



**STEVENS INSTITUTE OF TECHNOLOGY**

Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(With Independent Auditors' Report Thereon)

# STEVENS INSTITUTE OF TECHNOLOGY

## Table of Contents

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-34



KPMG LLP  
New Jersey Headquarters  
51 John F. Kennedy Parkway  
Short Hills, NJ 07078-2702

## Independent Auditors' Report

The Board of Trustees  
Stevens Institute of Technology:

We have audited the accompanying consolidated financial statements of Stevens Institute of Technology and Subsidiary (the University), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stevens Institute of Technology and Subsidiary as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in Note 2(q) to the consolidated financial statements, Stevens Institute of Technology and Subsidiary adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) in 2019. Our opinion is not modified with respect to this matter.

*Report on Summarized Comparative Information*

We have previously audited Stevens Institute of Technology and Subsidiary's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived. As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments described in Note 2(q) that were applied to adopt ASU 2016-14 retrospectively in the 2018 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

October 28, 2019

**STEVENS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Financial Position

June 30, 2019

(with comparative financial information as of June 30, 2018)

(Dollars in thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 66,356	65,003
Student, sponsor and other receivables, net (note 3)	18,396	18,896
Prepaid expenses and other assets	9,421	5,871
Contributions receivable, net (notes 4 and 16)	24,609	39,778
Deposits with bond trustees (note 8)	21,917	61,074
Investments (note 5)	209,300	187,249
Trusts held by others (note 5)	5,996	5,669
Land, buildings and equipment, net (note 7)	254,678	194,299
<b>Total assets</b>	<b>\$ 610,673</b>	<b>577,839</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 28,475	22,385
Deferred revenue (note 2(m))	11,362	15,100
Line of credit (note 8)	5,900	—
Capital lease obligations (note 14)	1,881	2,832
Annuities payable	1,932	1,855
Post-retirement benefits (note 9)	5,724	5,603
Conditional asset retirement obligations (note 10)	5,961	6,067
Long-term debt, net (note 8)	136,867	140,571
Refundable advances (note 3)	4,731	4,668
<b>Total liabilities</b>	<b>202,833</b>	<b>199,081</b>
Net assets (notes 6 and 12):		
Without donor restrictions	160,517	132,046
With donor restrictions	247,323	246,712
<b>Total net assets</b>	<b>407,840</b>	<b>378,758</b>
<b>Total liabilities and net assets</b>	<b>\$ 610,673</b>	<b>577,839</b>

See accompanying notes to consolidated financial statements.

**STEVENS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended June 30, 2019

(with summarized financial information for the year ended June 30, 2018)

(Dollars in thousands)

	2019			2018
	Without donor restrictions	With donor restrictions	Total	
Operating activities:				
Revenues and other support:				
Tuition and fees (net of student aid of \$82,091 in 2019 and \$76,091 in 2018) (note 2(l))	\$ 183,115	—	183,115	175,758
Sponsored activity revenues:				
Federal	28,517	—	28,517	26,396
State	1,251	—	1,251	1,251
Private/other	2,704	—	2,704	2,886
Total sponsored activity revenues	32,472	—	32,472	30,533
Grants	1,075	—	1,075	948
Contributions	725	5,774	6,499	7,443
Other revenues	3,552	—	3,552	3,670
Auxiliary enterprises (note 2(l))	30,719	—	30,719	29,224
Investment return in support of operations (notes 5 and 6)	2,800	5,539	8,339	6,713
Net assets released from restrictions	13,111	(13,111)	—	—
Total operating revenues and other support	267,569	(1,798)	265,771	254,289
Expenses (note 13):				
Salaries and benefits	149,206	—	149,206	138,743
Purchased services	27,794	—	27,794	24,180
Maintenance, rents and utilities	21,561	—	21,561	20,322
Supplies and other	27,054	—	27,054	25,221
Interest expense (note 8)	3,893	—	3,893	3,251
Depreciation and amortization	14,268	—	14,268	13,510
Total operating expenses	243,776	—	243,776	225,227
Operating surplus (deficit)	23,793	(1,798)	21,995	29,062
Nonoperating activities:				
Investment return (loss), net of amounts in support of operations (note 5)	1,913	8,640	10,553	3,886
Contributions	—	3,534	3,534	19,321
Grants and other revenue	2,182	—	2,182	7,315
Post-retirement benefit changes other than service cost (note 9)	(392)	—	(392)	126
Change in value of split-interest agreements	—	180	180	220
Uncollectible contributions	—	(8,970)	(8,970)	(339)
Reclassification of net assets	(648)	648	—	—
Net assets released from restrictions	1,623	(1,623)	—	—
Total nonoperating activities	4,678	2,409	7,087	30,529
Changes in net assets	28,471	611	29,082	59,591
Net assets, beginning of year	132,046	246,712	378,758	319,167
Net assets, end of year	\$ 160,517	247,323	407,840	378,758

See accompanying notes to consolidated financial statements.

**STEVENS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Cash Flows

Year ended June 30, 2019

(with comparative financial information for the year ended June 30, 2018)

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 29,082	59,591
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accretion of bond premium	(439)	(439)
Accretion of interest on conditional asset retirement obligations	286	291
Amortization of bond issuance costs	30	30
Depreciation and amortization	13,982	13,594
Loss of disposal of property	352	1,382
Net (gains) losses on investments	(11,260)	(5,732)
Loss for uncollectible contributions	8,970	339
Post-retirement benefit changes other than net periodic benefit costs	67	(502)
Present value adjustment on annuities payable	(180)	(220)
Present value adjustment on contribution receivable	(556)	208
Change in allowance for doubtful accounts – contributions receivable	(94)	(4)
Change in allowance for doubtful accounts – student, sponsor, loans and other receivables	254	(275)
Contributions and grants restricted for capital and endowment	(5,602)	(26,841)
Decrease (increase) in operating assets:		
Student, sponsor and other receivables	(782)	694
Contributions receivable	1,993	2,100
Prepaid expenses and other assets	(3,550)	308
Trusts held by others	(203)	(1,150)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	3,047	(950)
Deferred revenue	(3,738)	(3,479)
Annuities payable	470	262
Accrued post-retirement benefits	54	97
Conditional asset retirement obligations	(392)	(373)
Net cash provided by operating activities	<u>31,791</u>	<u>38,931</u>
Cash flows from investing activities:		
Proceeds from sales of investments	33,927	68,060
Purchase of investments	(44,950)	(74,519)
Purchases of land, buildings and equipment	(71,723)	(43,849)
Withdrawals from deposits with bond trustee	129,801	116,156
Additions to deposits with bond trustees	(90,483)	(96,643)
Loans issued to students	—	(373)
Collection of student loans	1,028	1,027
Net cash used in investing activities	<u>(42,400)</u>	<u>(30,141)</u>
Cash flows from financing activities:		
Receipts of contributions and grants restricted for capital and endowment	10,458	13,583
Proceeds from borrowing on line of credit	5,900	—
Payments to annuitants	(213)	(222)
Refundable advances for student loans	63	(1,168)
Repayments of capital lease obligations	(951)	(1,227)
Repayments of long-term debt	(3,295)	(426)
Net cash provided by financing activities	<u>11,962</u>	<u>10,540</u>
Net increase in cash and cash equivalents	1,353	19,330
Cash and cash equivalents, beginning of year	<u>65,003</u>	<u>45,673</u>
Cash and cash equivalents, end of year	\$ <u>66,356</u>	\$ <u>65,003</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 6,209	4,863
Increase in amounts accrued for purchase of land, buildings and equipment	3,043	411

See accompanying notes to consolidated financial statements.

# STEVENS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

### (1) Organization

Stevens Institute of Technology (the University), founded in 1870 and located in Hoboken, New Jersey, educates and inspires students to acquire knowledge needed to lead in the creation, application and management of technology and to excel in solving problems in any profession. The University serves approximately 6,900 students and is accredited by the Middle States Association of Colleges and Schools (MSACS), the Accreditation Board of Engineering Technology (ABET), and the Association to Advance Collegiate Schools of Business (AACSB).

The University is also committed to a comprehensive growing program of research, which strengthens the educational experience and materially contributes to our nation's goals. In this context, it follows an educational methodology by which faculty, students and colleagues from industry jointly nurture the process of conception, design, and the marketplace realization of new technologies.

The University is the sole owner of Castle Point Holdings, Inc., established for the purpose of providing a corporate interface between the University and enterprise (start-up) companies.

### (2) Summary of Significant Accounting Policies

#### (a) Consolidation

The accompanying consolidated financial statements include the accounts of Stevens Institute of Technology and its wholly owned subsidiary, Castle Point Holdings, Inc. (collectively, the University). All significant intercompany accounts have been eliminated in consolidation.

#### (b) Basis of Presentation

The University prepares its consolidated financial statements on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (U.S. GAAP) and with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. Accordingly, the University's resources are classified and reported based upon the existence or absence of donor-imposed restrictions, as follows:

##### *Net Assets with Donor Restrictions*

Included in these net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Donors of these assets generally permit the use of all or part of investment earnings for operating or specific purposes, such as scholarships, chairs and educational and research programs. Also included are net assets subject to donor-imposed restrictions that will be satisfied either by actions of the University or the passage of time.

##### *Net Assets without Donor Restrictions*

Net assets that are not subject to donor-imposed restrictions, and therefore are expendable for operating purposes. Net assets without donor restrictions may be designated for specific purposes by the University's Board of Trustees.



## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Appreciation or depreciation in the fair value of investments and gains and losses on other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless otherwise restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions.

#### **(c) Cash and Cash Equivalents**

Cash is recorded at fair value and comprises highly liquid financial instruments with original maturities of three months or less at time of purchase. At June 30, 2019 and 2018, there were no cash equivalents within the cash balances presented in the accompanying consolidated statement of financial position. Restricted cash totaled \$9,161 and \$16,065 at June 30, 2019 and 2018, respectively, and is recorded in cash and cash equivalents.

#### **(d) Concentrations of Credit Risk**

Cash and investments are exposed to interest rate, market, and credit risks. The University maintains its cash in various bank deposit accounts that, at times, may exceed federally insured limits. To minimize risk, the University's cash accounts are placed with high credit quality financial institutions and the University's investment portfolio is diversified among a variety of asset categories, which are held by several investment managers. The University regularly evaluates its depository arrangements and investment strategies.

#### **(e) Student Accounts and Loans Receivable**

Student accounts receivable represent credit extended to students with no underlying collateral. Such balances are due at the beginning of each semester and are stated net of an allowance for doubtful accounts. The University determines its allowance based on the anticipated net realizable value of expected collections. Student loans receivable principally represent loans under the Federal Perkins Loan Program. Student loans under the Federal Perkins Program are guaranteed by the Federal Government.

#### **(f) Investments**

The fair value of investments, which consist of fixed income and equity securities, is based on quoted market prices at June 30th. Investments in pooled private equity and other alternative investment funds are stated at estimated fair value based on the net asset value (NAV) of the funds as a practical expedient. Values of these funds, which may invest in both nonmarketable and market-traded securities, are provided by the general partner of the fund and reviewed by management for reasonableness.

#### **(g) Deposits with Bond Trustees**

Deposits with bond trustees represent funds held by the trustee, as required by bond indentures, and invested by the trustee in cash equivalents and U.S. Treasuries in the amount of \$16,856 and \$35,314 at June 30, 2019 and 2018, respectively, which are classified as Level 1 within the fair value hierarchy

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

of the Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. Amounts are also invested by the trustee in Federal agency and corporate bonds in the amount of \$5,061 and \$25,760 at June 30, 2019 and 2018, respectively, which are classified as Level 2 within the fair value hierarchy. Such resources will be utilized to fund various construction projects or to satisfy certain debt service reserve requirements pursuant to the respective bond indenture agreements.

#### **(h) Split-Interest Agreements**

The University's split-interest agreements include charitable remainder trusts, life income funds and perpetual trusts. The underlying assets of the trust agreements are invested in cash, cash equivalents and equity securities and are carried at fair value. Charitable remainder trusts and life income funds for one or more beneficiaries generally pay lifetime income to those beneficiaries, after which, the principal is made available to the University in accordance with donor stipulations. A liability is established for the present value of the estimated future payments to the beneficiaries, with the difference between the liability and the fair value of the proceeds received by the University recorded as a contribution. The present value calculation is performed using rates prescribed by the Internal Revenue Service.

The University operates a gift annuity program for donors from various states including New Jersey, New York, Florida and Maryland. The University maintains assets at least equal to the sum of the reserves on its outstanding annuity agreements. The reserves on the outstanding annuity agreements are consistent with the assumptions underlying the rates adopted by the American Council on Gift Annuities which are in effect at the time of issuance of the gift annuity. In determining the appropriate reserves, an adjustment is made for the obligation to the annuitant and the fair value of the investments. The University's gift annuity reserves are sufficient to meet the state requirements of all of the states in which the program operates.

The split-interest agreements assets that are held by third party trustees are recorded in trusts held by others. These amounts are recorded at the fair value of the assets contributed to the trust and are classified within Level 3 of the fair value hierarchy of ASC 820.

#### **(i) Land, Buildings and Equipment**

Land, buildings and equipment, purchased for a value of \$5 or more and with depreciable lives greater than one year, are stated at cost net of depreciation, or fair value at date of contribution, if donated. Upon disposal of fixed assets, the costs and accumulated depreciation are removed from the accounts, and the resulting gain or loss, if any, is included within operating activities in the accompanying consolidated statement of activities.

Depreciation is calculated using the straight-line method and half-year convention over the following estimated useful lives:

Buildings	40 years
Building improvements	20 years
Furniture, fixtures and equipment	4 to 15 years

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

#### **(j) Fair Value Measurement**

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices or published NAVs in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets.

#### **(k) Operating Measure**

The University classifies its activities in the accompanying consolidated statement of activities as operating and nonoperating. Operating activities principally include all income and expenses related to carrying out the University's educational and research mission. Operating revenues also include contributions and investment return used to fund current operations, in accordance with the University's endowment spending rate policy.

Nonoperating activities principally include investment return in excess of (or less than) amounts authorized for expenditure by the University's Board of Trustees (spending rate policy); contributions and other resources intended to be held in perpetuity or purchases of capital assets; present value adjustments of annuities payable; and other activities considered to be a more unusual or nonrecurring nature, if any.

#### **(l) Revenue Recognition**

##### **(i) Tuition and Fee Revenue**

The University recognizes revenue from student tuition and fees within the fiscal year in which educational services are provided. Institutional aid, in the form of scholarships and grants-in-aid, includes amounts funded by the endowment, research funds, and gifts, and reduces the published price of tuition for students receiving such aid. As such, institutional aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student.

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

Two summer terms are offered: Summer A from mid-May to the end of June and Summer B from early July to mid-August. Payments of tuition and fees for all of the summer terms are recognized as performance obligations are met. Cash received before fiscal year-end in the amounts of \$3,178 and \$3,044 related to summer programs were deferred at June 30, 2019 and 2018, respectively.

The University's tuition and fee revenue is disaggregated as follows:

	<u>2019</u>	<u>2018</u>
Undergraduate tuition and fee revenue	\$ 170,756	150,654
Undergraduate student aid	<u>(74,075)</u>	<u>(66,411)</u>
Undergraduate tuition and fee revenue, net	<u>96,681</u>	<u>84,243</u>
Graduate tuition and fee revenue	92,804	99,061
Graduate student aid	<u>(7,842)</u>	<u>(9,588)</u>
Graduate tuition and fee revenue, net	<u>84,962</u>	<u>89,473</u>
Pre-college tuition and fee revenue	1,646	2,134
Pre-college student aid	<u>(174)</u>	<u>(92)</u>
Pre-college tuition and fee revenue, net	<u>1,472</u>	<u>2,042</u>
Tuition and fee revenue, net	\$ <u><u>183,115</u></u>	<u><u>175,758</u></u>

(ii) *Sponsored Activity*

The University receives sponsored program funding from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the University, the funding organization's mission, or the public at large.

Revenues from nonexchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional nonexchange transactions are recognized when the barrier is satisfied, which in some cases are as related costs are incurred. Cash received before the barrier has been met are recorded in deferred revenue and amount to \$4,135 and \$5,218 at June 30, 2019 and 2018, respectively. In addition, the University has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted contributions for which the purpose restrictions are met in the same reporting period as the revenue is recognized.

Recovery of facilities and administrative (F&A) costs of federally sponsored programs are recorded at cost reimbursement rates negotiated with the University's cognizant agency, the Office of Naval Research. In fiscal 2019, the revenue from sponsored activities comprised \$24,243 associated with

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

direct costs, and \$8,229 associated with F&A recoveries from all sponsors, including the federal government. The corresponding amounts for fiscal 2018 were \$23,197 and \$7,336, respectively.

#### (iii) *Auxiliary Enterprises*

Auxiliary enterprises exist to furnish goods or services to students, faculty, staff, or incidentally to the general public, and the University charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity.

The University's auxiliary enterprises revenue is disaggregated as follows:

	<u>2019</u>	<u>2018</u>
Housing	\$ 20,862	20,040
Dining	9,468	8,080
Other	<u>389</u>	<u>1,104</u>
Total auxiliary enterprises revenue	<u>\$ 30,719</u>	<u>29,224</u>

Auxiliary enterprises revenue includes revenues from contracts with customers to provide student housing and dining facilities, parking services, and other miscellaneous activities.

Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as services are rendered.

Parking service revenue is recorded ratably over the period for which the parking permits have been sold.

#### (iv) *Contributions*

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Unconditional promises to give are recorded at their net realizable value if they are expected to be collected within one year or at the present value of future cash flows if they are expected to be collected over periods longer than one year. The University has been notified of certain intentions to give under various wills and trusts, the realizable amounts of which are not presently determinable. The University's share of such bequests is recorded when the University has an irrevocable right to the bequest and the proceeds are measurable. At June 30, 2019 and 2018, conditional contributions, including advised bequests, totaled \$48,763 and \$43,436, respectively.

Contributions of assets other than cash are recorded at their estimated fair value at date of donation. Contributions to be received after one year are discounted using a risk-adjusted rate of return. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

provided based upon management's judgment of prior collection history, type of contribution and nature of fundraising activity. Net assets without donor restrictions resulting from certain large contributions may be designated by the University's Board of Trustees for capital or long-term investment.

**(m) Deferred Revenue**

Deferred revenue consists of tuition revenue for summer sessions prorated based on the portion of the session that occurs within each fiscal year, as well as unexpended grants from the State of New Jersey for construction, which will be recognized as spent. Also included are unexpended sponsored awards, which represent amounts received from sponsors for which the University has not yet fulfilled its obligations. Such amounts are recorded as revenues when the related services are performed, or obligations are satisfied.

	<u>Summer tuition</u>	<u>Sponsored contracts (exchange)</u>	<u>Other deferred revenues</u>	<u>Total</u>
Balance at June 30, 2017	\$ 3,331	2,923	12,325	18,579
Revenue recognized	(3,331)	(2,703)	(8,617)	(14,651)
Payments received for future performance obligations	<u>3,044</u>	<u>4,998</u>	<u>3,130</u>	<u>11,172</u>
Balance at June 30, 2018	3,044	5,218	6,838	15,100
Revenue recognized	(3,044)	(4,021)	(5,522)	(12,587)
Payments received for future performance obligations	<u>3,178</u>	<u>2,938</u>	<u>2,733</u>	<u>8,849</u>
Balance at June 30, 2019	\$ <u><u>3,178</u></u>	<u><u>4,135</u></u>	<u><u>4,049</u></u>	<u><u>11,362</u></u>

**(n) Income Taxes**

The University has been classified as an organization described under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, is exempt from Federal income taxes under Section 501(a) of the Code and similar State of New Jersey tax provisions. Federal law imposes tax on income that is not related to an organization's tax-exempt purposes or otherwise excluded under the Code.

The University has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, determine its filing and tax obligations in jurisdictions for which it has nexus, and to review other matters that may be considered tax positions. Management of the University believes there are no uncertain tax positions.

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

#### **(o) Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include valuation of alternative investments that do not have readily determinable fair values; actuarially determined costs associated with accrued post-retirement benefit obligations; conditional asset retirement obligations; the allocation of expenses among the functional categories; and the recoverability of receivables. Actual results could differ from those estimates.

#### **(p) Prior Year Summarized Financial Information**

While comparative information is not required under U.S. GAAP, the University believes this information is useful and has included certain summarized comparative financial information from its fiscal year 2018 consolidated financial statements. Such summarized comparative information is not intended to be a complete presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements as of and for the year ended June 30, 2018, from which it was derived.

#### **(q) New Accounting Pronouncements**

In 2019, the University adopted FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which among other things, changes how not-for-profit entities report net asset classes, expenses and liquidity in their financial statements. The significant requirements of the new ASU include the reduction of the number of net asset classes from three to two: with donor restrictions and without donor restrictions; the presentation of expenses by their function and their natural classification in one location; and quantitative and qualitative information about the management of liquid resources and the availability of financial assets to meet cash needs within one year of the date of the statement of financial position. Net assets without donor restrictions of \$132,046 include net assets previously identified as unrestricted net assets, whereas net assets with donor restrictions include net assets previously identified as temporarily and permanently restricted net assets of \$129,892 and \$116,820, respectively. These changes are reflected in the University's consolidated financial statements and footnotes and have been applied retrospectively, where applicable.

In 2019, the University adopted FASB ASU No. 2018-08, *Not-for-Profit Entities – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update helps an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. The update also clarifies and expands the criteria for determining whether a contribution is conditional, which may delay recognition of contribution revenue (recipient) or expenses (resource provider). The University has evaluated and applied the guidance on a modified prospective basis. The adoption of this standard did not have a significant impact on the University's consolidated financial statements.

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

In 2019, the University adopted FASB ASU No. 2014-09, *Revenue from Contracts with Customers*, or Accounting Standards Codification Topic 606 (ASC 606), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition* (ASC 605). This literature is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, as well as assets recognized from costs incurred to obtain or fulfill a contract. The University adopted ASC 606 using the modified retrospective adoption method. In accordance with the modified retrospective adoption method, electing to retroactively adjust only those contracts that did not meet the definition of a completed contract at the date of initial application. The adoption of this standard did not have a significant impact on the University's consolidated financial statements.

The FASB issued ASU No. 2016-02, *Leases*, which will require lessees to recognize most leases on the statement of financial position, increasing their reported assets and liabilities. This update was developed to provide financial statement users with more information about an entity's leasing activities. ASU No. 2016-02 is effective for the University beginning in fiscal year 2020.

The FASB issued ASU No. 2016-18, *Restricted Cash*. The update is intended to standardize the treatment of restricted cash within the statement of cash flows. As a result of the adoption of the standard, the statement of cash flows will explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents that may be presented in more than one line item within the statement of financial position. These amounts are currently disclosed within the cash flows from investing activities. ASU No. 2016-18 is effective for the University beginning in fiscal year 2020.

#### **(r) Reclassifications**

Certain amounts in the fiscal year 2018 consolidated financial statements have been reclassified to conform to the current year presentation.



**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

**(3) Student, Sponsor and Other Receivables**

Student, sponsor and other receivables, net, as of June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Student	\$ 6,282	6,363
Sponsored contracts and grants	10,523	8,942
Student loans	4,366	5,610
Other	<u>1,788</u>	<u>2,290</u>
	<u>22,959</u>	<u>23,205</u>
Less:		
Allowance for doubtful student accounts	(1,938)	(2,004)
Allowance for doubtful sponsor accounts	(713)	(571)
Allowance for doubtful student loan accounts	(1,177)	(1,162)
Allowance for doubtful other accounts	<u>(735)</u>	<u>(572)</u>
	<u>(4,563)</u>	<u>(4,309)</u>
Student, sponsor and other receivables, net	\$ <u>18,396</u>	<u>18,896</u>

A majority of the student loans outstanding are associated with the Federal Perkins Loan Program. Funds advanced by the Federal Government of \$4,731 and \$4,668 at June 30, 2019 and 2018, respectively, are ultimately refundable to the U.S. Government and are classified as liabilities in the consolidated statement of financial position. Outstanding loans canceled under the program result in a decrease in the liability to the U.S. Government.

At June 30, 2019 and 2018, the following amounts were outstanding receivables under the Federal Perkins Loan Program:

	<u>Less than 30 days</u>	<u>Less than 90 days</u>	<u>Less than 180 days</u>	<u>Less than 360 days</u>	<u>Greater than 360 days</u>	<u>Total</u>
June 30:						
2019	\$ 2,860	139	16	27	1,298	4,340
2018	3,898	60	98	46	1,266	5,368

Also included in student loan receivables are private student loan and direct lending receivables totaling \$26 and \$242 in fiscal year 2019 and 2018, respectively. Allowances for doubtful accounts are established based on prior collection experiences and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

**(4) Contributions Receivable**

Contributions receivable, net, as of June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than one year	\$ 9,908	14,176
One to five years	15,091	25,384
Greater than five years	<u>1,551</u>	<u>2,809</u>
	26,550	42,369
Less discount to present value	<u>(1,102)</u>	<u>(1,658)</u>
	25,448	40,711
Less allowance for doubtful contributions	<u>(839)</u>	<u>(933)</u>
Contributions receivable, net	<u>\$ 24,609</u>	<u>39,778</u>

A discount for contributions receivable to be received over periods longer than the one year from date of contribution is provided using a risk-adjusted rate of return. The discount rates used range from 1.47% to 3.25%.

At June 30, 2019 and 2018, approximately 74% and 76%, respectively, of gross contributions receivable is due from five donors, respectively. For the years ended June 30, 2019 and 2018, approximately 32% and 72% of contribution revenue was received from five donors, respectively.

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

**(5) Investment and Trusts Held by Others**

The fair value of investments and trusts held by others at June 30, 2019 and 2018 comprised the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,231	5,910
Mutual funds invested in equities	107,302	96,395
Mutual funds invested in fixed income	60,528	54,779
Pooled private equity	26,935	17,195
Pooled alternative investments	10,500	10,150
Other	—	111
	<u>206,496</u>	<u>184,540</u>
Split-interest agreements	<u>2,804</u>	<u>2,709</u>
Total investments	209,300	187,249
Trusts held by others	<u>5,996</u>	<u>5,669</u>
Total investments and trusts held by others	\$ <u><u>215,296</u></u>	\$ <u><u>192,918</u></u>

Investment valuations are established and classified based on a variety of inputs. The input classifications or levels, by investment category, are shown in the following tables:

<u>2019</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and cash equivalents	\$ 1,231	1,231	—	—
Mutual funds invested in equities	107,302	107,302	—	—
Mutual funds invested in fixed income	60,528	60,528	—	—
Split-interest agreements	2,804	2,804	—	—
Other	—	—	—	—
	<u>171,865</u>	\$ <u><u>171,865</u></u>	<u>—</u>	<u>—</u>
Investments reported at NAV or its equivalent:				
Pooled private equity	26,935			
Pooled alternative investments	<u>10,500</u>			
Total investments	\$ <u><u>209,300</u></u>			
Trusts held by others	\$ 5,996	—	—	5,996

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

<u>2018</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and cash equivalents	\$ 5,910	5,910	—	—
Mutual funds invested in equities	96,395	96,395	—	—
Mutual funds invested in fixed income	54,779	54,779	—	—
Split-interest agreements	2,709	2,709	—	—
Other	111	48	—	63
	<u>159,904</u>	<u>\$ 159,841</u>	<u>—</u>	<u>63</u>
Investments reported at NAV or its equivalent:				
Pooled private equity	17,195			
Pooled alternative investments	<u>10,150</u>			
Total investments	<u>\$ 187,249</u>			
Trusts held by others	\$ 5,669	—	—	5,669

There were no transfers in or out of Levels 1, 2 or 3 within the fair value hierarchy during the years ended June 30, 2019 and 2018.

The following table summarizes the changes in value of the Level 3 investments for the fiscal year ended June 30, 2019:

	<u>Other</u>	<u>Trust held by others</u>
Balance as of June 30, 2017	\$ 63	4,361
(Distributions) new trusts, net	—	1,032
Total investment return, net	<u>—</u>	<u>276</u>
Balance as of June 30, 2018	63	5,669
(Distributions) new trusts, net	(63)	(69)
Total investment return, net	<u>—</u>	<u>396</u>
Balance as of June 30, 2019	<u>\$ —</u>	<u>5,996</u>

The University diversifies its investments both by asset class and within asset classes. As a general practice, all investments of the University are managed by external investment management firms.

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

Investments reported at NAV as calculated by respective investment managers are subject to capital calls and specific redemption terms. Investments, valued using NAV at June 30, 2019, are as follows:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period (days)</u>
Pooled alternatives:				
Multi-strategy (a)	\$ 10,500	—	Quarterly	91 days
	<u>10,500</u>	<u>—</u>		
Pooled private equity:				
Real estate fund (b)	837	820	Not eligible	
Private equity (c)	<u>26,098</u>	<u>29,542</u>	Not eligible	
	<u>26,935</u>	<u>30,362</u>		
Total investments reported at NAV	\$ <u><u>37,435</u></u>	<u><u>30,362</u></u>		

The information below includes description of the investments by class, valuation estimates used, and the redemption terms by investment class.

- (a) Multi-strategy invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' portfolio for this class includes investments in funds of funds, public and private equity and fixed income, long-term and short-term equities and credit. The fair values of the investments in this class have been estimated using the NAV per share of the investments.
- (b) The real estate fund includes investments in undervalued or inappropriately capitalized U.S. and non-U.S. real estate assets and corporate real estate. They also include public and private real estate companies in growth/emerging markets. The fair values of the investments in this class have been estimated using the NAV of the University's ownership interest in partners' capital. Each investment has specific terms regarding redemptions and/or terminations. Upon termination of the partnership, investments in the funds are liquidated and distributed. Investments representing 68% of the value in this class will terminate on August 30, 2021 and 32% will terminate December 31, 2019.
- (c) Private equity includes several private equity funds that invest primarily in strategies and markets that demonstrate the potential to produce attractive returns due to market inefficiencies and/or companies with a strong potential for change, as well as managers who demonstrate differentiated capabilities in pursuing their strategies. The investments consist of 35% in Natural Resources, 26% in U.S. Private Equities, 38% in Global Private Equities, and 1% in Venture Capital. These investments cannot be redeemed. Upon termination of the partnership, distributions will be made through the liquidation of the underlying assets. The distributions may take more than one year after the partnership termination

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

date. The fair values of the investments in this class have been estimated using the NAV of the University's ownership in partners' capital.

The components of investment return (loss) for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 6,376	5,062
Net realized gain (loss)	102	375
Net unrealized appreciation (depreciation)	11,158	5,357
Investment management fees	<u>(831)</u>	<u>(940)</u>
Total investment return (loss)	16,805	9,854
Endowment distribution	<u>(6,252)</u>	<u>(5,968)</u>
Net investment return (loss)	<u>\$ 10,553</u>	<u>3,886</u>

In addition to the gross endowment distribution, net noninvestment return totaling \$2,087 and \$745 in fiscal 2019 and 2018, respectively, was included in the investment return in support of operations on the accompanying consolidated statement of activities.

Total calculated endowment distribution, less amounts associated with true endowments whose fair value is less than the original gift value, is defined as endowment distribution-gross and is presented as part of operating activities on the accompanying consolidated statement of activities. A ratable portion of the endowment distributions associated with chairs and professorships that are unnamed for a portion of the fiscal year is transferred back to the specific endowment fund, and presented within nonoperating activities.

#### **(6) Endowment**

The University's endowment fund consists of 391 and 387 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the University's Board of Trustees to function as endowments at June 30, 2019 and 2018, respectively. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

##### **(a) Relevant Law**

The University follows New Jersey State Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate for expenditure or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions and the possible effect of inflation or deflation; other resources of the institution; and the investment policy of the institution.

While UPMIFA does not require it unless the donor gift instrument contains an express provision, the University generally requires the preservation of the fair value of the original gift, as of the gift date of

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

the donor-restricted endowment funds. Following this approach, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to its permanent endowment, (b) its original value of subsequent gifts to its permanent endowment, and the (c) accumulations to its permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund.

Accumulated gains resulting from donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University, in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment net assets consisted of the following at June 30, 2019:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	207,037	207,037
Board-designated endowment funds	17,267	—	17,267
Total endowment net assets	\$ <u>17,267</u>	<u>207,037</u>	<u>224,304</u>

Endowment net assets consisted of the following at June 30, 2018:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	194,663	194,663
Board-designated endowment funds	12,143	—	12,143
Total endowment net assets	\$ <u>12,143</u>	<u>194,663</u>	<u>206,806</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 12,143	194,663	206,806
Investment return, net	1,220	14,419	15,639
Contributions	—	3,113	3,113
Appropriation for expenditure	(300)	(5,952)	(6,252)
Distributions returned to endowment	597	520	1,117
Reclassification of net assets <sup>1</sup>	3,607	274	3,881
Endowment net assets, June 30, 2019	\$ <u>17,267</u>	<u>207,037</u>	<u>224,304</u>

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 10,168	173,766	183,934
Investment return, net	561	8,491	9,052
Contributions	—	17,429	17,429
Appropriation for expenditure	(256)	(5,712)	(5,968)
Distributions returned to endowment	99	296	395
Reclassification of net assets <sup>1</sup>	1,571	393	1,964
Endowment net assets, June 30, 2018	<u>\$ 12,143</u>	<u>194,663</u>	<u>206,806</u>

<sup>1</sup> Amounts included in reclassification of net assets without donor restrictions represent board designated net assets that were added to the endowment in 2019 and 2018.

**(b) Return Objectives and Risk Parameters**

The University's primary investment objectives are to invest its endowment principal to achieve growth of both principal value and income over time sufficient to preserve and/or increase the real (inflation adjusted) purchasing power of the assets, and to provide a stable source of perpetual financial support.

**(c) Strategies Employed for Achieving Objectives**

The University relies on a total return strategy in which active equity managers/funds are expected to achieve an annualized total rate of return over a three-to five-year period, which exceeds an agreed upon benchmark rate of return, net of costs and fees. Total return is defined as dividend and interest income plus realized and unrealized capital appreciation or depreciation. Active fixed income managers are expected to exceed appropriate market indices, net of costs and fees. When index funds are used, the return should closely track with the appropriate index.

**(d) Spending Rate Policy**

The University maintains an investment pool for its long-term investments. The pool is managed to achieve the maximum prudent long-term total return. The University's Board of Trustees has authorized a spending rate designed to fulfill the following objectives:

- Preserve the value of the investment pool in real terms (after inflation); and
- Provide a predictable flow of funds to support operations.

For the years ended June 30, 2019 and 2018, the spending rate permitted the use of total returns (dividend and interest income and appreciation) at a rate of 4.5% of the average year-end fair value of the investment pool over a three-year period, on a two-year lag. Endowment funds for which the total return is restricted in perpetuity by donors, if any, are excluded from the spending rate. If the market



**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

value of an endowment fund is below the fund's historic gift value as of June 30, the University will not distribute endowment return to operations for spending purposes and will be reinvested in the endowment in accordance with the investment policy.

**(e) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of accumulated gifts. At June 30, 2019 and 2018, there were no aggregate deficiencies of this nature reported within net assets with donor restriction. When deficiencies occur, they primarily result from unfavorable market fluctuations that occur shortly after the investment of new donor restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restriction.

**(7) Land, Buildings and Equipment, Net**

At June 30, 2019 and 2018, property, plant and equipment, net consisted of the following:

	<b>2019</b>	<b>2018</b>
Land	\$ 1,763	1,763
Buildings and improvements	289,650	272,447
Furniture, fixtures and equipment	62,356	51,565
Construction in progress	76,872	33,327
	430,641	359,102
Less accumulated depreciation and amortization	(175,963)	(164,803)
Total land, buildings and equipment, net	\$ 254,678	194,299

Depreciation and amortization expense, excluding accretion, totaled \$13,982 and \$13,594 for the years ended June 30, 2019 and 2018, respectively. Construction in progress includes costs associated with the Gianforte Family Academic Center, New Residence Halls/Student Center, costs associated with the campus plan, and various other campus improvements. The commitments to complete these projects at June 30, 2019 are approximately \$61 million.

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

**(8) Long-Term Debt and Line of Credit**

Long-term debt at June 30, 2019 and 2018 consisted of the following:

<u>Bond issue</u>	<u>2019</u>	<u>2018</u>	<u>Maturity date</u>	<u>Interest rate range</u>
(a) 2014 Higher Education Equipment Leasing Fund	\$ 456	577	6/1/2023	5.00 %
(b) 2016 Higher Education Capital Improvement Fund Series A	252	373	9/1/2024	2.84 %
(c) 2016 Higher Education Capital Improvement Fund Series B	8,069	8,342	9/1/2036	4.73 %
(d) 2017 Revenue Bonds Series A	<u>117,125</u>	<u>119,905</u>	7/1/2047	5.00 %
Long-term debt, net	125,902	129,197		
Plus unamortized bond premium	11,795	12,234		
Less unamortized bond issuance costs	<u>(830)</u>	<u>(860)</u>		
	<u>\$ 136,867</u>	<u>140,571</u>		

**(a) 2014 Higher Education Equipment Leasing Fund**

In April 2013, the University was awarded \$7,250 in capital improvement grants from the State of New Jersey for two information technology infrastructure projects. A portion of the award, \$4,500, is being funded under the Higher Education Equipment Leasing Fund, using bonds issued by the Authority. On January 1, 2014, the University entered into lease agreements with the Authority, which require that the University pay one-fourth (25%) of the debt service of the underlying bonds, totaling \$987. The agreement requires the University to establish and maintain all original funds as deposits with a trustee, whereby the Trustee, as evidenced by University payments, releases funds during construction.

**(b) 2016 Higher Education Capital Improvement Fund Series A Bonds**

In 2016, the Authority issued bonds to advance refund the 2005A and 2006A Capital Improvement Funds. The advance refunding added to principal while lowering the overall debt service and did not generate new grants. The remaining balance represents the University's share of the bonds outstanding that funded the original grants made to the University under the 2005A and 2006A programs.

**(c) 2016 Higher Education Capital Improvement Fund Series B Bonds**

In June 2016, the University was awarded \$19,250 in capital improvement grants from the State of New Jersey for the Academic Gateway Project. A portion of the award, \$17,435, is being funded under the Higher Education Equipment Capital Improvement Fund, using bonds issued by the Authority. On December 1, 2016, the University entered into a grant agreement with the Authority, which requires that the University pay one-half (50%) of the debt service of the underlying bonds, totaling \$8,523. The

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

agreement required the University to establish and maintain all original funds as deposits with trustee in an account, whereby the Trustee, as evidenced by University payments, releases funds during construction. At June 30, 2018, such deposits amounted to \$10,591.

**(d) 2017 Revenue Bonds Series A**

On April 1, 2017, the University entered into a loan agreement with the Authority for bonds with principal of \$119,905 to i.) refinance the costs of certain capital projects through the refunding of the 2007 Series A Bonds and the 1998 Series I Bonds; and ii.) finance capital projects for construction, renovation, expansion and equipping of certain university research and academic buildings and a garage. The University granted as security for this loan, a pledge of and lien on tuition and fee collections. The loan has a negative pledge which states that no additional liens of greater than \$10 million shall be pledged upon three certain campus buildings unless a provision is made to secure the bonds equally and ratably with such liens. Under the 2017 Series A Bonds, the loan agreement requires the University to establish and maintain all original funds as deposits with a trustee in a separate account. At June 30, 2019 and 2018, such deposits amounted to \$21,917 and \$50,483, respectively.

Principal and interest payments for each of the next five years and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2020	\$ 2,977	6,070	9,047
2021	3,128	5,920	9,048
2022	3,153	5,765	8,918
2023	3,218	5,603	8,821
2024	3,316	5,439	8,755
Thereafter	<u>110,110</u>	<u>68,964</u>	<u>179,074</u>
Total	<u>\$ 125,902</u>	<u>97,761</u>	<u>223,663</u>

Interest expense related to long-term debt is \$6,175 and \$6,282 for the years ended June 30, 2019 and 2018, respectively, of which \$2,137 and \$2,756 has been capitalized, respectively.

*Line of Credit*

The University has a \$75,000 line of credit with TD Bank for general corporate purposes, which may include the temporary financing of capital projects. This facility bears interest at seventy-five (75) basis points above the LIBOR one-month rate and has an unused fee of three (3) basis points. This line of credit became effective May 20, 2016 and expires on May 20, 2022. There is one financial covenant: Debt Service Ratio of not less than 1.15 to 1.0 that is tested annually at fiscal year-end. Management believes the University is in compliance with the debt covenant. The interest rates for the line of credit were 3.525% and 2.900% at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, amounts outstanding under the TD Bank line of credit were \$5,900 and \$0, respectively.

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

**(9) Post-Retirement Benefits**

The University provides health benefits to substantially all of its employees. Upon retirement, employees may be eligible for continuation of these benefits. Amounts are accrued for such benefits during the years employees provide services to the University. The University funds its post-retirement benefit cost on a pay-as-you-go basis.

The following are the details of the University's postretirement benefit obligation for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 5,603	6,008
Service cost	105	115
Interest cost	209	208
Plan participants' contributions	9	9
Amendments/curtailments/special termination	—	—
Actuarial (gain) loss	184	(334)
Benefits paid	<u>(386)</u>	<u>(403)</u>
Benefit obligation at end of year	\$ <u>5,724</u>	<u>5,603</u>

The discount rates used to determine benefit obligations for the years ended June 30, 2019 and 2018 were 3.27% and 3.99%, respectively.

Assumed healthcare cost trend rates can have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in the healthcare cost trend rates would have the following effects:

	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on post-retirement benefit obligation	\$ 38	(34)
Effect on total of service and interest cost components	1	(1)

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

The following presents details of the University's post-retirement benefit plan assets and costs for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
Contributions (employer and plan participants)	386	403
Benefits paid	<u>(386)</u>	<u>(403)</u>
Fair value of plan assets at end of year	\$ <u>—</u>	<u>—</u>
Components of accrued benefit cost:		
Funded status	\$ (5,724)	(5,603)
Unamortized prior service credit (cost)	211	188
Unamortized actuarial net loss	<u>2,389</u>	<u>2,346</u>
Accrued benefit cost	\$ <u>(3,124)</u>	<u>(3,069)</u>
Components of net periodic benefit cost:		
Service cost	\$ 105	115
Interest cost	209	208
Amortization of unrecognized prior service cost (credit)	(22)	(22)
Amortization of net loss	<u>139</u>	<u>190</u>
Net periodic benefit cost	\$ <u>431</u>	<u>491</u>

The following weighted average assumptions were used to determine net periodic benefit cost for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Discount rate	3.99 %	3.58 %
Assumed pre-65 medical trend rates at June 30:		
Healthcare cost trend rate assumed	4.75	5.00
Prescription drug cost trend rate assumed	9.00	10.25
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.78	3.89
Fiscal year that the rate reaches the ultimate trend rate	2075	2075

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Post-retirement benefit changes other than net periodic costs:		
Change in unamortized items:		
Prior service cost	\$ —	—
Actuarial (loss) gain	183	(334)
Amortization of:		
Actuarial loss	(139)	(190)
Unrecognized prior service credit	<u>22</u>	<u>22</u>
Total benefit changes other than periodic costs	66	(502)
Components of net periodic benefit cost, other than service cost	<u>326</u>	<u>376</u>
Post-retirement benefit changes other than service cost	\$ <u>392</u>	<u>(126)</u>

*Expected Future Benefit Payments*

Shown below are expected gross benefit payments (including prescription drug benefits) and the expected gross amount of subsidy receipts:

	<u>Employer contributions</u>
Year ending June 30:	
2020	\$ 387
2021	378
2022	362
2023	351
2024	338
2025 to 2029	1,590

Amounts that have not been recognized as components of net periodic benefit cost but are included in net assets without donor restriction are as follows:

	<u>2019</u>	<u>2018</u>
Prior service credit (cost)	\$ 211	188
Net loss	<u>2,389</u>	<u>2,346</u>
	\$ <u>2,600</u>	<u>2,534</u>

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

Amounts in net assets without donor restriction expected to be recognized as components of net periodic benefit cost during fiscal year 2020 are as follows:

Prior service credit	\$	(22)
Net loss		139

#### (10) Conditional Asset Retirement Obligations

Conditional asset retirement obligations (CARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are recognized for remediation or disposal of asbestos, underground storage tanks, radioactive sources and equipment, and similar hazardous materials. These liabilities were initially recorded at an estimated cost of remediation, with related asset retirement costs capitalized by increasing the carrying amount of the related assets by the same amount as the liability. The University applied retrospective application at the inception of the liability using an inflation rate of 4.40% and a discount rate of 5.19%. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the CARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows associated with abatement projects. In fiscal year 2014, the University modified the inflation rate to 4.0%. The University satisfies CARO liabilities when the related obligations are settled. Accretion charges in the amount of \$286 and \$291 for the years ended June 30, 2019 and 2018, respectively, were presented as a component of depreciation and amortization expense.

#### (11) Pension Plans

The University participates in the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF), a defined contribution plan for academic, professional administrative, nonacademic support and union personnel.

The University participated in a defined contribution plan underwritten by the Variable Annuity Life Insurance Company (VALIC) for nonacademic support and union personnel. Contributions to the VALIC plan ended in May 2009; those participants are now participants in the TIAA/CREF plan. Certain participants still have assets with VALIC.

Retirement costs related to these plans for the years ended June 30, 2019 and 2018 totaled approximately \$6,188 and \$5,764, respectively.

The Non-Academic Staff Employees' Pension Plan was established in 1973 as noncontributory defined benefit plan and covered all nonacademic employees who were not eligible for coverage under the TIAA-CREF defined contribution plan described above. The plan was frozen effective June 30, 1994, after which date, no new participants were accepted into the plans. As of June 30, 2019 and June 30, 2018, the Non-Academic Staff Employees' Pension Plan had a funded status of (\$285) and (\$349), respectively.

The Local 660 Pension Plan was established in 1973 as noncontributory defined benefit plans and covered Local 660 union who were not eligible for coverage under the TIAA-CREF defined contribution plan described above. The plan was frozen effective June 30, 1994, after which date, no new participants were

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

accepted into the plans. As of June 30, 2019 and June 30, 2018, the Local 660 Pension Plan had a funded status of (\$79) and (\$59), respectively.

**(12) Net Assets**

At June 30, 2019 and 2018, net assets consisted of the following:

	<u>2019</u>	<u>2018</u>
Without donor restrictions:		
Undesignated	\$ 21,060	15,484
Net investment in plant	121,145	103,402
Endowment	17,267	12,143
Institutional portion of Federal Perkins Loans Program	<u>1,045</u>	<u>1,017</u>
Total net assets without donor restrictions	<u>160,517</u>	<u>132,046</u>
With donor restrictions:		
Restricted for time or purpose:		
Education and research programs	15,183	16,850
Capital projects	18,299	26,177
Annuity and life income funds	3,553	3,475
Endowment	<u>92,354</u>	<u>83,390</u>
Total net assets restricted for time or purpose	<u>129,389</u>	<u>129,892</u>
To be held in perpetuity:		
Endowment	114,683	111,273
Student loans	—	2,693
Annuity and life income funds	<u>3,251</u>	<u>2,854</u>
Total net assets to be held in perpetuity	<u>117,934</u>	<u>116,820</u>
Total net assets with donor restrictions	<u>247,323</u>	<u>246,712</u>
Total net assets	<u>\$ 407,840</u>	<u>378,758</u>



**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

**(13) Functional Classification of Expenses**

The consolidated statement of activities presents operating expenses based upon their natural classification. For the years ended June 30, 2019 and 2018, operating expenses presented by their functional category with the allocation of depreciation and amortization, interest, and operations and maintenance of plant to reflect the full cost of those activities were as follows:

2019	Program Services				Support	Total operating expenses
	Education	Student Services	Research and Public Services	Auxiliary	Management and General	
Salaries and benefits	\$ 93,294	16,101	17,633	2,574	19,604	149,206
Purchased services	4,163	4,576	5,390	7,598	6,067	27,794
Maintenance, rents and utilities	4,907	2,362	1,405	11,528	1,359	21,561
Supplies and other	10,255	7,903	2,452	962	5,482	27,054
Interest expense	1,326	745	569	1,042	211	3,893
Depreciation expense	4,862	2,729	2,084	3,819	774	14,268
Total	\$ 118,807	34,416	29,533	27,523	33,497	243,776

2018	Program Services				Support	Total operating expenses
	Education	Student Services	Research and Public Services	Auxiliary	Management and General	
Salaries and benefits	\$ 85,080	14,379	17,431	2,516	19,337	138,743
Purchased services	3,012	3,917	5,018	6,967	5,266	24,180
Maintenance, rents and utilities	5,157	2,140	1,302	9,914	1,809	20,322
Supplies and other	9,064	6,976	2,592	1,440	5,149	25,221
Interest expense	1,097	633	495	810	216	3,251
Depreciation expense	4,561	2,629	2,057	3,367	896	13,510
Total	\$ 107,971	30,674	28,895	25,014	32,673	225,227

The allocation of depreciation and amortization, interest and operations and maintenance is based on square footage occupied by functional area.

Fundraising expenses are included within management and general and totaled \$5,459 and \$5,298 for the years ended June 30, 2019 and 2018, respectively. Also included in management and general are advertising costs, which are expensed as incurred. Amounts totaled \$1,104 and \$925 for the years ended June 30, 2019 and 2018, respectively.

**(14) Commitments and Contingent Liabilities**

The University receives funding or reimbursement from Federal government agencies for sponsored activity under government grants and contracts. These grants and contracts provide for reimbursement of indirect (facilities and administrative) costs based on rates negotiated with the Office of Naval Research,

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

which is the University's cognizant Federal agency. The University's facilities and administrative cost reimbursements for the years ended June 30, 2019 and 2018 were based on a final predetermined rate that is not subject to a carry forward provision.

The Defense Contract Audit Agency (DCAA) is responsible for auditing both direct and indirect charges to grants and contracts in support of the Office of Naval Research's negotiating responsibility. The University has final audited rates through fiscal 2009 and also for 2019. There is an audit ongoing for 2010 through 2018. It is the opinion of management that disallowances, if any, resulting from open years will not have a material effect on the accompanying consolidated financial statements. The University anticipates the ongoing DCAA audit will be completed in fiscal year 2020.

In July 2014, the University was selected by the State of New Jersey for an audit of its practices regarding unclaimed property. Since June 2014, all components of the audit have been completed. The University is waiting to receive a management representation letter and the final payment amount from the State of New Jersey. The University has established a reserve for the estimated liabilities. It is management's belief that the completion of this audit will not result in additional reserves being required that will have a material impact on the University's consolidated financial statements.

The University is a party to various legal actions arising in the ordinary course of operations. While it is not possible to predict the outcome of these actions at this time, it is the opinion of management that the resolution of these matters will not have a material effect on the University's consolidated financial statements.

#### *Operating Leases*

The University is party to various operating lease agreements, expiring through 2022, for office equipment, vehicles and student housing. Minimum lease payments due under these agreements are as follows:

Fiscal year ending June 30:	
2020	\$ 7,680
2021	4,240
2022	<u>1,024</u>
Total	<u>\$ 12,944</u>

Rent expense associated with the above leases, for the years ended June 30, 2019 and 2018, totaled \$9,449 and \$8,690, respectively.

#### *Capital Leases*

The University leases equipment under capital lease agreements that expire in fiscal year 2021. The value of the leased equipment of \$4,739 is included in furniture, fixtures and equipment while the present value of net minimum lease payments is included in capital lease obligation. The following is a schedule by years of

**STEVENS INSTITUTE OF TECHNOLOGY**

Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2019:

Fiscal year ending June 30:		
2020	\$	1,042
2021		<u>910</u>
Total		1,952
Less amounts representing interest		<u>(71)</u>
	\$	<u><u>1,881</u></u>

Interest expense related to capital lease obligations is \$91 and \$127 for the years ended June 30, 2019 and 2018, respectively.

**(15) Financial Assets and Liquidity Resources**

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt and contributions, were as follows:

		<u><b>2019</b></u>
Financial assets:		
Cash and cash equivalents	\$	57,195
Accounts receivable, net		15,207
Contributions receivable available for operations		5,050
Investments appropriated for spending in following year		<u>7,101</u>
Total financial assets available within one year		<u>84,553</u>
Liquidity Resources:		
Bank line of credit		<u>69,100</u>
Total liquidity resources		<u>69,100</u>
Total financial assets and liquidity resources	\$	<u><u>153,653</u></u>

## STEVENS INSTITUTE OF TECHNOLOGY

### Notes to Consolidated Financial Statements

June 30, 2019

(with summarized comparative financial information as of June 30, 2018)

(Dollars in thousands)

The University's cash flows have seasonal variations during the year attributable to timing of tuition billing and to a lesser extent a concentration of contributions received at calendar and fiscal year-ends. To manage liquidity, the University has a short-term investment strategy for excess working capital. It is intended to be used for operating cash management purposes within one year and allows us to align cash inflows with anticipated cash outflow, in accordance with policies approved by the Finance Committee of the Board.

As further described in Note 8, the University may draw upon a line of credit to manage cash flows, however the main purpose of that line of credit is to interim fund capital spending until permanent funding is secured.

In addition to financial assets available to meet general expenditures over the next year, the University operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows, which identifies the sources and uses of the University's cash and shows positive cash generated by operations for fiscal years 2019 and 2018.

The University also has \$17,267 in board-designated endowments, which are available for general expenditure with Board approval. The Board has approved fiscal year 2020 spending from the endowment estimated to be \$7,101, which is included in the table above.

#### **(16) Related Party Transactions**

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with companies doing business with the University. Under the University's conflict-of-interest policy, all business and financial relationships of trustees and officers with the University and with vendors and subcontractors to the University are subject to an annual disclosure process culminating with review by General Counsel, Internal Audit and the Audit Committee of the Board of Trustees. During fiscal years 2019 and 2018, there were no arrangements that required review and approval.

From time to time, the University is the recipient of contributions from donors who are also members of the Board of Trustees. At June 30, 2019 and 2018, contributions receivable included \$8,505 and \$11,091, respectively, from members of the Board of Trustees.

#### **(17) Subsequent Events**

The University evaluated its June 30, 2019 consolidated financial statements for subsequent events through October 28, 2019 the date the consolidated financial statements were issued. In connection with this evaluation, the University is not aware of any significant subsequent events, which would require recognition or disclosure in the accompanying consolidated financial statements.