

**SENIORS HOUSING
DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY
AND SUBSIDIARY**

**(A COMPONENT UNIT OF THE HOUSING AUTHORITY
OF GLOUCESTER COUNTY, NEW JERSEY)**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2017 AND 2016



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Seniors Housing Development Corporation
of Gloucester County and Subsidiary

Report on the Financial Statements

We have audited the accompanying financial statements of Seniors Housing Development Corporation of Gloucester County (a nonprofit organization) and Subsidiary, a component unit of the Housing Authority of Gloucester County, New Jersey, which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenue and expenses and changes in net position and statements of 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 audits 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 Seniors Housing Development Corporation of Gloucester County and Subsidiary as of December 31, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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. 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 financial statements, and other knowledge we obtained during our audit of the 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.

Bowman & Company LLP

Bowman & Company LLP
Certified Public Accountants

Woodbury, New Jersey
July 13, 2018

Seniors Housing Development Corporation of Gloucester County and Subsidiary
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

This section of the Seniors Housing Development Corporation and Subsidiary's annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended on December 31, 2017. We encourage readers to consider the information presented here in conjunction with the Corporation's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Management's Discussion and Analysis is intended to share management's analysis of the Corporation's financial performance. The Corporation's financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to private businesses, such as real estate development and management. The financial statements included in this report were prepared in accordance with GAAP applicable to governmental entities for Proprietary Fund types ("Business-Type" activities). The financial statements and accompanying data include the following:

1. **The Statements of Net Position** - presenting information on all the Corporation's assets and liabilities, with the difference between the two reported as net position (equity).
2. **The Statements of Revenue, Expenses, and Changes in Net Position** - presenting information on revenues and expenses showing how the Corporation performed.
3. **The Statements of Cash Flows** - presenting the inflows and outflows of cash and cash equivalents.
4. **Notes to Financial Statements**- providing additional information essential to fully understanding the data provided in the financial statements.

Seniors Housing Development Corporation of Gloucester County and Subsidiary
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2017

FINANCIAL HIGHLIGHTS

- The Corporation's Total Net Position (equity) increased from 2016 to 2017 by **\$271,527** from **\$13,761,775** to **\$14,033,302** which includes an increase in Unrestricted Net Position of \$278,261 and a decrease in Net Investment Capital Asset of \$6,734. The Corporation's Total New Position (equity) increased from 2015 to 2016 by **\$158,452** from **\$13,603,323** to **\$13,761,775** which includes an increase in Unrestricted Net Position of **\$160,563** and an increase in Net Investment in Capital Assets of \$2,111.

- The Corporation had Total Operating Revenues of **\$562,813** in 2017, **\$550,137** in 2016, and \$516,891 in 2015. The Corporation had Total Operating Expenses of **\$287,262** in 2017, **\$387,369** in 2016, and \$299,212 in 2015.

-The Corporation's Cash and Investment balance was **\$751,197** in 2017, **\$848,629** in 2016, and **\$571,458** in 2015.

OTHER FINANCIAL INFORMATION

The Seniors Housing Development Corporation of Gloucester County is an instrumentality of the Housing Authority of Gloucester County, New Jersey. On February 25, 2011 the Corporation sold Colonial Park Apartments on Evergreen Avenue in Woodbury, New Jersey, for \$8,810,000 to a "Tax-Credit" entity, Colonial Park, L.P. for the purpose of securing more funding in order to perform major renovations. The corporation continues to oversee the management of the building through its subsidiary, e-Murphy, Inc., whose financial performance is integrated in the financial statements contained herein.

The financial books are maintained in accordance with Generally Accepted Accounting Principles (for government entities). On the following pages are Condensed Financial Statements giving an overview of the Corporation's financial condition as of December 31, 2017.

CAPITAL ASSETS and DEBT ADMINISTRATION

Major renovations to Colonial Park Apartments have been substantially completed in 2014. The main components are the installation of a new roof with solar panels and the redesigning of the apartments' kitchen and bathroom. These renovations will allow the apartments to operate more efficiently and improve the quality of life for our senior and disabled tenants.

The Corporation owns the land on Evergreen Avenue, which it leases to Colonial Park, LP. It also owns an adjacent residential unit at 341 Evergreen, whose rear acreage was utilized to extend the parking lot of Colonial Park Apartments.

**SENIORS HOUSING DEVELOPMENT CORPORATION OF GLOUCESTER COUNTY
AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

CONDENSED FINANCIAL STATEMENTS

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| <u>STATEMENTS OF NET POSITION</u> | | | |
| Assets: | | | |
| Current Assets | \$ 1,470,910 | \$ 2,198,718 | \$ 1,248,874 |
| Restricted Assets | 0 | 0 | 0 |
| Capital Assets, net of Depreciation | 482,233 | 488,967 | 491,078 |
| Other Non Current Assets | 12,107,933 | 11,102,324 | 11,890,580 |
| Total Assets | <u>\$ 14,061,076</u> | <u>\$ 13,790,009</u> | <u>\$ 13,630,532</u> |
| Liabilities: | | | |
| Current Liabilities | \$ 27,774 | \$ 28,234 | \$ 27,209 |
| Long-Term Liabilities | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>27,774</u> | <u>28,234</u> | <u>27,209</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | 482,233 | 488,967 | 491,078 |
| Unrestricted Net Position | 13,551,069 | 13,272,808 | 13,112,245 |
| Total Net Position | <u>14,033,302</u> | <u>13,761,775</u> | <u>13,603,323</u> |
| Total Liabilities and Net Position | <u>\$ 14,061,076</u> | <u>\$ 13,790,009</u> | <u>\$ 13,630,532</u> |
| <u>STATEMENTS OF REVENUE, EXPENSES and CHANGES IN NET POSITION</u> | | | |
| Operating Revenues: | | | |
| Interest Income on Notes Receivable | 330,998 | 322,248 | 314,098 |
| Other Revenues | 231,815 | 227,889 | 202,793 |
| Total Operating Revenues | <u>562,813</u> | <u>550,137</u> | <u>516,891</u> |
| Operating Expenses: | | | |
| Administrative and Other Expenses | 280,528 | 380,760 | 296,417 |
| Depreciation and Amortization Expense | 6,734 | 6,609 | 2,795 |
| Total Operating Expense | <u>287,262</u> | <u>387,369</u> | <u>299,212</u> |
| Operating Income (Loss) | <u>275,551</u> | <u>162,768</u> | <u>217,679</u> |
| Non-operating Revenues (Expenses): | | | |
| Gain on sale of building | <u> </u> | <u> </u> | <u> </u> |
| Insurance recovery, net of casualty loss on building | <u> </u> | <u> </u> | <u> </u> |
| Interest Income | 1,525 | 1,093 | 1,299 |
| Interest Expense | <u> </u> | <u> </u> | <u> </u> |
| Net Non-operating Revenues (Expenses) | <u>1,525</u> | <u>1,093</u> | <u>1,299</u> |
| Income (Loss) Before Contributions and Transfers | <u>277,076</u> | <u>163,861</u> | <u>218,979</u> |
| Contribution (to) from Housing Authority of Gloucester County | 0 | 0 | -39,219 |
| Contribution (to) from Colonial Park, LP | -5,549 | -5,409 | -27,809 |
| Change in Net Position | <u>271,527</u> | <u>158,452</u> | <u>151,951</u> |
| Net Position - Beginning | <u>13,761,775</u> | <u>13,603,323</u> | <u>13,451,372</u> |
| Total Net Position - Ending | <u>\$ 14,033,302</u> | <u>\$ 13,761,775</u> | <u>\$ 13,603,323</u> |

Seniors Housing Development Corporation of Gloucester County and Subsidiary
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2017

BUDGETARY HIGHLIGHTS

For the year ended December 31, 2017, the Operating Budget was prepared by the Corporation for financial and internal control purposes. The budgets were used primarily as a management tool. The Corporation has operated within the overall budgetary restraints it has established. All expenses incurred have been satisfied.

ECONOMIC FACTORS and NEXT YEAR'S BUDGETS

The economy is still facing financial difficulties and monetary pain is felt at all levels. Unemployment, out-of-control health care costs, bankruptcies, and foreclosures continue to dampen the local economy. However, on the bright side, Colonial Park Apartments will remain affordable for our senior tenants and continue to be managed as in the past with even better amenities for their comfort and convenience.

The 2018 budget remains in balance and we expect to meet all of our obligations. The building is currently under contract with the U.S. Department of Housing and Urban Development for assistance and we anticipate continued support from them into the near future. However, the cost of contracted labor will continue to increase, due in large part to the increases in health insurance and other post employment benefits which will be passed onto the coproation.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide users with an overview of the Corporation's finances. If you have questions concerning any of the information provided in this report, contact the Director of Finance, c/o: Housing Authority of Gloucester County, 100 Pop Moylan Boulevard, Deptford, New Jersey 08096.

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY**

Statements of Net Position
As of December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Unrestricted cash and cash equivalents | \$ 749,893 | \$ 847,328 |
| Restricted cash and cash equivalents | 1,304 | 1,301 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,000 in 2017 and \$0 in 2016 | 1,554 | - |
| Due from the Housing Authority of Gloucester County | 351,573 | 239,301 |
| Due from Colonial Park L.P. | 1,356 | 45,861 |
| Development fee receivable | 364,817 | 599,307 |
| Prepaid expenses | 413 | 499 |
| | <u>1,470,910</u> | <u>1,733,597</u> |
| Total current assets | | |
| Noncurrent assets | | |
| Capital assets, net of accumulated depreciation | 482,233 | 488,967 |
| Development fee receivable | 1,439,888 | 1,305,398 |
| Note receivable | 8,200,222 | 8,200,222 |
| Land lease receivable | 462,700 | 349,450 |
| Accrued interest receivable | 2,005,123 | 1,712,375 |
| | <u>12,590,166</u> | <u>12,056,412</u> |
| Total noncurrent assets | | |
| | <u>\$ 14,061,076</u> | <u>\$ 13,790,009</u> |
| LIABILITIES AND NET POSITION | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 26,470 | \$ 26,933 |
| Tenant funds on deposit | 1,304 | 1,301 |
| | <u>27,774</u> | <u>28,234</u> |
| Total current liabilities | | |
| Net position | | |
| Net investment in capital assets | 482,233 | 488,967 |
| Unrestricted net position | 13,551,069 | 13,272,808 |
| | <u>14,033,302</u> | <u>13,761,775</u> |
| Total net position | | |
| | <u>\$ 14,061,076</u> | <u>\$ 13,790,009</u> |

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

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY**
Statements of Revenue and Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Operating revenue | | |
| Interest income on notes receivable | \$ 330,998 | \$ 322,248 |
| Management contract income | 141,072 | 138,348 |
| Land lease income | 75,000 | 70,000 |
| Tenant charges | 15,600 | 14,300 |
| Miscellaneous income | 143 | 5,241 |
| | <u>562,813</u> | <u>550,137</u> |
| Operating expenses | | |
| Administrative | 272,762 | 367,712 |
| Utilities | 702 | 825 |
| Maintenance | 850 | 3,604 |
| General | 1,069 | 90 |
| Insurance | 5,145 | 8,529 |
| | <u>280,528</u> | <u>380,760</u> |
| Total operating expenses before depreciation and amortization | | |
| | <u>282,285</u> | <u>169,377</u> |
| Operating income before depreciation and amortization | | |
| | <u>6,734</u> | <u>6,609</u> |
| Depreciation and amortization | | |
| | <u>275,551</u> | <u>162,768</u> |
| Operating income | | |
| Non-operating revenue (expense) | | |
| Contribution to Colonial Park, LP | (5,549) | (5,409) |
| Interest income | 1,525 | 1,093 |
| | <u>(4,024)</u> | <u>(4,316)</u> |
| Net non-operating expense | | |
| | <u>271,527</u> | <u>158,452</u> |
| Increase in net position | | |
| Net position - beginning | <u>13,761,775</u> | <u>13,603,323</u> |
| Net position - ending | <u>\$ 14,033,302</u> | <u>\$ 13,761,775</u> |

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

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY**
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------------|--------------------------|
| Cash flows from operating activities | | |
| Cash received from management contracts | \$ 141,072 | \$ 138,348 |
| Cash received from tenants | 14,048 | 15,604 |
| Cash received from Colonial Park, L.P. for developer's fee | 100,000 | 400,000 |
| Cash received from Colonial Park, L.P., net | 44,505 | - |
| Cash received from (paid to) Housing Authority of Gloucester County, net | (112,272) | 114,239 |
| Cash paid for goods and services | <u>(280,761)</u> | <u>(382,206)</u> |
| Net cash provided by (used in) operating activities | <u>(93,408)</u> | <u>285,985</u> |
| Cash flows from capital and related financing activities | | |
| Contribution to Colonial Park, LP | (5,549) | (5,409) |
| Purchase of property | <u>-</u> | <u>(4,498)</u> |
| Net cash used in capital and related financing activities | <u>(5,549)</u> | <u>(9,907)</u> |
| Cash flows from investing activities | | |
| Interest income received | <u>1,525</u> | <u>1,093</u> |
| Net increase (decrease) in cash | (97,432) | 277,171 |
| Cash - beginning | <u>848,629</u> | <u>571,458</u> |
| Cash - ending | <u><u>\$ 751,197</u></u> | <u><u>\$ 848,629</u></u> |
| Reconciliation of operating income to net cash provided by (used in) operating activities | | |
| Operating income | \$ 275,551 | \$ 162,768 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 6,734 | 6,609 |
| Provision for bad debts | 1,000 | - |
| (Increase) decrease in assets | | |
| Accounts receivable | (2,554) | - |
| Prepaid expenses | 86 | 744 |
| Due from the Housing Authority of Gloucester County | (112,272) | 152,948 |
| Due from Colonial Park L.P. | 44,505 | (45,861) |
| Developer's fee receivable | 100,000 | 400,000 |
| Land lease receivable | (113,250) | (99,500) |
| Accrued interest receivable | (292,748) | (292,748) |
| Increase (decrease) in liabilities | | |
| Tenant funds on deposit | 3 | 1,301 |
| Accounts payable and accrued expenses | <u>(463)</u> | <u>(276)</u> |
| Net cash provided by (used in) operating activities | <u><u>\$ (93,408)</u></u> | <u><u>\$ 285,985</u></u> |
| Reconciliation of cash and cash equivalents to the statements of net position | | |
| Unrestricted cash and cash equivalents | \$ 749,893 | \$ 847,328 |
| Restricted cash and cash equivalents | <u>1,304</u> | <u>1,301</u> |
| | <u><u>\$ 751,197</u></u> | <u><u>\$ 848,629</u></u> |

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

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY
Notes to Financial Statements**

Note 1: ORGANIZATION AND ACTIVITY

Reporting entity - Seniors Housing Development Corporation of Gloucester County (“the Corporation”) is an instrumentality and a component unit of the Housing Authority of Gloucester County (“the Authority”) organized as a nonprofit corporation under the laws of the State of New Jersey in 1979. The Corporation is authorized to develop and manage affordable housing. The Corporation served as the developer for the renovation of that apartment complex, which was sold to a limited partnership, Colonial Park, L.P. (CPLP). The Corporation provides management services to CPLP through a management agreement. The Corporation holds a note due from CPLP secured by a mortgage on the building. The Corporation retained title to the land on which the apartment complex is situated and receives rent from CPLP for the land. The Board of Directors consists of six members who are elected by existing Board members. The Corporation has no employees, but utilizes certain employees of the Authority to manage day-to-day operations and reimburses the Authority for the costs of those services.

eMurphyg, Inc. (EMG) was organized to assist the Corporation in carrying out its mission of developing and managing affordable housing. It is the general partner in the limited partnership, CPLP, described above. The Corporation owns 79% of the outstanding common stock of EMG.

Component unit – The Corporation is a component unit of the Housing Authority of Gloucester County as described in Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. These financial statements are discreetly presented as part of the Authority’s financial statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The accompanying basic financial statements include the accounts of the Corporation and of EMG. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

Basis of accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues -- Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Interest Income and management fees are recognized as revenue when services are provided.

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY
Notes to Financial Statements (continued)**

Note 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of accounting (continued)

Non-exchange transactions, in which the Corporation receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Corporation must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Corporation on a reimbursement basis.

Expenses / expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Cash – Cash includes amounts in demand accounts.

Prepaid expenses – Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond year end.

Capital assets and depreciation – Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Corporation. All capital assets are stated at cost. Depreciation is computed on the straight-line method over the estimated useful life of the asset which can range from seven to forty years. When capital assets are disposed, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded in operations.

Major additions and betterments in excess of \$1,000 are charged to the capital assets accounts while replacements, maintenance, and repairs that do not improve or extend the life of the respective assets are expensed currently.

Notes receivable – Management closely monitors its outstanding receivable balances and charges off to expense any balances that are determined to be uncollectible. At December 31, 2017 and 2016, the Corporation considered all accounts receivable to be fully collectible. Accordingly, there was no allowance for doubtful accounts. Bad debt expense was \$0 for both of the years ended December 31, 2017 and 2016.

Net position – In accordance with the provisions of GASB Statement No. 34 (“Statement 34”) of the Governmental Accounting Standards Board “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, the Corporation has classified its net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY**
Notes to Financial Statements (continued)

Note 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Net position (continued)

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced, by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component as the unspent amount. Currently this component relates solely to capital assets and there is no related debt.

Restricted – Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Corporation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Currently, the Corporation has no restricted net position.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” This component includes net position that may be allocated for specific purposes by the Board.

Income taxes – The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, does not record a provision for income taxes on related income. The Subsidiary is a corporation subject to Federal and state income taxes. EMG had a liability for the minimum tax to New Jersey for 2017 and there were no timing differences which would have resulted in deferred taxes. There was no liability for 2016.

Operating income – The Corporation distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expense generally result from the primary purpose of the Corporation. Operating revenue consists of interest income on the notes receivable, management contract income, and land lease income, all of which are related to the provision of housing for persons of low-income through a related organization CPLP. Operating expenses consist of expenses attributable to the provision of the management contract services, as well as certain corporate operating expenses. All revenue and expenses, including interest income and the income (loss) resulting from its investment in CPLP, not meeting these criteria are considered nonoperating.

Member’s interest in the deficit of a limited partnership – EMG holds a .01% general partnership interest in CPLP, which is accounted for using the equity method. Under the equity method of accounting, the initial investment is recorded at cost and subsequently increased by its share of earnings and decreased by its share of losses and distributions. Certain obligations and liabilities of the general partner require the recognitions of losses which can result in a negative basis.

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY
Notes to Financial Statements (continued)**

Note 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New accounting standards adopted – During the year ended December 31, 2017, the Corporation did not adopt any new accounting standards issued by the Government Accounting Standards Board (GASB).

New accounting standards to be implemented in the future – The Corporation plans to implement the following pronouncements by the required implementation dates or earlier, when deemed feasible:

Statement No. 85, Omnibus 2017 - The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this statement are effective for the year ending December 31, 2018. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 87, Leases - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for the year ending December 31, 2020. Management has not yet determined the impact of this Statement on the financial statements.

Note 3: **CASH**

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be recovered. The Corporation's formal policy regarding custodial credit risk is included in its cash management plan. The first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC).

As of December 31, 2017, the Corporation's bank balances were exposed to custodial credit risk as follows:

| | | |
|-----------------|-------------------|-------------------|
| Insured by FDIC | \$ 250,000 | \$ 250,000 |
| Uninsured | <u>501,196</u> | <u>597,328</u> |
| | <u>\$ 751,196</u> | <u>\$ 847,328</u> |

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY
Notes to Financial Statements (continued)**

Note 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 and 2016 was as follows:

| | Balance December 31, 2016 | Additions | Reductions | Balance December 31, 2017 |
|-------------------------------|---------------------------------|-------------------|-------------|---------------------------------|
| Land | \$ 363,364 | \$ - | \$ - | \$ 363,364 |
| Buildings | 135,256 | | | 135,256 |
| Equipment | 2,620 | | | 2,620 |
| | <u>501,240</u> | | | <u>501,240</u> |
| Less accumulated depreciation | <u>12,273</u> | <u>6,734</u> | | <u>12,273</u> |
| Net capital assets | <u>\$ 488,967</u> | <u>\$ (6,734)</u> | <u>\$ -</u> | <u>\$ 482,233</u> |
| | Balance December 31, 2015 | Additions | Reductions | Balance December 31, 2016 |
| Land | \$ 363,364 | | \$ - | \$ 363,364 |
| Buildings | 130,758 | \$ 4,498 | | 135,256 |
| Equipment | 2,620 | | | 2,620 |
| | <u>496,742</u> | <u>4,498</u> | | <u>501,240</u> |
| Less accumulated depreciation | <u>5,664</u> | <u>6,609</u> | | <u>12,273</u> |
| Net capital assets | <u>\$ 491,078</u> | <u>\$ (2,111)</u> | <u>\$ -</u> | <u>\$ 488,967</u> |

Note 5: NOTES RECEIVABLE

The Corporation has a note receivable from CPLP, secured by a mortgage on the Colonial Park apartment complex. The outstanding principal balance at December 31, 2017 and 2016 is \$8,200,222. Interest is charged at a rate of 3.57%. The note has no specific maturity date. This loan is a nonrecourse loan as to all general partners of CPLP and is due to be repaid in annual principal payments plus accrued interest beginning June 1, 2012 from available cash flow after payment of certain expenses and fees as defined in the Third Amended and Restated Partnership Agreement of CPLP. No payments have been made as of December 31, 2017. Interest in the amounts of \$2,005,123 and \$1,713,177 was accrued as of December 31, 2017 and 2016, respectively.

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY**
Notes to Financial Statements (continued)

Note 6: **RELATED PARTY TRANSACTIONS**

Colonial Park, L.P. - The Corporation served as developer for the substantial renovation of the Colonial Park Apartments. For the performance of this function, the Corporation has earned a development fee of \$3,065,643. \$100,000 was received from Colonial Park, L.P. in 2017. Development fee receivable is \$1,804,705 and \$1,904,705 as of December 31, 2017 and 2016, respectively. Any amount of the development fee, including deferred development fee, that has not been paid in full will become due on December 31, 2025.

The Corporation leases the land on which the project is situated to CPLP. The lease is payable at varying amounts scheduled each year in the land lease. The lease receivable amounts are \$75,000 and \$70,000 for 2017 and 2016, respectively. These amounts have been accrued as a receivable in the financial statements, in addition to interest of \$38,250 and \$29,500 for 2017 and 2016, respectively. Cumulative principal and interest receivable at December 31, 2017 and 2016 is \$462,700 and \$349,450, respectively.

The Corporation serves as the management company for CPLP. The management and bookkeeping fees are established by the New Jersey Housing and Mortgage Finance Agency (NJHMFA). At December 31, 2017 and 2016, the management fee was \$53.63 and \$52.53 per unit per month, respectively, and the bookkeeping fee was \$6.67 and \$6.62 per unit per month, respectively, and capped at \$1,030 and \$1,023 per month, respectively. At December 31, 2017 and 2016, the Corporation incurred management fees of \$128,712 and \$126,072, respectively, and bookkeeping fees of \$12,360 and \$12,276, respectively.

The Corporation provided a contribution to CPLP totaling \$5,549 and \$5,409 relating to furniture and window treatments CPLP purchased in 2017 and 2016, respectively.

See also Note 5 for notes receivable.

Housing Authority of Gloucester County - The Authority was organized as a public housing authority under the supervision of HUD in October 1972. There were transactions with the Authority during the year for contracted services provided to the Corporation as well as allocations of various other costs between the entities. As a result, at year-end there was a receivable due from the Authority in the amount of \$351,573 and \$239,301 at December 31, 2017 and 2016, respectively. There are no specific terms for repayment of this intercompany amount and no interest is provided on the outstanding balance.

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY**
Notes to Financial Statements (continued)

Note 7: **INVESTMENT IN LIMITED PARTNERSHIP**

EMG holds a .01% general partnership interest in CPLP. Profits, losses and cash distributions from the operation of CPLP are allocated based on the Partnership's operating agreement. The project consists of a 200-unit apartment project in Woodbury, New Jersey.

Summarized financial information of CPLP as of December 31, 2017 and 2016, and for the years then ended, is as follows:

SUMMARY OF ASSETS, LIABILITIES, AND PARTNERS' CAPITAL

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Investment in real estate | | |
| Buildings and improvements | \$ 23,845,221 | \$ 23,845,221 |
| Furniture and fixtures | <u>71,640</u> | <u>62,203</u> |
| | 23,916,861 | 23,907,424 |
| Less accumulated depreciation | <u>3,384,583</u> | <u>2,777,591</u> |
| | 20,532,278 | 21,129,833 |
| Other assets | <u>2,441,392</u> | <u>2,145,125</u> |
| | <u>\$ 22,943,670</u> | <u>\$ 23,274,958</u> |
| LIABILITIES AND PARTNERS' CAPITAL | | |
| LIABILITIES | | |
| Mortgage payable | \$ 14,017,247 | \$ 14,339,725 |
| Other liabilities | <u>4,602,903</u> | <u>4,205,700</u> |
| | 18,620,150 | 18,545,425 |
| PARTNERS' CAPITAL | <u>4,323,520</u> | <u>4,729,533</u> |
| | <u>\$ 22,943,670</u> | <u>\$ 23,274,958</u> |

**SENIORS HOUSING DEVELOPMENT CORPORATION
OF GLOUCESTER COUNTY AND SUBSIDIARY**
Notes to Financial Statements (continued)

Note 7: **INVESTMENT IN LIMITED PARTNERSHIP (continued)**

STATEMENTS OF OPERATIONS

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|---------------------|
| Revenue | | |
| Rent | \$ 2,446,914 | \$ 2,308,348 |
| Other | 126,952 | 77,070 |
| | <u>2,573,866</u> | <u>2,385,418</u> |
| Expenses | | |
| Depreciation | 606,992 | 606,646 |
| Interest | 591,490 | 523,895 |
| Fees and charges | 18,174 | 25,005 |
| Other expenses | 1,763,223 | 1,550,278 |
| | <u>2,979,879</u> | <u>2,705,824</u> |
| Excess of expenses over revenue | (406,013) | (320,406) |
| Capital contributions | - | 5,409 |
| Return of capital | - | (2,927) |
| Partners' capital – beginning | <u>4,729,533</u> | <u>5,047,457</u> |
| Partners' capital – ending | <u>\$ 4,323,520</u> | <u>\$ 4,729,533</u> |