

**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, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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
August 11, 2017

Seniors Housing Development Corporation of Gloucester County and Subsidiary
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

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, 2016. 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, 2016

FINANCIAL HIGHLIGHTS

- The Corporation's Total Net 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 a decrease in Net Investment in Capital Assets of \$2,111. The Corporation's Total Net Position (equity) increased from 2014 to 2015 by **\$151,951** from **\$13,451,372** to **\$13,603,323** which includes an increase in Unrestricted Net Position of \$87,426 and an increase in Net Investment in Capital Assets of \$64,525.
- The Corporation had Total Operating Revenues of **\$550,137** in 2016, **\$516,891** in 2015, and **\$512,501** in 2014. The Corporation had Total Operating Expenses of **\$387,369** in 2016, **\$299,212** in 2015, and **\$385,462** in 2014.
- The Corporation's Cash and Investment balance was **\$848,629** in 2016, **\$571,458** in 2015, and **\$1,059,607** in 2014.
- The Corporation currently has no debt.

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, 2016.

CAPITAL ASSETS and DEBT ADMINISTRATION

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, 2016	December 31, 2015	December 31, 2014
	<u> </u>	<u> </u>	<u> </u>
<u>STATEMENTS OF NET POSITION</u>			
Assets:			
Current Assets	\$ 2,198,718	\$ 1,849,657	\$ 1,549,214
Restricted Assets	0	0	0
Capital Assets, net of Depreciation	488,967	491,078	426,553
Other Non Current Assets	11,102,324	11,289,797	11,511,482
Total Assets	<u>\$ 13,790,009</u>	<u>\$ 13,630,532</u>	<u>\$ 13,487,249</u>
Liabilities:			
Current Liabilities	\$ 28,234	\$ 27,209	\$ 35,877
Long-Term Liabilities			
Total Liabilities	<u>28,234</u>	<u>27,209</u>	<u>35,877</u>
Net Position:			
Net Investment in Capital Assets	488,967	491,078	426,553
Unrestricted Net Position	13,272,808	13,112,245	13,024,819
Total Net Position	<u>13,761,775</u>	<u>13,603,323</u>	<u>13,451,372</u>
Total Liabilities and Net Position	<u>\$ 13,790,009</u>	<u>\$ 13,630,532</u>	<u>\$ 13,487,249</u>
<u>STATEMENTS OF REVENUE, EXPENSES and CHANGES IN NET POSITION</u>			
Operating Revenues:			
Interest Income on Notes Receivable	322,248	314,098	306,548
Other Revenues	227,889	202,793	205,953
Total Operating Revenues	<u>550,137</u>	<u>516,891</u>	<u>512,501</u>
Operating Expenses:			
Administrative and Other Expenses	380,760	296,417	383,922
Depreciation and Amortization Expense	6,609	2,795	1,540
Total Operating Expense	<u>387,369</u>	<u>299,212</u>	<u>385,462</u>
Operating Income (Loss)	<u>162,768</u>	<u>217,679</u>	<u>127,039</u>
Non-operating Revenues (Expenses):			
Gain on sale of building			
Insurance recovery, net of casualty loss on building			
Interest Income	1,093	1,299	1,782
Interest Expense			
Net Non-operating Revenues (Expenses)	<u>1,093</u>	<u>1,299</u>	<u>1,782</u>
Income (Loss) Before Contributions and Transfers	163,861	218,978	128,821
Contribution (to) from Housing Authority of Gloucester County	0	-39,218	
Contribution (to) from Colonial Park, LP	-5,409	-27,809	
Change in Net Position	<u>158,452</u>	<u>151,951</u>	<u>128,821</u>
Net Position - Beginning	13,603,323	13,451,372	13,322,551
Total Net Position - Ending	<u>\$ 13,761,775</u>	<u>\$ 13,603,323</u>	<u>\$ 13,451,372</u>

Seniors Housing Development Corporation of Gloucester County and Subsidiary
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2016

BUDGETARY HIGHLIGHTS

For the year ended December 31, 2016, 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 2017 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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Unrestricted cash and cash equivalents	\$ 847,328	\$ 571,458
Restricted cash and cash equivalents	1,301	-
Due from the Housing Authority of Gloucester County	239,301	392,249
Due from Colonial Park L.P.	45,861	-
Development fee receivable	1,064,428	884,707
Prepaid expenses	499	1,243
	<u>2,198,718</u>	<u>1,849,657</u>
Total current assets		
Noncurrent assets		
Capital assets, net of accumulated depreciation	488,967	491,078
Development fee receivable	840,277	1,419,998
Note receivable	8,200,222	8,200,222
Land lease receivable	349,450	249,950
Accrued interest receivable	1,712,375	1,419,627
	<u>11,591,291</u>	<u>11,780,875</u>
Total noncurrent assets		
	<u>\$ 13,790,009</u>	<u>\$ 13,630,532</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 26,933	\$ 27,209
Tenant funds on deposit	1,301	-
	<u>28,234</u>	<u>27,209</u>
Total current liabilities		
Net position		
Net investment in capital assets	488,967	491,078
Unrestricted net position	13,272,808	13,112,245
	<u>13,761,775</u>	<u>13,603,323</u>
Total net position		
	<u>\$ 13,790,009</u>	<u>\$ 13,630,532</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenue		
Interest income on notes receivable	\$ 322,248	\$ 314,098
Management contract income	138,348	137,424
Land lease income	70,000	65,000
Tenant charges	14,300	-
Miscellaneous income	5,241	369
	<hr/>	<hr/>
Total operating revenue	550,137	516,891
	<hr/>	<hr/>
Operating expenses		
Administrative	367,712	273,670
Utilities	825	1,562
Maintenance	3,604	6,830
General	90	56
Insurance	8,529	14,299
	<hr/>	<hr/>
Total operating expenses before depreciation and amortization	380,760	296,417
	<hr/>	<hr/>
Operating income before depreciation and amortization	169,377	220,474
	<hr/>	<hr/>
Depreciation and amortization	6,609	2,795
	<hr/>	<hr/>
Operating income	162,768	217,679
	<hr/>	<hr/>
Non-operating revenue (expense)		
Contribution to Housing Authority of Gloucester County	-	(39,218)
Contribution to Colonial Park, LP	(5,409)	(27,809)
Interest income	1,093	1,299
	<hr/>	<hr/>
Net non-operating expense	(4,316)	(65,728)
	<hr/>	<hr/>
Increase in net position	158,452	151,951
	<hr/>	<hr/>
Net position - beginning	13,603,323	13,451,372
	<hr/>	<hr/>
Net position - ending	<u>\$ 13,761,775</u>	<u>\$ 13,603,323</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from management contracts	\$ 138,348	\$ 137,424
Cash received from tenants	15,604	-
Cash received from Colonial Park, L.P. for developer's fee	400,000	38,047
Cash received from (paid to) Housing Authority of Gloucester County, net	114,239	(224,655)
Cash paid for goods and services	<u>(382,206)</u>	<u>(305,917)</u>
Net cash provided by (used in) operating activities	<u>285,985</u>	<u>(355,101)</u>
Cash flows from capital and related financing activities		
Contribution to Housing Authority of Gloucester County	-	(39,218)
Contribution to Colonial Park, LP	(5,409)	(27,809)
Purchase of property	<u>(4,498)</u>	<u>(67,320)</u>
Net cash used in capital and related financing activities	<u>(9,907)</u>	<u>(134,347)</u>
Cash flows from investing activities		
Interest income received	<u>1,093</u>	<u>1,299</u>
Net increase (decrease) in cash	277,171	(488,149)
Cash - beginning	<u>571,458</u>	<u>1,059,607</u>
Cash - ending	<u><u>\$ 848,629</u></u>	<u><u>\$ 571,458</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 162,768	\$ 217,679
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation and amortization	6,609	2,795
(Increase) decrease in assets		
Prepaid expenses	744	(1,201)
Due from the Housing Authority of Gloucester County	152,948	(224,655)
Due from Colonial Park L.P.	(45,861)	
Developer's fee receivable	400,000	38,047
Land lease receivable	(99,500)	(86,350)
Accrued interest receivable	(292,748)	(292,748)
Increase (decrease) in liabilities		
Tenant funds on deposit	1,301	-
Accounts payable and accrued expenses	<u>(276)</u>	<u>(8,668)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 285,985</u></u>	<u><u>\$ (355,101)</u></u>
Reconciliation of cash and cash equivalents to the statements of net position		
Unrestricted cash and cash equivalents	\$ 847,328	\$ 571,458
Restricted cash and cash equivalents	<u>1,301</u>	<u>-</u>
	<u><u>\$ 848,629</u></u>	<u><u>\$ 571,458</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, 2016 and 2015, 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, 2016 and 2015.

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 2015 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, 2016, the Corporation adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB). Implementation of these statements had no material impact on the Corporation's 2016 financial statements.

Statement No. 72, Fair Value Measurement and Application - Issued February 2015, this Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This Statement was effective for periods beginning after June 15, 2015.

Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments - Issued June 2015, this Statement identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement was effective for periods beginning after June 15, 2015.

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 - Issued March 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 reporting periods beginning after June 15, 2017.

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

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

Insured by FDIC	\$	250,000
Uninsured		597,328
	\$	847,328

Note 4: **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 and 2015 was as follows:

	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
	496,742	4,498		501,240
Less accumulated depreciation	5,664	6,609		12,273
Net capital assets	\$ 491,078	\$ (2,111)	\$ -	\$ 488,967

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015
Land	\$ 363,364		\$ -	\$ 363,364
Buildings	63,779	\$ 66,979		130,758
Equipment	2,279	341		2,620
	429,422	67,320		496,742
Less accumulated depreciation	2,869	2,795		5,664
Net capital assets	\$ 426,553	\$ 64,525	\$ -	\$ 491,078

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

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, 2016 and 2015 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, 2016. Interest in the amounts of \$1,712,375 and \$1,419,627 was accrued as of December 31, 2016 and 2015, respectively.

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. \$400,000 was received from Colonial Park, L.P. in 2016. Development fee receivable is \$1,904,705 and \$2,304,705 as of December 31, 2016 and 2015, 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 \$70,000 and \$65,000 for 2016 and 2015, respectively. These amounts have been accrued as a receivable in the financial statements, in addition to interest of \$29,500 and \$21,350 for 2016 and 2015, respectively. Cumulative principal and interest receivable at December 31, 2016 and 2015 is \$349,450 and \$249,950, 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, 2016 and 2015, the management fee was \$52.53 and \$52.16 per unit per month, respectively, and the bookkeeping fee was \$6.62 and \$6.60 per unit per month, respectively, and capped at \$1,023 and \$1,020 per month, respectively. At December 31, 2016 and 2015, the Corporation incurred management fees of \$126,072 and \$125,184, respectively, and bookkeeping fees of \$12,276 and \$12,240, respectively.

The Corporation provided a contribution to CPLP totaling \$5,409 relating to furniture purchased in 2016.

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 \$239,301 and \$392,249 at December 31, 2016 and 2015, 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, 2016 and 2015, and for the years then ended, is as follows:

SUMMARY OF ASSETS, LIABILITIES, AND PARTNERS' CAPITAL

	<u>2016</u>	<u>2015</u>
ASSETS		
Investment in real estate		
Buildings and improvements	\$ 23,845,221	\$ 23,845,221
Furniture and fixtures	<u>62,203</u>	<u>53,961</u>
	23,907,424	23,899,182
Less accumulated depreciation	<u>2,777,591</u>	<u>2,170,945</u>
	21,129,833	21,728,237
Other assets	<u>2,145,125</u>	<u>1,611,691</u>
	<u>\$ 23,274,958</u>	<u>\$ 23,339,928</u>
LIABILITIES AND PARTNERS' CAPITAL		
LIABILITIES		
Mortgage payable	\$ 14,339,725	\$ 14,157,676
Other liabilities	<u>4,205,700</u>	<u>4,134,795</u>
	18,545,425	18,292,471
PARTNERS' CAPITAL	<u>4,729,533</u>	<u>5,047,457</u>
	<u>\$ 23,274,958</u>	<u>\$ 23,339,928</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>2016</u>	<u>2015</u>
Revenue		
Rent	\$ 2,308,348	\$ 2,275,532
Other	<u>77,070</u>	<u>45,973</u>
	<u>2,385,418</u>	<u>2,321,505</u>
Expenses		
Depreciation	606,646	603,644
Interest	523,895	619,091
Fees and charges	25,005	23,491
Other expenses	<u>1,550,278</u>	<u>1,538,426</u>
	<u>2,705,824</u>	<u>2,784,652</u>
Excess of expenses over revenue	(320,406)	(463,147)
Capital contributions	5,409	27,809
Return of capital	(2,927)	(2,927)
Partners' capital – beginning	<u>5,047,457</u>	<u>5,485,722</u>
Partners' capital – ending	<u>\$ 4,729,533</u>	<u>\$ 5,047,457</u>