622,875	\$ 30,000	\$ 652,875	\$ 647,333
Non-member fees	11,650	-	11,650	18,105
Late fees	4,225	-	4,225	3,625
Interest income	12	153	165	179
Other income	5,386	-	5,386	850
	<u>\$ 644,148</u>	<u>\$ 30,153</u>	<u>\$ 674,301</u>	<u>\$ 670,092</u>
EXPENSES				
Mortgage interest	\$ 345,329	\$ -	\$ 345,329	\$ 347,510
Real estate taxes	116,453	-	116,453	117,965
Depreciation	154,254	-	154,254	151,979
Amortization	2,094	-	2,094	2,094
Workers compensation insurance	7,216	-	7,216	2,433
Property and liability insurance	7,869	-	7,869	7,535
Loss on abandonment of assets	-	-	-	8,986
Repairs and maintenance	10,704	10,500	21,204	32,958
Vehicle fuel and maintenance	8,464	-	8,464	7,223
Water and sewer systems	29,971	-	29,971	85,684
Snow and trash removal	10,450	-	10,450	10,326
Electricity	13,313	-	13,313	16,350
Management fees	20,400	-	20,400	20,400
Legal and accounting	7,519	-	7,519	5,810
Office and administrative	3,534	-	3,534	7,105
Bad debts	-	-	-	4,835
Corporate taxes	2,590	-	2,590	2,606
	<u>\$ 740,160</u>	<u>\$ 10,500</u>	<u>\$ 750,660</u>	<u>\$ 831,799</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (96,012)	\$ 19,653	\$ (76,359)	\$(161,707)
BEGINNING FUND BALANCE	(528,859)	137,319	(391,540)	(229,833)
TRANSFERS	<u>(4,600)</u>	<u>4,600</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCE	<u>\$(629,471)</u>	<u>\$ 161,572</u>	<u>\$(467,899)</u>	<u>\$(391,540)</u>

The accompanying notes are an integral part of these financial statements.

FREEDOM HILL COOPERATIVE, INC.

STATEMENTS OF CASH FLOWS
 Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficiency of revenues over expenses	\$ (76,359)	\$(161,707)
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by operating activities:		
Depreciation	154,254	151,979
Amortization	2,094	2,094
Loss on abandonment of assets	-	8,986
(Increase) decrease in:		
Park fees receivable	859	(1,055)
Other receivables	(1,457)	-
Prepaid mortgage interest	29,646	29,647
Prepaid expenses	2,178	(754)
Increase (decrease) in:		
Accounts payable	204	(982)
Accrued expenses	(74)	1,607
Prepaid park fees	<u>3,347</u>	<u>(5,063)</u>
Net cash provided by operating activities	<u>\$ 114,692</u>	<u>\$ 24,752</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and improvements	<u>\$ (83,707)</u>	<u>\$(103,695)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from new loan financing	\$ 67,140	\$ -
Net collection of membership fees	500	3,860
Payments of mortgage principal	<u>(33,097)</u>	<u>(30,961)</u>
Net cash provided by (used in) financing activities	<u>\$ 34,543</u>	<u>\$ (27,101)</u>
Net increase (decrease) in cash	\$ 65,528	\$(106,044)
Cash, beginning of year	<u>281,253</u>	<u>387,297</u>
Cash, end of year	<u>\$ 346,781</u>	<u>\$ 281,253</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 344,642	\$ 346,022
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
None		

The accompanying notes are an integral part of these financial statements.

FREEDOM HILL COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization

Freedom Hill Cooperative, Inc. is incorporated under the New Hampshire Consumers' Cooperative Association Act. The Cooperative owns a 148 unit manufactured housing park, known as Pine Ridge Estates, that consists of approximately 200 acres of land and other common property in Loudon, NH. The Cooperative is responsible for operating and maintaining the common property on behalf of member households.

Note 2. Significant Accounting Policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Fund accounting

To ensure observance of limitations and restrictions on the use of financial resources, the Cooperative maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating fund - This fund is used to account for financial resources available for the general operations of the Cooperative.

Replacement fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Fee assessments

Member and non-member households are subject to monthly assessments to provide funds for the Cooperative's operating expenses, future capital acquisitions, and repairs and replacements. Park fees receivable at the balance sheet date represent fees due from both member and non-member households. Prepaid park fees represent fees received prior to their due date.

Lot fees outstanding on the 6th of the month are considered delinquent. The Cooperative maintains an allowance for doubtful accounts to account for past due assessments which may prove to be uncollectible. The balance of this allowance is estimated by the Treasurer after review of the balances outstanding over 90 days. Full legal recourse is pursued in collecting overdue amounts. Receivables are charged off when the Board of Directors determines that the prospects of collection are remote. Legal costs incurred by the Cooperative, in successful collection matters, are charged to the delinquent member. Additionally, late fees of \$25 per month are charged on delinquent accounts.

FREEDOM HILL COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Significant Accounting Policies (Continued)

Real estate taxes

Real estate taxes are recognized as expense when assessed amounts are due.

Common property and depreciation

The Cooperative capitalizes (at cost) assets acquired with Cooperative funds. Assets donated by members are recorded at fair market value. Depreciation is calculated using the straight-line method beginning on the date the property is placed into service. Infrastructure is depreciated over 7-25 years, buildings over 7-40 years, and vehicles and equipment over 5-7 years. Land is not depreciated.

Prepaid mortgage interest, mortgage costs, goodwill and amortization

Prepaid mortgage interest represents interest charged for the early retirement of a mortgage loan. It is effectively interest incurred to obtain a more favorable interest rate on new financing. The amount is presented net of accumulated amortization of \$79,057 and \$49,411 at September 30, 2016 and 2015, respectively. Amortization is calculated using the straight-line method over the 20 year term of the new loan.

Prepaid mortgage costs represents costs to obtain mortgage financing and is presented net of accumulated amortization of \$5,585 and \$3,491 at September 30, 2016 and 2015, respectively. Amortization is calculated using the straight-line method over 20 years.

Goodwill represents the intangible value of the entity as a whole. The value of goodwill was initially determined by agreement between the Cooperative and the seller of the park. Goodwill is not amortized but is reduced if the market value of the Cooperative is lower than the carrying value of the assets.

Cash and cash equivalents

For purposes of reporting cash flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At September 30, 2016 and 2015 the Cooperative had no cash equivalents.

Subsequent events

In preparing these financial statements, Cooperative management has evaluated events and transactions for potential recognition or disclosure through February 21, 2017, the date the financial report was available to be issued.

FREEDOM HILL COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Mortgage Notes Payable and Pledged Assets

Details of the Cooperative's mortgage notes payable are as follows:

	<u>9/30/16</u>	<u>9/30/15</u>
Mortgage note, secured by all assets, with interest at 6.00%, due in monthly principal and interest installments of \$25,830, balloon payment due February 2034	\$4,567,318	\$4,597,674
Mortgage note, secured by real property, with interest at 8.00%, due in monthly principal and interest installments of \$2,246, balloon payment due March 2034	443,944	445,731
Note payable, secured by all assets except real property, with interest at 6.00%, due in monthly principal and interest installments of \$1,301, maturing August 2021	<u>66,186</u>	<u>-</u>
	<u>\$5,077,448</u>	<u>\$5,043,405</u>

The primary mortgage agreement requires that the cooperative maintain a combined debt service coverage ratio of 1 to 1. Debt service coverage ratio is net income after reserve funding, plus interest expense, plus depreciation, all divided by the annual debt service requirements. The agreement also requires the Cooperative to provide a minimum annual level of funding for its capital improvement reserve account, as determined by the lender. For the year ended September 30, 2015 the Cooperative did not meet the debt service coverage ratio.

The mortgage notes payable mature in the years ending September 30 as follows:

2017	\$ 50,819
2018	53,994
2019	57,369
2020	60,956
2021	63,294
Thereafter	<u>4,791,016</u>
	<u>\$5,077,448</u>

Note 4. Restricted Cash Accounts

Cash held in the capital improvement reserve has been designated for the payment of capital expenses and unanticipated contingencies. Withdrawals from the capital improvement reserve in excess of \$5,000 require written approval of the lender.

Cash held in real estate tax escrow is controlled by the lender. Amounts held therein have been designated for the payment of real property taxes.

FREEDOM HILL COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Future Major Repairs and Replacements

The Cooperative has not completed a study to determine the estimates of remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. Without such a study the board of directors is unable to developed a formal plan to fund the Cooperative's future repair and replacement needs. However, the Cooperative has accumulated \$161,572 in a capital improvement reserve account and is required to add a minimum annual amount of \$21,600 to this account as part of a mortgage loan agreement. In the event that such reserve funds are insufficient when funds are required for major repairs and replacements, the Cooperative will likely borrow, increase monthly assessments, or delay major repairs and replacements until funds are available.

Note 6. Water System and Maintenance Facility

The Cooperative supplies water to its residents through the use of 4 drilled wells. In prior years the quality and quantity of water being supplied from these wells was deemed to be inadequate. To address these problems and other concerns, the Cooperative purchased 38 acres of abutting land and secured \$893,000 in financing and \$709,000 in grants through the U.S. Department of Agriculture to complete improvements to both its water supply and waste water disposal systems. The project was completed at a total cost of approximately \$1,420,000. During the year ended September 30, 2015, it was determined that one of the new wells was not producing adequate supply so management elected to drill another well which was completed at a cost of approximately \$49,000. The cost of the project and the additional well is included in infrastructure on the balance sheet.

The Cooperative was allowed to use approximately \$191,000 in grant funds, originally approved for the water system project, for construction of a new maintenance building. The building was substantially completed in the fall of 2014 at a cost of approximately \$206,000. This cost is included in buildings on the balance sheet.

Note 7. Culvert Replacement and Drainage Improvements

During the year ended September 30, 2016, the Cooperative contracted to remove and install 775 feet of new driveway culverts and to improve the drainage swales within the park. The contract price was \$112,140. The project was changed to include additional culverts and extra work and was completed in October 2016 at a cost of \$145,495. To fund the project the Cooperative borrowed an additional \$67,140 and paid the remainder from its existing reserves.

Note 8. Reclassification

Workers compensation insurance expense for 2015 has been reclassified to conform with the 2016 presentation.

FREEDOM HILL COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Memberships

The Cooperative had 145 member households at September 30, 2016, each of which represents one vote in Cooperative matters. The cost of each membership is \$500 before October 1, 2006 and \$1,000 thereafter. If no amounts are due to the Cooperative, member households are entitled to a refund of their membership fee upon vacating the park.

Note 10. Related Party Transactions

During the year ended September 30, 2015 the Cooperative paid a total of \$375 to a member for grounds maintenance services. This amount is included in repairs and maintenance expense on the statements of revenues, expenses, and changes in fund balance.

Note 11. Concentrations of Credit Risk

The Cooperative had concentrated its credit risk for cash by maintaining deposits in one bank in excess of the amount that was federally insured. The maximum loss that would have resulted from that risk totaled \$48,409 at September 30, 2016.

Note 12. Corporate taxes

For federal income tax purposes the Cooperative is defined as a homeowners association. As such, the Cooperative may elect (if certain tests are met) on an annual basis to be taxed as a homeowners association, in accordance with Internal Revenue Code Section 528, or as a membership organization, in accordance with Internal Revenue Code Section 277. For state income tax purposes the Cooperative is taxed as a corporation on its non-member income. The Cooperative is also subject to the New Hampshire Business Enterprise Tax which is a tax levied against the wages, interest, and dividends paid by the Cooperative.

For the years ended September 30, 2016 and 2015 the Cooperative was taxed as a membership organization for federal income tax purposes.

The Cooperative adopted ASC Topic 740-10, Accounting for Uncertainty in Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement reporting of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the years ended September 30, 2016 and 2015 the Cooperative had no material uncertain tax positions. Annual tax returns remain subject to examination by major tax jurisdictions for the three year statute of limitations.