

Financial Statements and Report of  
Independent Certified Public Accountants

**NATIONAL AVIATION RESEARCH AND  
TECHNOLOGY PARK, INC.**  
(A Component Unit of Stockton University)

June 30, 2018 and 2017

**NATIONAL AVIATION RESEARCH AND TECHNOLOGY PARK, INC.**  
**(A Component Unit of Stockton University)**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

**National Aviation Research and Technology Park, Inc.**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of National Aviation Research and Technology Park, Inc., a component unit of Stockton University, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of changes in net assets and 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 audit 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 National Aviation Research and Technology Park, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

November 26, 2018

**NATIONAL AVIATION RESEARCH AND TECHNOLOGY PARK, INC.**  
**(A Component Unit of Stockton University)**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 7,924	\$ 131,681
Grant receivable	148,856	-
Other receivable	2,084	23
Prepaid expenses	<u>4,923</u>	<u>4,703</u>
Total current assets	<u>163,787</u>	<u>136,407</u>
Equipment, net	<u>11,309</u>	<u>-</u>
Total assets	<u>\$ 175,096</u>	<u>\$ 136,407</u>
<b>LIABILITIES AND NET DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 117,219	\$ 2,510
Due to the University	34,616	82,500
Deferred revenue	-	6,895
Other liabilities	<u>-</u>	<u>8,466</u>
Total current liabilities	<u>151,835</u>	<u>100,371</u>
<b>NON-CURRENT LIABILITIES</b>		
Loan payable to the University	1,291,700	1,141,700
Interest payable to the University	<u>132,604</u>	<u>83,490</u>
Total non-current liabilities	<u>1,424,304</u>	<u>1,225,190</u>
Total liabilities	1,576,139	1,325,561
UNRESTRICTED NET DEFICIT	<u>(1,401,043)</u>	<u>(1,189,154)</u>
Total liabilities and net deficit	<u>\$ 175,096</u>	<u>\$ 136,407</u>

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

**NATIONAL AVIATION RESEARCH AND TECHNOLOGY PARK, INC.**  
**(A Component Unit of Stockton University)**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**Years ended June 30, 2018 and 2017**

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	<u>2018</u>	<u>2017</u>
<b>REVENUES AND OTHER SUPPORT</b>		
Grant revenue	\$ 305,751	\$ 293,105
Memberships	2,084	25,000
In-kind revenue	<u>87,159</u>	<u>86,697</u>
Total revenues and other support	<u>394,994</u>	<u>404,802</u>
<b>EXPENSES</b>		
Program expenses		
Research park development	519,724	520,794
In-kind expense	<u>87,159</u>	<u>86,697</u>
Total expenses	<u>606,883</u>	<u>607,491</u>
Decrease in net assets	(211,889)	(202,689)
Unrestricted net deficit - beginning of year	<u>(1,189,154)</u>	<u>(986,465)</u>
Unrestricted net deficit - end of year	<u>\$ (1,401,043)</u>	<u>\$ (1,189,154)</u>

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

**NATIONAL AVIATION RESEARCH AND TECHNOLOGY PARK, INC.**  
**(A Component Unit of Stockton University)**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2018 and 2017**

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	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (211,889)	\$ (202,689)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Depreciation expense	136	-
Effect of changes in operating assets and liabilities		
Grants receivable	(148,856)	-
Other receivables	(2,061)	21,031
Prepaid expenses	(220)	(55)
Accounts payable and accrued expenses	103,264	(28,595)
Unearned revenue	(6,895)	6,895
Interest payable to the University	49,114	40,516
Due to the University - other	(47,884)	(4,451)
Other liabilities	<u>(8,466)</u>	<u>-</u>
Net cash used in operating activities	<u>(273,757)</u>	<u>(167,348)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the University loan	<u>150,000</u>	<u>165,000</u>
Net cash provided by financing activities	<u>150,000</u>	<u>165,000</u>
Decrease in cash and cash equivalents	(123,757)	(2,348)
Cash and cash equivalents - beginning of year	<u>131,681</u>	<u>134,029</u>
Cash and cash equivalents - end of year	<u>\$ 7,924</u>	<u>\$ 131,681</u>
<b>Supplemental disclosure of noncash capital financing activity</b>		
Capital asset additions in accounts payable	<u>\$ 11,445</u>	<u>\$ -</u>

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

**NATIONAL AVIATION RESEARCH AND TECHNOLOGY PARK, INC.**  
**(A Component Unit of Stockton University)**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**1. DESCRIPTION OF THE ORGANIZATION**

On September 18, 2013, the Aviation Research and Technology Park, Inc. became an auxiliary organization of Stockton University (the “University”) for the purpose of supporting the teaching and learning mission of the University under the Public College Auxiliary Organization Act, N.J.S.A. 18A:64-26 et seq. as the Stockton Aviation Research and Technology Park of New Jersey, Inc. In May of 2018, its name was amended to the National Aviation Research and Technology Park, Inc. (“NARTP”). The University will be the lead agency in the development of a 58-acre aviation research and technology park for the purposes of developing aviation related educational programs and fostering aviation related research. NARTP will expand opportunities for the University’s students and faculty to participate in aviation research and other related teaching and scholarly work, in addition to effective utilization of partnerships which contribute to the economic development of surrounding communities, region and the State of New Jersey. As part of the agreement, NARTP is responsible for development and management services with respect to the development of the 58-acre research park. Adjacent to the Federal Aviation Administration William J. Hughes Technical Center, the site will include over 400,000 square feet of research and office space in seven buildings at completion. The facility could generate more than 2,000 high paying technical jobs related to research and development of the advanced technologies, innovations, and product commercialization for aviation and air traffic control, including the integration of unmanned aircraft systems into the National Airspace Systems.

The purpose of NARTP is to conduct research and development and to promote concept and product development using emerging technologies in a laboratory and operational environment. NARTP is a focal point for interaction and innovation among researchers, academia, government and private industry in developing the next generation air traffic control system (“NextGen”), which is critical to our nation’s aviation system.

NARTP’s operations are entirely or almost entirely for the direct purpose of the University. Accordingly, NARTP’s financial statements are discretely presented in the University’s basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

NARTP’s financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). U.S. GAAP also requires that net assets and revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



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**June 30, 2018 and 2017**

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**Income Taxes**

The Internal Revenue Service has classified NARTP as a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and as a public charity under Section 509(a)(3) of the Code. The State of New Jersey Division of Taxation has determined that NARTP be exempt from New Jersey income tax, as well as sales and use tax for purchases directly related to the purposes for which NARTP was formed and purchased with NARTP’s funds. NARTP follows the Financial Accounting Standards Board (“FASB”) guidance that requires a tax position to be recognized or derecognized based on a “more likely than not” threshold to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

NARTP does not believe its financial statements include any material uncertain tax positions for which recognition or disclosure is warranted. NARTP’s policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expense. No interest or penalties were recognized in 2018 or 2017.

NARTP is exempt from federal income taxation; nevertheless, it may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code.

**Net Deficit**

NARTP reports its resources in accordance with accounting guidance governing “Financial Statements for Not-For-Profit Organizations,” as follows:

*Unrestricted Net Deficit* - Net deficit that is not subject to externally imposed stipulations. Unrestricted net deficit may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

**Cash and Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in three months or less from date of purchase.

**Equipment**

Equipment is carried at historical cost, less accumulated depreciation and amortization. NARTP provides for depreciation of its equipment by the use of the straight-line method over the estimated useful lives of its assets. The estimated useful lives used in computing the depreciation provisions and the capitalization thresholds are as follows:

<u>Asset Category</u>	<u>Useful Life</u>	<u>Capitalization Threshold</u>
Equipment	3 to 15 years	\$ 5,000

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**Grant Revenue**

NARTP receives grants under agreements with sponsors and recognizes revenues as related costs are incurred. NARTP has been awarded a grant from the Atlantic County Improvement Authority in the amount of \$300,000 annually for a three-year period beginning with fiscal year 2017. NARTP has realized \$305,751 and \$293,105 for the years ended June 30, 2018 and 2017, respectively.

**Memberships**

NARTP offers memberships to any academic, industry, government, individual or organization that can support the advancement of aviation through research and development, product commercialization and innovation, and streamlined implementation of advanced concepts and capabilities.

**Deferred Revenues**

There was no deferred grant revenue at June 30, 2018. There was \$6,895 in deferred grant revenue at June 30, 2017.

**New Accounting Guidance**

In May 2014, the FASB issued a new standard related to *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. The new standard is effective for periods beginning after December 15, 2018. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. NARTP has not determined the impact of the new standard at this time.

In August 2016, the FASB issued a new standard related to the *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. NARTP has not determined the impact of the new standard at this time.

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**3. EQUIPMENT**

Equipment consisted of the following at June 30, 2018:

Equipment	\$ 11,445
Less accumulated depreciation	<u>(136)</u>
Equipment, net	<u>\$ 11,309</u>

Depreciation expense for the year ended June 30, 2018 was \$136.

**4. LONG-TERM NOTES PAYABLE**

NARTP has a \$1,500,000 Commercial Line Note (the “Loan”) from the University. Under the terms of the Loan, NARTP pays interest to the University on the outstanding and unpaid principal amount of the Loan at an adjustable interest rate of the 30-year U.S. Treasury Note rate plus 150 basis points. The rates as of June 30, 2018 and 2017 were 4.24% and 3.80%, respectively. Under the terms of the Loan, payment of the Loan balance is not required until April 2044. The Loan is secured by the assets of NARTP and is available for draws until December 31, 2018 through an amendment to the Loan agreement executed on October 6, 2017.

As of June 30, 2018 and 2017, the loan balance due from NARTP to the University was \$1,291,700 and \$1,141,700, respectively. For the years ended June 30, 2018 and 2017, the related party interest expense on the Loan was \$49,114 and \$40,516, respectively.

**5. CONCENTRATION OF RISK**

NARTP maintains its cash in bank deposits, which at times may exceed federally insured limits. NARTP has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**6. RELATED PARTY TRANSACTIONS**

NARTP is not under the common control of the University’s Board of Trustees (the “Trustees”). A separate Board of Directors (the “Board”) has oversight responsibility for NARTP and acts independently of the University. The Board includes members from the University community. The Board has 14 members, including two students of the University, one member of the Trustees and two administrators from the University. The remaining nine members of the Board are leaders from the local community.

**NATIONAL AVIATION RESEARCH AND TECHNOLOGY PARK, INC.**  
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The following balances as of June 30, 2018 and 2017 are settled during the normal course of operations:

	<u>2018</u>	<u>2017</u>
Due to the University		
Interest on loan	\$ 132,604	\$ 83,490
Overhead due to the University	34,075	82,470
Miscellaneous	<u>541</u>	<u>30</u>
 Total due to the University	 <u>\$ 167,220</u>	 <u>\$ 165,990</u>

**7. SUBSEQUENT EVENTS**

NARTP evaluated subsequent events through November 26, 2018, which is the date the financial statements were available to be issued. NARTP is not aware of any subsequent events that would require recognition or disclosure in the financial statements.