

Financial Statements and Report of
Independent Certified Public
Accountants

STOCKTON AFFILIATED SERVICES, 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
Stockton Affiliated Services, Inc.

We have audited the accompanying financial statements of Stockton Affiliated Services, 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 Stockton Affiliated Services, Inc. as of June 30, 2019 and 2018, its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania
December 20, 2019

Stockton Affiliated Services, Inc.
(A Component Unit of Stockton University)

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2019	2018
	<hr/>	<hr/>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,344,796	\$ 2,707,923
Accounts receivable, net	11,243	136,603
Due from University	467,862	441,883
Prepaid expenses	162,418	136,907
	<hr/>	<hr/>
Total current assets	1,986,319	3,423,316
 PROPERTY AND EQUIPMENT, NET	 2,056,795	 2,102,915
	<hr/>	<hr/>
Total assets	\$ 4,043,114	\$ 5,526,231
	<hr/> <hr/>	<hr/> <hr/>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 322,577	\$ 272,939
Due to University	191,317	1,288,097
Deferred revenue	58,312	42,509
Other liabilities	838,299	35,318
	<hr/>	<hr/>
Total current liabilities	1,410,505	1,638,863
 Long-term note payable	 1,314,683	 1,314,683
	<hr/>	<hr/>
Total liabilities	2,725,188	2,953,546
 NET ASSETS		
Without donor restrictions	1,317,926	2,572,685
	<hr/>	<hr/>
Total net assets	1,317,926	2,572,685
	<hr/>	<hr/>
Total liabilities and net assets	\$ 4,043,114	\$ 5,526,231
	<hr/> <hr/>	<hr/> <hr/>

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

Stockton Affiliated Services, Inc.
(A Component Unit of Stockton University)

STATEMENTS OF ACTIVITIES

Years ended June 30,

	2019	2018
Revenues:		
Food service	\$ 11,127,869	\$ 10,834,723
Transportation and safety	2,574,573	2,083,725
Vendor service	177,065	164,074
Bookstore	316,782	421,306
Rental properties	241,138	233,796
Other income	50,226	35,470
Azeez Museum	14,673	5,770
	14,502,326	13,778,864
Institutional support		
Support for SASI functions (Azeez Museum)	315,079	352,204
Total revenues	14,817,405	14,131,068
Expenses:		
Program expenses:		
Food service	10,853,754	9,475,432
Transportation and safety	2,037,499	829,212
Rental properties	115,217	101,295
Rental properties managed for the University	7,747	-
Azeez Museum	329,751	357,975
	13,343,968	10,763,914
Institutional support:		
Support of the University Mission	2,145,580	1,480,947
Support of Foundation fundraising	20,000	58,000
	2,165,580	1,538,947
Supporting expenses:		
College reimbursements	104,502	464,906
General and administrative	217,321	121,108
Depreciation	209,120	164,968
Interest	57,670	53,560
	588,613	804,542
Total expenses	16,098,161	13,107,403
Change in net assets from operating activities	(1,280,756)	1,023,665
Non-operating activities:		
Dividend and interest income	25,997	27,176
Change in net assets	(1,254,759)	1,050,841
Net assets at beginning of year	2,572,685	1,521,844
Net assets at end of year	\$ 1,317,926	\$ 2,572,685

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

Years ended June 30,

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (1,254,759)	\$ 1,050,841
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	209,120	164,968
Gain on disposal of property and equipment, net		(1,830)
(Increase) decrease in assets:		
Accounts receivable	125,360	(3,729)
Prepaid expenses	(25,511)	(41,339)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	49,638	8,717
Due to/from University	(1,122,759)	(312,544)
Deferred revenue	15,803	7,251
Other liabilities	802,981	(25,298)
	<u>(1,200,127)</u>	<u>847,037</u>
Cash flows from investing activities:		
Purchase of property and equipment	(163,000)	(387,788)
	<u>(163,000)</u>	<u>(387,788)</u>
Net cash used in investing activities	(163,000)	(387,788)
	<u>(163,000)</u>	<u>(387,788)</u>
Net (decrease) increase in cash and cash equivalents	(1,363,127)	459,249
Cash and cash equivalents, beginning of year	<u>2,707,923</u>	<u>2,248,674</u>
Cash and cash equivalents, end of year	<u>\$ 1,344,796</u>	<u>\$ 2,707,923</u>
Supplementary cash flows information		
Cash paid for interest	<u>\$ 57,670</u>	<u>\$ 53,560</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - 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.

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

Net assets without donor restrictions - Net assets that are not subject to externally imposed stipulations. Net assets without donor restrictions 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.

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.

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 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. 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 2019 or 2018.

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.

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

Cash and 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, Net

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

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 makes certain improvements to the reporting requirements for not-for-profit entities including: (1) the presentation of 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. The standard has been applied retrospectively to all years presented, except for functional expenses which is 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. SASI is evaluating the impact of the new standard at this time.

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In February 2016, the FASB issued a new standard related to *Leases* which requires that most leased assets be recognized on the statement of financial position as assets and liabilities for the rights and obligations created by these leases. The new standard is effective for fiscal years beginning after December 15, 2019, with early application permitted. An entity is required to apply the amendments of this new standard 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 statement of financial position leased assets and liabilities for operating leases at each reporting date. SASI is evaluating the impact of this new standard at this time.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentations. These reclassifications had no effect on the reported results.

NOTE C - PROPERTY AND EQUIPMENT, NET

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

	2019	2018
Land	\$ 575,875	\$ 575,875
Land improvements	56,498	56,498
Building	1,284,260	1,284,260
Equipment	1,247,764	1,153,914
Total property and equipment	3,164,397	3,070,547
Less accumulated depreciation	(1,107,602)	(967,632)
Property and equipment, net	\$ 2,056,795	\$ 2,102,915

Depreciation expense for the years ended June 30, 2019 and 2018 was \$209,120 and \$164,968, respectively.

NOTE D - LONG-TERM NOTE 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, 2019 and 2018 were 4.31% and 4.24%, respectively. Repayment of the Loan is not required until September 2038. The Loan is secured by the assets of SASI.

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

At both June 30, 2019 and 2018, the Loan balance due to the University was \$1,314,683. Interest expense totaled \$57,670 and \$53,560 for the years ended June 30, 2019 and 2018, respectively.

NOTE E - 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 five one-year lease extensions, with the most recent extending through May 31, 2020.

Compensated Absences

SASI recorded a liability for compensated absences in the amount of \$37,432 and \$29,956 as of June 30, 2019 and 2018, 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.

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.

NOTE F - 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.

NOTE G - RELATED PARTY TRANSACTIONS

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, 2019 and 2018 were \$104,502 and \$464,906, 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 a contract with South Jersey Transportation Authority which is renewed each academic year; transportation services in Atlantic City under a contract with Stout's Charter Service, Inc. that expires May 31, 2021; Atlantic City parking facility property management under a contract with B & B Parking, Inc. that expires August 24, 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 whereby SASI exercised the first of two one-year option renewals that expires June 30, 2020; and dining services under a contract with Chartwell's that expires June 30, 2028.

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE G - RELATED PARTY TRANSACTIONS - Continued

SASI's support of the University Mission consisted of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Auxiliary - Bookstore	\$ 360,500	\$ 360,500
Auxiliary - Food Services	809,580	809,580
Auxiliary - Vending	103,000	103,000
Facility support	837,500	45,854
Scholarships	33,000	13,000
Marketing	2,000	147,680
General	-	1,333
	<u>\$ 2,145,580</u>	<u>\$ 1,480,947</u>
Total support of the University Mission	<u>\$ 2,145,580</u>	<u>\$ 1,480,947</u>

On June 1, 2013, SASI and the University entered into a management fee agreement whereby the University compensates SASI \$10,000 annually for agency services for the management of the Stockton Seaview Hotel & Golf Club ("Seaview"). For the year ended June 30, 2019, the fee received was \$833 for one month of management services for Seaview which was sold by the University on July 31, 2018. SASI received \$10,000 for the year ended June 30, 2018 under this agreement.

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, 2019 and 2018, the Foundation provided support for the operations of the Sam Azeez Museum of \$234,359 and \$230,257, respectively, which is presented as part of institutional support on the statements of activities.

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

	2019	2018
Due from the University:		
Food service	\$ 1,336	\$ -
Azeez support	80,720	-
Summer transportation and safety	160	76,220
Repair reimbursement	-	81,398
Overhead adjustment	381,555	279,856
Miscellaneous	4,091	4,409
	<u>\$ 467,862</u>	<u>\$ 441,883</u>
Total due from University	<u>\$ 467,862</u>	<u>\$ 441,883</u>

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE G - RELATED PARTY TRANSACTIONS - Continued

	2019	2018
Due to the University:		
Institutional support	\$ 159,135	\$ -
Return of excess Azeez Support	-	64,534
Seaview operations	-	1,160,622
Overhead charge	21,151	62,601
Miscellaneous	11,031	340
	<u>\$ 191,317</u>	<u>\$ 1,288,097</u>
Total due to University	<u>\$ 191,317</u>	<u>\$ 1,288,097</u>

NOTE H - FUNCTIONAL CLASSIFICATION OF EXPENSES

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

	Program services					Supporting activities management and general	Total expenses year ended June 30, 2019	Total expenses year ended June 30, 2018
	Food service	Transportation and safety	Rental properties	Rental properties managed for the University	Azeez Museum			
Salaries and benefits	\$ -	\$ 431,084	\$ -	\$ -	\$ 194,677	\$ -	\$ 625,761	\$ 637,246
Contracted services	10,852,790	1,307,416	3,035	-	956	-	12,164,197	9,601,471
Legal fees	-	-	-	-	-	90,126	90,126	14,638
Accounting fees	-	-	-	-	-	30,950	30,950	30,273
Utilities	-	805	27,736	-	22,589	-	51,130	52,961
Insurance	-	62,696	15,061	4,147	828	56,086	138,818	101,505
Depreciation	-	-	-	-	-	209,120	209,120	164,968
Property taxes	-	-	9,851	-	-	-	9,851	10,217
Occupancy/overhead	-	-	-	3,600	-	104,502	108,102	464,906
Support of University Mission/Fundraising	-	-	-	-	-	2,165,580	2,165,580	1,538,947
Travel conferences and meetings	-	5,124	-	-	13,954	137	19,215	20,225
Printing and advertising	-	1,279	-	-	21,395	1,013	23,687	47,252
Supplies and non-capital equipment	-	94,397	6,880	-	34,617	3,102	138,996	135,018
Maintenance	-	97,797	49,799	-	32,471	100	180,167	170,542
Loan interest	-	-	-	-	-	57,670	57,670	53,560
Other expenses	964	36,901	2,855	-	8,264	35,807	84,791	63,674
Total expenses	<u>\$ 10,853,754</u>	<u>\$ 2,037,499</u>	<u>\$ 115,217</u>	<u>\$ 7,747</u>	<u>\$ 329,751</u>	<u>\$ 2,754,193</u>	<u>\$ 16,098,161</u>	<u>\$ 13,107,403</u>

NOTE I - LIQUIDITY AND AVAILABILITY OF RESOURCES

SASI's financial assets available within one year of the statement of financial position date for general expenditures as of June 30, 2019 and 2018 are as follows:

	2019	2018
Cash and cash equivalents	\$ 1,344,796	\$ 2,707,923
Accounts receivable, net	11,243	136,603
Due from University	467,862	441,883
Available loan balance	685,317	685,317
	<u>2,509,218</u>	<u>3,971,726</u>
Less: Current liabilities	(1,410,505)	(1,638,863)
	<u>\$ 1,098,713</u>	<u>\$ 2,332,863</u>
Available to management	<u>\$ 1,098,713</u>	<u>\$ 2,332,863</u>

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE I - LIQUIDITY AND AVAILABILITY OF RESOURCES - Continued

SASI's liquidity and resources available to management fluctuate with the build-up and settlement of the balances with the University.

NOTE J - SUBSEQUENT EVENTS

SASI evaluated subsequent events through December 20, 2019, 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.