

Financial Statements and Report of
Independent Certified Public Accountants

STOCKTON AFFILIATED SERVICES, INC.
(A Component Unit of Stockton University)

June 30, 2018 and 2017

STOCKTON AFFILIATED SERVICES, INC.
(A Component Unit of Stockton University)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Stockton Affiliated Services, Inc.

We have audited the accompanying financial statements of Stockton Affiliated Services, Inc. (“SASI”), 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 activities 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 Stockton Affiliated Services, 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

STOCKTON AFFILIATED SERVICES, INC.
(A Component Unit of Stockton University)
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 2,707,923	\$ 2,248,674
Accounts receivable, net	136,603	132,874
Due from University	441,883	173,524
Prepaid expenses	<u>136,907</u>	<u>95,568</u>
Total current assets	3,423,316	2,650,640
Property and equipment, net	<u>2,102,915</u>	<u>1,878,265</u>
Total assets	<u><u>\$ 5,526,231</u></u>	<u><u>\$ 4,528,905</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 272,939	\$ 264,222
Due to University	1,288,097	1,332,282
Deferred revenue	42,509	35,258
Other liabilities	<u>35,318</u>	<u>60,616</u>
Total current liabilities	1,638,863	1,692,378
Long-term notes payable	<u>1,314,683</u>	<u>1,314,683</u>
Total liabilities	2,953,546	3,007,061
Net assets:		
Unrestricted	<u>2,572,685</u>	<u>1,521,844</u>
Total liabilities and net assets	<u><u>\$ 5,526,231</u></u>	<u><u>\$ 4,528,905</u></u>

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

STOCKTON AFFILIATED SERVICES, INC.
(A Component Unit of Stockton University)
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

	2018	2017
Revenues:		
Food service	\$ 10,834,723	\$ 10,127,044
Transportation and safety	2,083,725	1,827,215
Vendor service	164,074	164,982
Bookstore	421,306	419,775
Rental properties	233,796	233,119
Other income	35,470	43,181
Azeez Museum	5,770	15,090
	<u>13,778,864</u>	<u>12,830,406</u>
Institutional support		
Support for SASI functions (Azeez Museum)	352,204	375,801
	<u>14,131,068</u>	<u>13,206,207</u>
Expenses:		
Program expenses:		
Food service	9,475,432	9,231,294
Transportation and safety	829,212	683,111
Rental properties	101,295	83,226
Rental properties managed for the University	-	3,606
Azeez Museum	357,975	390,891
	<u>10,763,914</u>	<u>10,392,128</u>
Institutional support:		
Support of the University Mission	1,480,947	1,470,573
Support of Foundation fundraising	58,000	58,000
	<u>1,538,947</u>	<u>1,528,573</u>
Supporting expenses:		
College reimbursements	464,906	682,162
General and administrative	121,108	166,000
Depreciation	164,968	118,433
Interest	53,560	50,652
	<u>804,542</u>	<u>1,017,247</u>
Total expenses	<u>13,107,403</u>	<u>12,937,948</u>
Change in net assets from operating activities	1,023,665	268,259
Non-operating activities:		
Dividend and interest income	27,176	20,005
Change in net assets	1,050,841	288,264
Net assets at beginning of year	<u>1,521,844</u>	<u>1,233,580</u>
Net assets at end of year	<u>\$ 2,572,685</u>	<u>\$ 1,521,844</u>

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

STOCKTON AFFILIATED SERVICES, INC.
(A Component Unit of Stockton University)
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 1,050,841	\$ 288,264
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	164,968	118,433
Gain on disposal of property and equipment, net	(1,830)	-
(Increase) decrease in assets:		
Accounts receivable	(3,729)	(4,217)
Prepaid expenses	(41,339)	10,687
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	8,717	(386,899)
Due to/from University	(312,544)	572,454
Deferred revenues	7,251	28,918
Other liabilities	(25,298)	(21,785)
Net cash provided by operating activities	<u>847,037</u>	<u>605,855</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(387,788)</u>	<u>-</u>
Net cash used in investing activities	<u>(387,788)</u>	<u>-</u>
Net increase in cash	459,249	605,855
Cash and cash equivalents, beginning of year	<u>2,248,674</u>	<u>1,642,819</u>
Cash and cash equivalents, end of year	<u>\$ 2,707,923</u>	<u>\$ 2,248,674</u>
Supplementary cash flows information		
Cash paid for interest	<u>\$ 53,650</u>	<u>\$ 50,652</u>

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

STOCKTON AFFILIATED SERVICES, INC.
(A Component Unit of Stockton University)
Notes to Financial Statements
June 30, 2018 and 2017

1. ORGANIZATION

Stockton Affiliated Services, Inc. (“SASI”) was formed and incorporated within the State of New Jersey in July 2008 to manage services that support the goals of Stockton University (the “University”). The services provided to the University include off-campus housing rentals, transportation and safety services, dining services and the campus bookstore. SASI is a self-supporting enterprise established to increase, expand and improve service levels at the University by providing effective, efficient and innovative business solutions that help the University achieve its teaching, scholarship and public service missions while improving operating results and the financial position of the University.

SASI is considered a component unit of the University for financial reporting purposes. Accordingly, SASI’s financial statements are included in the University’s basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

SASI’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”). This requires the reporting of total assets, liabilities and net assets in a statement of activities and statement of financial position and reporting the sources and uses of cash and cash equivalents in a statement of cash flows.

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.

Income Taxes

The Internal Revenue Service has classified SASI as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and is exempt from federal income taxes and classified as a public charity under Section 509(a)(3) of the Code. The State of New Jersey Division of Taxation has determined SASI to be exempt from New Jersey sales and use tax for purchases directly related to the purposes for which SASI was formed and purchased with SASI’s funds.

SASI follows the Financial Accounting Standards Board (“FASB”) guidance that requires a tax position 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. SASI does not believe its financial statements include any material uncertain tax positions for which recognition or disclosure is warranted. SASI’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.

STOCKTON AFFILIATED SERVICES, INC.
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SASI 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 Assets

SASI classifies its resources into one net asset category: unrestricted net assets.

Unrestricted Net Assets - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or 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.

Property and Equipment

Property and equipment are carried at historical cost if purchased or constructed, less accumulated depreciation. SASI provides for depreciation of its property and 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>
Buildings	40 years	\$ 100,000
Infrastructure	20 to 40 years	10,000
Land Improvements	10 to 25 years	10,000
Equipment	3 to 15 years	5,000

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.

STOCKTON AFFILIATED SERVICES, INC.
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3. PENDING ACCOUNTING GUIDANCE

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. SASI has not determined the impact of the new standard at this time.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in 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 balance sheet of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. Currently, the American Institute of Certified Public Accountants Not-For-Profit Revenue Recognition Task Force is interpreting ASU 2014-09 and its effects on the not-for-profit industry. SASI has not determined the impact of ASU 2014-09 at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. SASI has not determined the impact of ASU 2016-02 at this time.

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4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 575,875	\$ 575,875
Land improvements	56,498	56,498
Building	1,284,260	1,284,260
Equipment	<u>1,153,914</u>	<u>886,088</u>
Total assets	3,070,547	2,802,721
Less accumulated depreciation	<u>(967,632)</u>	<u>(924,456)</u>
Property and equipment, net	<u>\$ 2,102,915</u>	<u>\$ 1,878,265</u>

Depreciation expense for June 30, 2018 and 2017 was \$164,968 and \$118,433, respectively.

5. LONG-TERM NOTES PAYABLE

SASI has a \$2,000,000 Commercial Line Note (the “Loan”) from the University. Under the terms of the Loan, SASI shall pay 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 Agreement, repayment of the balance is not required until September 2038. The Loan is secured by the assets of SASI.

At both June 30, 2018 and 2017, the Loan balance due to the University was \$1,314,683. Interest expense totaled \$53,560 and \$50,652 for the years ended June 30, 2018 and 2017, respectively.

6. COMMITMENTS

SASI has entered into a partnership enabling the University to utilize the historic landmark commonly known as Dante Hall for the purposes of performing arts and other similar community activities in an effort to re-establish the facility as a vital piece of Atlantic City, New Jersey’s arts district. The agreement was effective June 1, 2011 through May 31, 2015. There have been four one-year lease extensions, with the most recent through May 31, 2019.

Compensated Absences

SASI recorded a liability for compensated absences in the amount of \$29,956 and \$26,350 as of June 30, 2018 and 2017, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position. The liability is calculated based upon employees’ accrued vacation leave as of year end, as well as an estimated vested amount for accrued sick leave.

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Payments for unused sick leave balances are made to retiring employees upon regular retirement. The payment is based on 50% of the employee's sick leave accumulation at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from SASI prior to retirement are not entitled to payments for accumulated sick leave balances.

7. CONCENTRATIONS OF CREDIT RISK

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

8. RELATED PARTY TRANSACTIONS

SASI is not under the common control of the University's Board of Trustees (the "Trustees"). SASI has a separate Board of Directors (the "Board") which has oversight responsibility for SASI and acts independent of the University. The Board has 12 members, including two faculty members of the University, two students of the University, one member of the Trustees and two administrators from the University. The remaining five members of the Board are leaders from the local community.

The University owns the buildings that are utilized as office space by SASI for conducting business, and employs the personnel that support its administrative, financial and operating activities. SASI reimburses the University for use of space and personnel through payment of an overhead charge. Reimbursements made to the University for the years ended June 30, 2018 and 2017 were \$464,906 and \$682,162, respectively.

SASI entered into a master management agreement with the University to provide for management services with respect to certain auxiliary services of the University with a term that commenced on February 5, 2009 and remains in effect until terminated by either party. These auxiliary services include transportation services, bookstore operations, beverage vending services, snack vending services and dining services. SASI will manage existing contracts for these services and negotiate new contracts upon expiration of existing agreements. This agreement includes transportation services under contracts with South Jersey Transportation Authority that expires August 31, 2019 and Stout's Charter Service that expires May 31, 2021, bookstore operations under a contract with Follett that expires June 30, 2029, beverage vending services under a contract with Pepsi Cola Bottling Group that expires June 30, 2024, snack vending services under a contract with K&R vending that expires June 30, 2019, dining services under a contract with Chartwell's that expires June 30, 2028, and management services for the Stockton Seaview Hotel & Golf Club ("Seaview").

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	<u>2018</u>	<u>2017</u>
SASI's support to the University		
Auxiliary - Bookstore	\$ 360,500	\$ 360,500
Auxiliary - Food Services	809,580	809,580
Auxiliary - Vending	103,000	103,000
Facility support	45,854	29,206
Scholarships	13,000	-
Marketing	147,680	139,998
General	<u>1,333</u>	<u>28,289</u>
	<u>\$ 1,480,947</u>	<u>\$ 1,470,573</u>

On June 1, 2013, SASI and the University entered into a management fee agreement whereby the University compensates SASI \$10,000 for agency services for the management of Seaview, which is presented as part of other income on the statements of activities. The fee is adjustable with mutual agreement of the parties.

Stockton University Foundation (the "Foundation") is a component unit of the University and is a separately incorporated 501(c)(3) that was established to receive gifts, grants, and bequests to support the programs and goals of the University. During the years ended June 30, 2018 and 2017, the Foundation provided support for the operations of the Sam Azeez Museum of \$230,257 and \$240,870, respectively, which is presented as part of institutional support on the statements of activities.

STOCKTON AFFILIATED SERVICES, INC.
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The following balances as of June 30, 2018 and 2017, are expected to be settled during the normal course of operations:

	<u>2018</u>	<u>2017</u>
Due from the University:		
Food service	\$ -	\$ 96,489
Summer transportation and safety	76,220	64,960
Repair reimbursement	81,398	-
Overhead adjustment	279,856	-
Miscellaneous	4,409	12,075
Total due from University	<u>\$ 441,883</u>	<u>\$ 173,524</u>
Due to the University:		
Institutional support	\$ -	\$ 65,070
Transportation and safety	-	3,180
Return of excess Azeez Support	64,534	-
Seaview operations	1,160,622	1,167,293
Overhead charge	62,601	96,680
Miscellaneous	340	59
Total due to University	<u>\$ 1,288,097</u>	<u>\$ 1,332,282</u>

9. SUBSEQUENT EVENTS

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