

Financial Statements and Report of
Independent Certified Public
Accountants

**National Aviation Research and Technology
Park, Inc.
(A Component Unit of Stockton University)**

June 30, 2019 and 2018

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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, 2019 and 2018 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 National Aviation Research and Technology Park, Inc. as of June 30, 2019 and 2018, and its activities and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter regarding going concern

The accompanying financial statements have been prepared assuming that National Aviation Research and Technology Park, Inc. will continue as a going concern. As discussed in Note H to the financial statements, National Aviation Research and Technology Park, Inc. increased net deficit by \$195,911 during the year ended June 30, 2019, and as of that date, its current liabilities exceeded its current assets by \$124,073 and its total liabilities exceeded its total assets by \$1,596,954, and has stated that substantial doubt exists about National Aviation Research and Technology Park, Inc.'s ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note H. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.



Philadelphia, Pennsylvania
December 20, 2019

National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)

STATEMENTS OF FINANCIAL POSITION

June 30,

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 48,458	\$ 7,924
Grant receivable	138,690	148,856
Other receivable	7,459	2,084
Prepaid expenses	375	4,923
Total current assets	194,982	163,787
PROPERTY AND EQUIPMENT, net	38,942	11,309
Total assets	\$ 233,924	\$ 175,096
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 214,339	\$ 117,219
Due to University	104,716	34,616
Total current liabilities	319,055	151,835
NONCURRENT LIABILITIES		
Interest payable to University	190,817	132,604
Loans payable	1,321,006	1,291,700
Total noncurrent liabilities	1,511,823	1,424,304
Total liabilities	1,830,878	1,576,139
NET DEFICIT		
Without donor restriction	(1,596,954)	(1,401,043)
Total net deficit	(1,596,954)	(1,401,043)
Total liabilities and net deficit	\$ 233,924	\$ 175,096

The accompanying notes are an integral part of these statements.

National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)

STATEMENTS OF ACTIVITIES

Years ended June 30,

	2019	2018
REVENUES AND OTHER SUPPORT		
Grant revenue	\$ 289,833	\$ 305,751
Memberships	22,916	2,084
Contribution revenue	22,956	-
In-kind revenue	46,358	87,159
Total revenues and other support	382,063	394,994
EXPENSES		
Program expenses		
Research park development	531,616	519,724
In-kind expense	46,358	87,159
Total expenses	577,974	606,883
Change in net deficit	(195,911)	(211,889)
NET DEFICIT		
Beginning of year	(1,401,043)	(1,189,154)
End of year	\$ (1,596,954)	\$ (1,401,043)

The accompanying notes are an integral part of these statements.

National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	\$ (195,911)	\$ (211,889)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation expense	1,758	136
Amortization of deferred financing costs and loan payable premium	2,262	-
Contribution revenue	(22,956)	-
Effects of changes in operating assets and liabilities:		
Grant receivable	10,166	(148,856)
Other receivable	(5,375)	(2,061)
Prepaid expenses	4,548	(220)
Accounts payable and accrued expenses	108,565	103,264
Unearned revenue	-	(6,895)
Interest payable to the University	58,213	49,114
Due to University	70,100	(47,884)
Other liabilities	-	(8,466)
Net cash provided by (used in) operating activities	<u>31,370</u>	<u>(273,757)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(40,836)</u>	<u>-</u>
Net cash used in investing activities	<u>(40,836)</u>	<u>-</u>
Total noncurrent liabilities		
Proceeds from loans	<u>50,000</u>	<u>150,000</u>
Net cash provided by financing activities	<u>50,000</u>	<u>150,000</u>
Increase (decrease) in cash and cash equivalents	<u>40,534</u>	<u>(123,757)</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>7,924</u>	<u>131,681</u>
End of year	<u>\$ 48,458</u>	<u>\$ 7,924</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY		
Change in property and equipment additions in accounts payable	<u>\$ 11,445</u>	<u>\$ (11,445)</u>

The accompanying notes are an integral part of these statements.

**National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A – DESCRIPTION OF THE ORGANIZATION

On September 18, 2013, the Aviation Research and Technology Park of New Jersey, 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. (the ACT) as the Stockton Aviation Research and Technology Park of New Jersey, Inc. (SARTP). 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 (FAA) William J. Hughes Technical Center (the Tech Park), 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.

NOTE B – 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 with or without donor restriction based on the existence or absence of donor-imposed restrictions. There are no net assets with donor restriction as of June 30, 2019 or 2018.

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.

**National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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)(1) 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 2019 or 2018.

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.

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.

Property and Equipment

Property and equipment is carried at historical cost, less accumulated depreciation. NARTP 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>
Infrastructure	20 to 40 years	10,000
Equipment	3 to 15 years	5,000

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 five year period through and including the year ending June 30, 2021. NARTP has recognized grant revenue of \$289,833 and \$305,751 for the years ended June 30, 2019 and 2018, respectively.

**National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Membership revenues are recognized as revenue over the applicable membership period. Any unearned amounts, of which there are none as of June 30, 2019 or 2018, would be presented as deferred revenue.

Adopted Accounting Pronouncement

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 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 previously required three classes, as well as the annual change in each of the two classes and (2) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. NARTP's financial statements have been adjusted to reflect the new requirements. The standard has been applied retrospectively to all years presented, except for liquidity and functional expense disclosures which are only presented for 2019.

Pending Accounting Pronouncements

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 is evaluating the impact of the new standard at this time.

In June 2018, the FASB issued a new standard clarifying the *Accounting for Contributions Received and Contributions Made*. The guidance will help entities evaluate whether transactions should be accounted for as contributions, or exchange transactions subject to other guidance. The guidance will also help in determining whether a contribution is conditional. The guidance is effective for fiscal years beginning after June 15, 2018. NARTP is currently evaluating the impact of this guidance on its financial statements.

**National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Depreciable assets:		
Infrastructure	\$ 29,391	\$ -
Equipment	11,445	11,445
Total property and equipment	40,836	11,445
Less: Accumulated depreciation	(1,894)	(136)
Property and equipment, net	\$ 38,942	\$ 11,309

Depreciation expense for the years ended June 30, 2019 and 2018, was \$1,758 and \$136 respectively.

NOTE D – LONG-TERM LOANS PAYABLE

Long-term loans payable consists of the following at June 30, 2019 and 2018:

	2019	2018
University loan	\$ 1,341,700	\$ 1,291,700
CRDA loan net of unamortized discount of \$22,418 at June 30, 2019	51,117	-
	1,392,817	1,291,700
Less: Deferred financing costs, net	(71,811)	-
	\$ 1,321,006	\$ 1,291,700

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, 2019 and 2018, were 4.31% and 4.24%, 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 was available for draws until December 31, 2018. For the years ended June 30, 2019 and 2018, the related party interest expense on the Loan was \$58,213 and \$49,114, respectively.

On September 28, 2018, the Casino Reinvestment Development Authority (CRDA) agreed to lend an amount equal to \$2,674,000 to NARTP for the purposes of funding a portion of the construction of 66,000 square feet of laboratories, public-private security interfaces, and research and development space for the FAA Next Gen initiatives at the Tech Center in Egg Harbor Township, New Jersey. The loan proceeds are held in trust by a third party until submission of reimbursement by the Atlantic County Improvement Authority. The loan bears no interest and will be due and payable in full on October 1, 2050. On July 15, 2019 a draw of \$2,512,803 was executed against NARTP's available loan balance.

**National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE D – LONG-TERM LOANS PAYABLE - Continued

NARTP has imputed interest on this interest free obligation at a rate of 3.71% which is based on the 30-year U.S. Treasury rate upon the execution of the CRDA loan document. Contribution revenue of \$22,956 was recorded for the year ended June 30, 2019, for the difference between the proceeds drawn and their fair value, after imputing interest.

NOTE E – CONCENTRATION OF RISK

NARTP maintains its cash and cash equivalents 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.

NOTE F – 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 16 members, including three students of the University, one member of the Trustees and two administrators from the University. The remaining 10 members of the Board are leaders from the local community.

The following balances as of June 30, 2019 and 2018, are settled during the normal course of operations:

	2019	2018
Due to the University		
Interest on loan	\$ 190,817	\$ 132,604
University advance	100,000	-
Overhead due to the University	2,743	34,075
Miscellaneous	1,973	541
Total due to the University	\$ 295,533	\$ 167,220

**National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE G – FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by functional and natural classification for the year ended June 30, 2019 and by natural classification for the year ended June 30, 2018 are shown below:

	Program Services		Supporting Activities Management and General	Total Expenses Year Ended June 30, 2019	Total Expenses Year Ended June 30, 2018
	Research Park Development	Grant			
Salaries and benefits	\$ -	\$ -	\$ 42,202	\$ 42,202	\$ 87,159
Contracted services	5,880	289,833	-	295,713	249,746
Legal fees	38,609	-	-	38,609	21,858
Accounting fees	19,700	-	-	19,700	19,028
Other professional fees	32,000	-	-	32,000	52,635
Insurance	5,768	-	-	5,768	5,282
Depreciation	1,758	-	-	1,758	136
Occupancy	49,625	-	4,156	53,781	118,127
Travel, conferences, and meetings	11,879	-	-	11,879	-
Printing and publications	800	-	-	800	1,178
Maintenance	13,835	-	-	13,835	-
Loan interest	60,475	-	-	60,475	49,114
Other expenses	1,454	-	-	1,454	2,620
	<u>\$ 241,783</u>	<u>\$ 289,833</u>	<u>\$ 46,358</u>	<u>\$ 577,974</u>	<u>\$ 606,883</u>
Total expenses	<u>\$ 241,783</u>	<u>\$ 289,833</u>	<u>\$ 46,358</u>	<u>\$ 577,974</u>	<u>\$ 606,883</u>

NOTE H – LIQUIDITY AND AVAILABILITY OF RESOURCES

NARTP's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

	<u>As of June 30, 2019</u>
Current assets	\$ 194,982
Less: Current liabilities	<u>(319,055)</u>
Available to management	<u>\$ (124,073)</u>

**National Aviation Research and Technology Park, Inc.
(A Component Unit of Stockton University)**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE H – LIQUIDITY AND AVAILABILITY OF RESOURCES - Continued

NARTP's cash position is based on the timing of the receipt of grant payments. NARTP has experienced recurring losses from operations, has a net deficit of \$1,596,954 at June 30, 2019 and is dependent on the continuation of in-kind contributions from certain governmental agencies to remain operational. These matters raise substantial doubt about NARTP's ability to continue as a going concern as of the financial statement issuance date.

NARTP has updated its financial forecasts, beginning with the year ended June 30, 2020, so as to reduce operating expenses to a level below annual revenues expected to be generated. NARTP is also seeking additional revenue and support through existing operations including memberships, rental fees for the use of its facilities, and fees for services as well as through various public funding sources that are expected to be available within the next year. NARTP plans to effectively continue its operations with the existing grant funding and support and support from its partner agencies.

NOTE I – SUBSEQUENT EVENTS

NARTP evaluated subsequent events through December 20, 2019, 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, other than previously noted.