

**GLOUCESTER COUNTY HOUSING
DEVELOPMENT CORPORATION
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
Gloucester County Housing
Development Corporation and Subsidiary

Report on the Financial Statements

We have audited the accompanying financial statements of Gloucester County Housing Development Corporation (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 Gloucester County Housing Development Corporation 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

GOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

This section of the Gloucester County 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.

**GOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION 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 **\$48,405** (or 0.70%) from **\$6,883,902** to **\$6,932,307** which includes an increase in Unrestricted Net Position for the same amount. The Corporation's Total Net Position (equity) increased from 2015 to 2016 by **\$37,301** (or 0.54%) from **\$6,846,601** to **\$6,883,902** which includes an increase in Unrestricted Net Position for the same amount.

- The Corporation had Total Operating Revenues of **\$215,593** in 2017, **\$214,979** in 2016, and **\$214,192** in 2015. The Corporation had Total Operating Expenses of **\$163,399** in 2017, **\$173,670** in 2016, and **\$104,868** in 2015.

-The Corporation's unrestricted cash and cash equivalent was **\$8,695** in 2017, **\$9,933** in 2016, and **\$2,482** in 2015.

-The Corporate member's share of loss in Pop Moylan Urban Redevelopment Company, LLC was **\$4,011** in 2017, **\$4,228** in 2016, and **\$2,701** in 2015.

OTHER FINANCIAL INFORMATION

The Gloucester County Housing Development Corporation is a component unit of the Housing Authority of Gloucester County, New Jersey. The Corporation holds two mortgage notes on the Nancy J. Elkins Seniors Housing project owned by Pop Moylan Urban Redevelopment Company, LLC. The Corporation is the sponsor of this project. As of the year ended December 31, 2017, the mortgage receivables combined equaled **\$3,207,622** and accrued interest receivable was **\$3,339,388**. The corporation, through its subsidiary, PMURC, Inc., is a managing member of the LLC. See the Financial Notes for further explanation.

Nancy J. Elkins Seniors Housing is a tax credit project providing living space for elderly low-income families. The mortgage notes are payable as cash flow allows. The project has had little cash flow to make payments to the Corporation, hence there is a large accrued interest receivable. The project is expected to produce more cash flow in the near future but not sufficient enough to begin any principal reduction until beyond 2017.

The financial books are maintained in accordance with Generally Accepted Accounting Principles.

CAPITAL ASSETS and DEBT ADMINISTRATION

The Corporation's major capital asset is a parcel of land located in Deptford, New Jersey, which it leases to Pop Moylan Urban Redevelopment Company, LLC for the purpose of the Nancy J. Elkins Seniors Housing.

The Corporation currently has no debt.

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

CONDENSED FINANCIAL STATEMENTS

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
<u>STATEMENTS OF NET POSITION</u>			
Assets:			
Current Assets	\$ 79,084	\$ 29,075	\$ 95,110
Restricted Assets	139,255	139,047	138,838
Capital Assets	399,085	399,085	399,085
Other Non Current Assets	6,704,469	6,556,245	6,364,316
Total Assets	<u>\$ 7,321,893</u>	<u>\$ 7,123,452</u>	<u>\$ 6,997,349</u>
Liabilities:			
Current Liabilities	\$ 302,775	\$ 156,750	\$ 72,176
Long-Term Liabilities	86,811	82,800	78,572
Total Liabilities	<u>389,586</u>	<u>239,550</u>	<u>150,748</u>
Net Assets:			
Net Investment in Capital Assets	399,085	399,085	399,085
Unrestricted Net Position	6,533,222	6,484,817	6,447,516
Total Net Position	<u>6,932,307</u>	<u>6,883,902</u>	<u>6,846,601</u>
Total Liabilities and Net Position	<u>\$ 7,321,893</u>	<u>\$ 7,123,452</u>	<u>\$ 6,997,349</u>
<u>STATEMENTS OF REVENUE, EXPENSES and CHANGES IN NET POSITION</u>			
Operating Revenues:			
Interest Income on Notes Receivable	\$ 161,343	\$ 161,785	\$ 161,343
Management Contract and Other Income	53,750	52,694	52,349
Land Lease Income	500	500	500
Total Operating Revenues	<u>215,593</u>	<u>214,979</u>	<u>214,192</u>
Operating Expenses:			
Administrative	161,359	170,265	100,942
Insurance	2,040	3,405	3,926
Total Operating Expense	<u>163,399</u>	<u>173,670</u>	<u>104,868</u>
Operating Income (Loss)	<u>52,194</u>	<u>41,309</u>	<u>109,324</u>
Non-operating Revenues (Expenses):			
Interest Income	222	220	222
Member's share in loss from limited liability company	(4,011)	(4,228)	(2,701)
Total Non-operating Revenues (Expenses)	<u>(3,789)</u>	<u>(4,008)</u>	<u>(2,479)</u>
Change in Net Position	<u>\$ 48,405</u>	<u>37,301</u>	<u>106,845</u>
Net Position - Beginning	<u>6,883,902</u>	<u>6,846,601</u>	<u>6,739,756</u>
Total Net Position - Ending	<u>\$ 6,932,307</u>	<u>\$ 6,883,902</u>	<u>\$ 6,846,601</u>

**GOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2017**

BUDGETARY HIGHLIGHTS

A budget was prepared by the Corporation for internal control purposes. The budgets were used strictly as a management tool. For the year ended December 31, 2017, the corporation has operated substantially within the budget guidelines it established.

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. For the people who have recently entered into retirement and have seen their savings deplete during this economy, there has been an even greater need for affordable housing for seniors.

The corporation's sponsored project, Nancy J. Elkins Seniors Housing, will continue to be a viable resource in this area. 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 corporation. Overall, next year's budget continues to reflect this trend.

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.

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
AND SUBSIDIARY**
Statements of Net Position
As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash	\$ 8,695	\$ 9,933
Due from affiliate	70,389	19,142
Total current assets	79,084	29,075
Noncurrent assets		
Land held for lease	399,085	399,085
Notes receivable	3,207,622	3,207,622
Accrued interest on notes receivable	3,339,388	3,178,044
Due from affiliate	157,459	170,579
Restricted cash - operating deficit reserve	139,255	139,047
Total noncurrent assets	7,242,809	7,094,377
	\$ 7,321,893	\$ 7,123,452
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 12,980	\$ 10,505
Due to Housing Authority of Gloucester County	289,795	146,245
Total current liabilities	302,775	156,750
Member's interest in the deficit of a limited liability company	86,811	82,800
Total liabilities	389,586	239,550
Net position		
Net investment in capital assets	399,085	399,085
Unrestricted net position	6,533,222	6,484,817
	6,932,307	6,883,902
	\$ 7,321,893	\$ 7,123,452

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

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
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	\$ 161,343	\$ 161,785
Management contract income	53,750	52,694
Land lease income	500	500
Total operating revenue	215,593	214,979
Operating expenses		
Administrative	161,359	170,265
Insurance	2,040	3,405
Total operating expenses	163,399	173,670
Operating income	52,194	41,309
Non-operating revenue (expense)		
Interest income	222	220
Member's share in loss from limited liability company	(4,011)	(4,228)
Net non-operating expense	(3,789)	(4,008)
Increase in net position	48,405	37,301
Net position - beginning	6,883,902	6,846,601
Net position - ending	\$ 6,932,307	\$ 6,883,902

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

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
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	\$ 16,123	\$ 96,536
Cash paid to vendors and suppliers	435	(4,336)
Cash paid to Housing Authority of Gloucester County	<u>(17,810)</u>	<u>(84,760)</u>
Net cash provided by (used in) operating activities	<u>(1,252)</u>	<u>7,440</u>
Cash flows from investing activities		
Interest income received	<u>222</u>	<u>220</u>
Net increase (decrease) in cash	(1,030)	7,660
Cash - beginning	<u>148,980</u>	<u>141,320</u>
Cash - ending	<u><u>\$ 147,950</u></u>	<u><u>\$ 148,980</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 52,194	\$ 41,309
Adjustments to reconcile increase in net position to net cash provided by (used in) operating activities		
(Increase) decrease in		
Accrued interest on notes receivable	(161,344)	(161,785)
Due from affiliate	(38,127)	43,342
Increase (decrease) in		
Accounts payable and accrued expenses	2,475	(931)
Due to Housing Authority of Gloucester County	<u>143,550</u>	<u>85,505</u>
Net cash provided by (used in) operating activities	<u><u>\$ (1,252)</u></u>	<u><u>\$ 7,440</u></u>
Reconciliation of cash to the statements of net position		
Cash	\$ 8,695	\$ 9,933
Restricted cash - operating deficit reserve	<u>139,255</u>	<u>139,047</u>
	<u><u>\$ 147,950</u></u>	<u><u>\$ 148,980</u></u>
Disclosure of non-cash investing activity:		
Share of loss from investment in limited liability company	<u><u>\$ 4,011</u></u>	<u><u>\$ 4,228</u></u>

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

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

Note 1: ORGANIZATION AND ACTIVITY

Reporting entity - Gloucester County Housing Development Corporation ("the Corporation") is an instrumentality and a component unit of the Housing Authority of Gloucester County, New Jersey ("the Authority") organized as a nonprofit corporation under the laws of the State of New Jersey in December 1978. The purpose of the Corporation is to provide housing for persons of low-income through ownership, development, and financing. 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.

PMURC, Inc. (PMURC), a wholly-owned subsidiary of the Corporation, was organized to invest in real estate for low-income housing.

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 PMURC. 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.

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
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.

Land – Land held for lease is carried at cost.

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:

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.

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
AND SUBSIDIARY**

Notes to Financial Statements (continued)

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 wholly-owned Subsidiary is a corporation subject to Federal and state income taxes. PMURC had only a liability for the minimum tax to New Jersey for 2017 and there were no timing differences which would have resulted in deferred taxes.

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 the 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 its related organization Pop Moylan Urban Redevelopment Company, LLC (Pop Moylan). 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 membership in Pop Moylan, not meeting these criteria are considered nonoperating.

Member's interest in the deficit of a limited liability company – PMURC holds a 1% general partnership interest in Pop Moylan Urban Redevelopment Company, LLC (Pop Moylan), 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.

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.

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
AND SUBSIDIARY**

Notes to Financial Statements (continued)

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and 2016, the Corporation's bank balances were exposed to custodial credit risk as follows:

Insured by FDIC	\$	147,951		\$	148,980
Uninsured		-			-
		\$	147,951		\$
					148,980

Note 4: NOTES RECEIVABLE

The Corporation holds a second mortgage from Pop Moylan, a related party, which bears interest at 5.03% per annum. Annual payments of \$188,664 were due commencing on January 1, 1999, and continuing every January 1 through 2028. Payments are due only to the extent of net cash flow as defined in Pop Moylan's Amended and Restated Operating Agreement. At December 31, 2017 and 2016, outstanding principal was \$2,687,622. Accrued interest at December 31, 2017 and 2016 was \$2,792,444 and \$2,657,256, respectively. As of December 31, 2017 and 2016, Pop Moylan had not made any scheduled payments.

The Corporation holds a third mortgage from Pop Moylan, a related party, in the amount of \$520,000. The mortgage bears interest at the rate of 5.03% per annum on the outstanding principal balance. Annual payments of \$34,458 were due commencing on January 1, 1999, and continuing through January 1, 2028. Payments are due only to the extent of net cash flow as defined in Pop Moylan's Amended and Restated Operating Agreement. At December 31, 2017 and 2016, accrued interest was \$546,944 and \$520,788. As of December 31, 2017 and 2016, Pop Moylan had not made any scheduled payments.

Both notes are secured by a deed of trust on rental property owned by Pop Moylan.

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
AND SUBSIDIARY**

Notes to Financial Statements (continued)

Note 5: RELATED PARTY TRANSACTIONS

Pop Moylan Urban Redevelopment Company, LLC – The Corporation manages a rental property owned by Pop Moylan, a related party. 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 \$55.99 and \$54.89 per unit per month, respectively. The bookkeeping fee is paid by Pop Moylan to the Authority. Management fees totaling \$53,750 and \$52,694 were accrued for the years ending December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, Pop Moylan paid the Corporation a total of \$6,500 and \$105,668, respectively, of accrued management fees due to sufficient cash flow of Pop Moylan as defined by the Operating Agreement. As of December 31, 2017 and 2016, \$227,380 and \$180,131 of management fee is receivable and included in due from affiliate on the balance sheet.

There were transactions with Pop Moylan during the year for other costs between the entities. As a result, at year-end, there was a receivable due from Pop Moylan of \$468 and \$9,590 at December 31, 2017 and 2016, respectively.

Notes receivable – See Note 4.

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 payable due to the Authority in the amount of \$289,795 and \$146,245 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.

Note 6: GROUND LEASE

The Corporation entered into a ground lease agreement with Pop Moylan (the lessee) to lease the land on which a rental property owned by Pop Moylan was built for a period of 50 years. Minimum annual payments of \$500 are due on August 6 of each year. Maximum annual payments of \$10,460 are due and payable to the extent of surplus cash of the lessee. Maximum annual payments not paid due to insufficient surplus cash accrue interest at the rate of 12% per annum; however such deferred amounts are not required to be paid unless the Corporation notifies Pop Moylan in writing that additional payments are due. No surplus cash was available to pay additional ground rent at December 31, 2017 and 2016 and the Corporation has not notified Pop Moylan of any deferred amounts due.

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
AND SUBSIDIARY**

Notes to Financial Statements (continued)

Note 7: INVESTMENT IN LIMITED LIABILITY COMPANY

PMURC holds a 1% general partnership interest in Pop Moylan. Profits, losses and cash distributions from the operation of Pop Moylan are allocated based on the Corporation's operating agreement. The project consists of an 80-unit apartment project in Deptford, New Jersey.

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

BALANCE SHEETS

	<u>2017</u>	<u>2016</u>
ASSETS		
Investment in real estate		
Buildings and improvements	\$ 8,980,344	\$ 8,980,344
Furniture and fixtures	<u>225,553</u>	<u>208,326</u>
	9,205,897	9,188,670
Less accumulated depreciation	<u>6,666,672</u>	<u>6,323,993</u>
	2,539,225	2,864,677
Other assets	<u>1,191,569</u>	<u>1,101,137</u>
	<u>\$ 3,730,794</u>	<u>\$ 3,965,814</u>
LIABILITIES AND MEMBER'S DEFICIT		
LIABILITIES		
Mortgage payable	\$ 5,645,522	\$ 5,750,758
Other liabilities	<u>3,792,707</u>	<u>3,566,497</u>
	9,438,229	9,317,255
MEMBERS' DEFICIT	<u>(5,707,435)</u>	<u>(5,351,441)</u>
	<u>\$ 3,730,794</u>	<u>\$ 3,965,814</u>

**GLOUCESTER COUNTY HOUSING DEVELOPMENT CORPORATION
AND SUBSIDIARY**

Notes to Financial Statements (continued)

Note 7: INVESTMENT IN LIMITED LIABILITY COMPANY (continued)

STATEMENTS OF OPERATIONS

	<u>2017</u>	<u>2016</u>
Revenue		
Rent	\$ 805,977	\$ 751,858
Other	39,829	43,194
	845,806	795,052
Expenses		
Depreciation	342,679	340,237
Interest	290,465	298,163
Other expenses	613,811	579,363
	1,246,955	1,217,763
Excess of expenses over revenue	(401,149)	(422,711)
Deposits to repairs and replacement reserve	49,500	49,500
Withdraws from repairs and replacement reserve	(5,788)	(51,989)
Interest earned	1,443	1,381
Members' deficit – beginning	(5,351,441)	(4,927,622)
Members' deficit – ending	\$ (5,707,435)	\$ (5,351,441)

Note 8: OPERATING DEFICIT RESERVE

Pursuant to Pop Moylan's Amended and Restated Operating Agreement, the Gloucester County Housing Development Corporation was required to fund an operating deficit reserve in the initial amount of \$122,126. Annually, on each January 10th, the Corporation is required to deposit 10% of Pop Moylan's net cash flow into the reserve. The reserve is to be used to fund project operations when there is insufficient operating cash available. As of December 31, 2017 and 2016, the balance of the reserve was \$139,255 and \$139,047, respectively. This amount represents the initial deposit plus accumulated interest as Pop Moylan has not experienced positive cash flow to date.