

Financial Statements and Report of
Independent Certified Public
Accountants

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

June 30, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
National Aviation Research and Technology Park, Inc.

We have audited the accompanying financial statements of National Aviation Research and Technology Park, Inc. ("NARTP"), a component unit of Stockton University, which comprise the statements of financial position as of June 30, 2020 and 2019, 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 NARTP'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 NARTP'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, 2020 and 2019, and the results of its activities and its 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 NARTP will continue as a going concern. As discussed in Note H to the financial statements, NARTP increased net deficit by \$1,789,898 during the year ended June 30, 2020, and as of that date, its current liabilities exceeded its current assets by \$24,293 and its total liabilities exceeded its total assets by \$3,386,852, and there exists substantial doubt about NARTP'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
November 25, 2020

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 273,899	\$ 48,458
Grant receivable	-	138,690
Other receivable	2,500	7,459
Prepaid expenses	900	375
Total current assets	277,299	194,982
PROPERTY AND EQUIPMENT, net	35,837	38,942
Total assets	\$ 313,136	\$ 233,924
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 8,090	\$ 214,339
Due to University	2	104,716
Deferred revenue	293,500	-
Total current liabilities	301,592	319,055
NONCURRENT LIABILITIES		
Interest payable to University	242,544	190,817
Loans payable	3,155,852	1,321,006
Total noncurrent liabilities	3,398,396	1,511,823
Total liabilities	3,699,988	1,830,878
NET DEFICIT		
Without donor restriction	(3,386,852)	(1,596,954)
Total net deficit	(3,386,852)	(1,596,954)
Total liabilities and net deficit	\$ 313,136	\$ 233,924

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 ACTIVITIES

Years ended June 30,

	2020	2019
REVENUES AND OTHER SUPPORT		
Grant revenue	\$ 17,810	\$ 289,833
Memberships	-	22,916
Contribution revenue	806,789	22,956
In-kind revenue	133,496	46,358
Total revenues and other support	958,095	382,063
EXPENSES		
Program expenses	2,614,497	531,616
In-kind expense	133,496	46,358
Total expenses	2,747,993	577,974
Change in net deficit	(1,789,898)	(195,911)
NET DEFICIT		
Beginning of year	(1,596,954)	(1,401,043)
End of year	\$ (3,386,852)	\$ (1,596,954)

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,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	\$ (1,789,898)	\$ (195,911)
Adjustments to reconcile change in net deficit to net cash (used in) provided by operating activities:		
Depreciation expense	3,105	1,758
Amortization of deferred financing costs and loan payable discount	28,832	2,262
Contribution revenue	(806,789)	(22,956)
Changes in assets and liabilities:		
Grant receivable	138,690	10,166
Other receivable	4,959	(5,375)
Prepaid expenses	(525)	4,548
Accounts payable and accrued expenses	(206,249)	108,565
Due to University	(4,714)	70,100
Deferred revenue	293,500	-
Interest payable to University	51,727	58,213
Net cash (used in) provided by operating activities	(2,287,362)	31,370
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(40,836)
Net cash used in investing activities	-	(40,836)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	2,512,803	50,000
Net cash provided by financing activities	2,512,803	50,000
Increase in cash	225,441	40,534
CASH		
Beginning of year	48,458	7,924
End of year	\$ 273,899	\$ 48,458
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY		
Change in property and equipment additions in accounts payable	\$ -	\$ 11,445
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITY		
University advance applied to loan payable	\$ 100,000	\$ -

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, 2020 and 2019

NOTE A - DESCRIPTION OF THE ORGANIZATION

On September 18, 2013, the National 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 restrictions as of June 30, 2020 and 2019.

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, 2020 and 2019

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. No interest or penalties were recognized in 2020 or 2019.

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

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

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. NARTP adopted the guidance during the year ended June 30, 2020 using the modified retrospective method and has determined that there is no effect on net assets in connection with the adoption of ASU 2018-08.

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 \$17,810 and \$289,833 for the years ended June 30, 2020 and 2019, respectively. The decrease in grant revenue for the year ended June 30, 2020 is attributable to the termination of a professional services contract for which approximately \$41,000 of expenditures and the related grant revenue recognized to fund these expenses were reversed.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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, 2020 or 2019, would be presented as deferred revenue.

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, 2019. 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.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Depreciable assets:		
Infrastructure	\$ 29,391	\$ 29,391
Equipment	<u>11,445</u>	<u>11,445</u>
Total property and equipment	<u>40,836</u>	<u>40,836</u>
Less: Accumulated depreciation	<u>(4,999)</u>	<u>(1,894)</u>
Property and equipment, net	<u>\$ 35,837</u>	<u>\$ 38,942</u>

Depreciation expense for the years ended June 30, 2020 and 2019, was \$3,105 and \$1,758, respectively.

**National Aviation Research and Technology Park, Inc.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE D - LOANS PAYABLE

Loans payable consist of the following at June 30, 2020 and 2019:

	2020	2019
University loan	\$ 1,441,700	\$ 1,341,700
CRDA loan, net of unamortized discount of \$802,672 and \$22,418 at June 30, 2020 and 2019, respectively	1,783,666	51,117
	3,225,366	1,392,817
Less: Deferred financing costs, net	(69,514)	(71,811)
	\$ 3,155,852	\$ 1,321,006

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. During the year ended June 30, 2020, NARTP's \$100,000 University advance (see Note F) was added to the outstanding loan balance from the University. The rates as of June 30, 2020 and 2019, were 2.85% and 4.31%, 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 June 30, 2019 through an amendment to the Loan agreement executed on September 19, 2019. For the years ended June 30, 2020 and 2019, the related party interest expense on the Loan was \$51,727 and \$58,213, 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 "Research Park"). The remaining 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. The CRDA loan was executed in conjunction with a Cooperation Agreement between CRDA, FAA, the Atlantic County Improvement Authority ("ACIA") and NARTP. The Cooperation Agreement provides for terms of revenue sharing of any future income generated by the Research Park, none of which was generated during the years ended June 30, 2020 or 2019.

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 \$806,789 and \$22,956 was recorded for the years ended June 30, 2020 and 2019, respectively, 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.

**National Aviation Research and Technology Park, Inc.
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 20 members, including two students of the University, one member of the Trustees and two administrators from the University. The remaining 15 members of the Board are leaders from the local community.

The following balances as of June 30, 2020 and 2019, are settled during the normal course of operations:

	2020	2019
Due to University		
Interest on loan	\$ 242,544	\$ 190,817
University advance	-	100,000
Overhead due to University	2	2,743
Other	-	1,973
	\$ 242,546	\$ 295,533
Total due to University		

NOTE G - FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by functional and natural classification for the year ended June 30, 2020 are as follows:

	Program Expenses		In-Kind Expense	Total Expenses
	Research Park Development	Grant	Management and General	Year Ended June 30, 2020
Salaries and benefits	\$ -	\$ -	\$ 65,841	\$ 65,841
Professional fees	2,512,803	4,499	-	2,517,302
Insurance	-	6,779	-	6,779
Depreciation	3,105	-	-	3,105
Occupancy	-	-	49,871	49,871
Travel, conferences, and meetings	-	471	-	471
Printing and publications	-	619	-	619
Loan interest	80,560	-	-	80,560
Other expenses	219	5,442	17,784	23,445
	\$ 2,596,687	\$ 17,810	\$ 133,496	\$ 2,747,993
Total expenses				

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Expenses by functional and natural classification for the year ended June 30, 2019 are as follows:

	<u>Program Expenses</u>		<u>In-Kind Expense</u>	Total Expenses Year Ended June 30, 2019
	<u>Research Park Development</u>	<u>Grant</u>	<u>Management and General</u>	
Salaries and benefits	\$ -	\$ -	\$ 42,202	\$ 42,202
Professional fees	110,024	289,833	-	399,857
Insurance	5,768	-	-	5,768
Depreciation	1,758	-	-	1,758
Occupancy	49,625	-	4,156	53,781
Travel, conferences, and meetings	11,879	-	-	11,879
Printing and publications	800	-	-	800
Loan interest	60,475	-	-	60,475
Other expenses	1,454	-	-	1,454
	<u>\$ 241,783</u>	<u>\$ 289,833</u>	<u>\$ 46,358</u>	<u>\$ 577,974</u>
Total expenses				

NOTE H - LIQUIDITY AND AVAILABILITY OF RESOURCES

NARTP's financial assets available within one year of the statement of financial position date for general expenditures are as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 277,299	\$ 194,982
Less: Current liabilities	<u>(301,592)</u>	<u>(319,055)</u>
Available to management	<u>\$ (24,293)</u>	<u>\$ (124,073)</u>

NARTP's cash position is impacted by the timing of the receipt of grant payments. NARTP has experienced losses from operations, has a net deficit of \$3,386,852 at June 30, 2020, and is dependent on the continuation of grant funding from certain governmental agencies. These matters raise substantial doubt about NARTP's ability to continue as a going concern as of the financial statement issuance date.

In order to mitigate any uncertainty, NARTP has taken the following actions during 2021 which it believes will allow it to maintain sufficient liquidity in the future. NARTP has updated its financial forecasts, beginning with the year ended June 30, 2021, 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, fees for services and additional various public funding sources that are expected to be available within the next year. NARTP anticipates positive cash flows from operations for the year ended June 30, 2021, and expects that during 2021, its 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, will be increased to \$400,000 annually and extended for an additional five-year period through and including the year ending June 30, 2026. NARTP plans to effectively continue its operations through these actions.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. While the disruption is currently expected to be temporary, there is uncertainty around the duration. NARTP does not expect this matter to negatively impact its financial position for 2021.

NOTE I - SUBSEQUENT EVENTS

NARTP evaluated subsequent events through November 25, 2020, 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.