



STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of
June 30, 2017)

(With Independent Auditors' Report Thereon)

STEVENS INSTITUTE OF TECHNOLOGY

Table of Contents

	Page(s)
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	6-31



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, 2018, 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, 2018, 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.



Report on Summarized Comparative Information

We have previously audited the Stevens Institute of Technology and Subsidiary's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

December 10, 2018

STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Financial Position

June 30, 2018

(with comparative financial information as of June 30, 2017)

(Dollars in thousands)

Assets	2018	2017
Cash and cash equivalents	\$ 65,003	45,673
Student, sponsor and other receivables, net (note 3)	18,896	19,969
Prepaid expenses and other assets	2,053	2,361
Contributions receivable, net (notes 4 and 15)	39,778	29,163
Deposits with bond trustees (note 8)	61,074	80,797
Investments (note 5)	187,249	175,006
Trusts held by others (note 5)	5,669	4,361
Land, buildings and equipment, net (note 7)	198,117	168,833
Total assets	\$ <u>577,839</u>	<u>526,163</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 22,385	22,924
Deferred revenue	15,100	18,579
Capital lease obligations (note 14)	2,832	4,059
Annuities payable	1,855	2,035
Post-retirement benefits (note 9)	5,603	6,008
Conditional asset retirement obligations (note 10)	6,067	6,149
Long-term debt, net (note 8)	140,571	141,406
Refundable advances (note 3)	4,668	5,836
Total liabilities	<u>199,081</u>	<u>206,996</u>
Net assets (notes 6 and 12):		
Unrestricted	132,046	95,343
Temporarily restricted	129,892	125,632
Permanently restricted	116,820	98,192
Total net assets	<u>378,758</u>	<u>319,167</u>
Total liabilities and net assets	\$ <u>577,839</u>	<u>526,163</u>

See accompanying notes to consolidated financial statements.

STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Activities

Year ended June 30, 2018

(with summarized financial information for the year ended June 30, 2017)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total	
				2018	2017
Operating activities:					
Revenues and other support:					
Tuition and fees	\$ 251,849	—	—	251,849	240,341
Less student aid	(76,091)	—	—	(76,091)	(72,219)
Net tuition and fees	175,758	—	—	175,758	168,122
Sponsored activity revenues:					
Federal	26,396	—	—	26,396	26,928
State	1,251	—	—	1,251	1,326
Private/other	2,886	—	—	2,886	2,575
Total sponsored activity revenues	30,533	—	—	30,533	30,829
Grants	948	—	—	948	833
Contributions	1,619	5,824	—	7,443	8,354
Other revenues	4,001	—	—	4,001	3,955
Auxiliary enterprises	28,893	—	—	28,893	29,211
Investment return in support of operations (notes 5 and 6)	1,432	5,281	—	6,713	6,547
Net assets released from restrictions	9,330	(9,330)	—	—	—
Total operating revenues and other support	252,514	1,775	—	254,289	247,851
Expenses (note 13):					
Salaries and benefits	138,743	—	—	138,743	132,409
Purchased services	18,951	—	—	18,951	18,474
Sub-contracts	4,590	—	—	4,590	4,437
Maintenance, rents and utilities	20,961	—	—	20,961	21,834
Supplies and other	25,221	—	—	25,221	26,320
Interest expense (note 8)	3,251	—	—	3,251	3,344
Depreciation and amortization	13,510	—	—	13,510	12,067
Total operating expenses	225,227	—	—	225,227	218,885
Operating surplus	27,287	1,775	—	29,062	28,966
Nonoperating activities:					
Investment return (loss), net of amounts in support of operations (note 5)	947	2,939	—	3,886	8,926
Contributions	—	484	18,837	19,321	12,164
Grants	7,315	—	—	7,315	1,705
Post-retirement benefit changes other than service cost (note 9)	126	—	—	126	(99)
Change in value of split-interest agreements	—	133	87	220	418
Loss on bond defeasance	—	—	—	—	(1,162)
Uncollectible contributions	—	—	(339)	(339)	(298)
Reclassification of net assets	(186)	143	43	—	—
Net assets released from restrictions	1,214	(1,214)	—	—	—
Total nonoperating activities	9,416	2,485	18,628	30,529	21,654
Changes in net assets	36,703	4,260	18,628	59,591	50,620
Net assets, beginning of year	95,343	125,632	98,192	319,167	268,547
Net assets, end of year	\$ 132,046	129,892	116,820	378,758	319,167

See accompanying notes to consolidated financial statements.

STEVENS INSTITUTE OF TECHNOLOGY

Consolidated Statement of Cash Flows

Year ended June 30, 2018

(with comparative financial information for the year ended June 30, 2017)

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 59,591	50,620
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accretion of bond premium	(439)	(129)
Accretion of interest on conditional asset retirement obligations	291	293
Amortization of bond issuance costs	30	53
Depreciation and amortization	13,594	12,265
Loss of disposal of property	1,382	—
Loss of bond defeasance	—	1,162
Net (gains) losses on investments	(5,732)	(12,071)
Post-retirement benefit changes other than net periodic benefit costs	(502)	(309)
Present value adjustment on annuities payable	(220)	(418)
Present value adjustment on contribution receivable	208	(45)
Change in allowance for doubtful accounts – contributions receivable	(4)	(168)
Change in allowance for doubtful accounts – student, sponsor, loans and other receivables	(275)	506
Contributions and grants restricted for capital and endowment	(26,841)	(13,263)
Decrease (increase) in operating assets:		
Student, sponsor and other receivables	694	2,195
Contributions receivable	2,439	(1,606)
Prepaid expenses and other assets	308	(524)
Trusts held by others	(1,150)	(505)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(950)	(431)
Deferred revenue	(3,479)	7,591
Annuities payable	262	398
Accrued post-retirement benefits	97	141
Conditional asset retirement obligations	(373)	(407)
Net cash provided by operating activities	<u>38,931</u>	<u>45,348</u>
Cash flows from investing activities:		
Proceeds from sales of investments	137,392	107,267
Purchase of investments	(143,851)	(110,920)
Purchases of land, buildings and equipment	(43,849)	(27,403)
Withdrawals from deposits with bond trustee	116,156	115,862
Additions to deposits with bond trustees	(96,643)	(189,870)
Loans issued to students	(373)	(1,278)
Collection of student loans	1,027	1,514
Net cash used in investing activities	<u>(30,141)</u>	<u>(104,828)</u>
Cash flows from financing activities:		
Receipts of contributions and grants restricted for capital and endowment	13,583	6,149
Payment of line of credit	—	(2,100)
Change in annuity obligations	(222)	(206)
Refundable advances for student loans	(1,168)	478
Repayments of capital lease obligations	(1,227)	(1,467)
Proceeds from issuance of long-term debt	—	141,708
Refunding of long-term debt	—	(66,258)
Payment of bond issuance costs	—	(897)
Repayments of long-term debt	(426)	(229)
Net cash provided by financing activities	<u>10,540</u>	<u>77,178</u>
Net increase in cash	19,330	17,698
Cash and cash equivalents, beginning of year	<u>45,673</u>	<u>27,975</u>
Cash and cash equivalents, end of year	\$ <u>65,003</u>	<u>45,673</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 4,863	2,786
Increase in amounts accrued for purchase of land, buildings and equipment	411	2,841

See accompanying notes to consolidated financial statements.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(1) Organization

Stevens Institute of Technology and Subsidiary (collectively, 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. 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:

Permanently restricted: 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.

Temporarily restricted: net assets subject to donor-imposed restrictions that will be satisfied either by actions of the University or the passage of time.

Unrestricted: net assets that are not subject to donor-imposed restrictions, and therefore are expendable for operating purposes. Unrestricted net assets may be designated for specific purposes by the University's Board of Trustees.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. 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 unrestricted net assets 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.

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, 2018 and 2017, conditional contributions, including advised bequests, totaled \$43,436 and \$25,475, 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 provided based upon management's judgment of prior collection history, type of contribution and nature of fundraising activity. Unrestricted net assets resulting from certain large contributions may be designated by the University's Board of Trustees for capital or long-term investment.

Refundable advances represent obligations of the University to the Federal Government under the Federal Perkins Loan Program.

(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, 2018 and 2017, there were no cash equivalents within the cash balances presented in the accompanying consolidated statement of financial position. Restricted cash totaled \$16,065 and \$18,893 at June 30, 2018 and 2017, 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.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(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 short-term marketable securities classified under Level 2 within the fair value hierarchy of the Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. 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.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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

(j) 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.

(k) 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.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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.

(l) 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 for permanently restricted purposes 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.

(m) Auxiliary Enterprises

Auxiliary enterprises include revenues and expenses primarily related to student housing, the campus bookstore and student dining facilities. An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed as an essentially self-supporting activity. The auxiliary enterprise category includes all expenditures and transfers relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of plant, interest expense and depreciation expense. Also included are other direct and indirect costs, whether charged directly as expenditures or allocated as a proportionate share of costs of other departments or units.

(n) Sponsored Activities

The University receives sponsored program funding from various governmental and corporate sources. The University recognizes revenue associated with direct costs or sponsored programs as the related costs are incurred. 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 2018, the revenue from sponsored activities comprised \$23,197 associated with direct costs, and \$7,336 associated with F&A recoveries from all sponsors, including the federal government. The corresponding amounts for fiscal 2017 were \$23,686 and \$7,143, respectively.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(o) 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.

(p) 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; and the recoverability of receivables. Actual results could differ from those estimates.

(q) 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 2017 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, 2017, from which it was derived.

(r) New Accounting Pronouncements

In fiscal 2018, the University adopted the provisions of FASB Accounting Standards Update (ASU) No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The provisions of this update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statement of activities separately from the service cost component and outside a subtotal of income from operations. The University adopted the provisions of this update in fiscal year 2018 and applied the provisions retrospectively to fiscal year 2017. As a result, the University reclassified \$408 of the other components of net benefit cost from operating expenses to other components of net periodic costs in nonoperating activities in the 2017 consolidated statement of activities.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

The FASB issued ASU 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; 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; and retaining the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. The University plans to adopt ASU 2016-14 for the year ending June 30, 2019.

The FASB issued ASU 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 plans to adopt ASU 2018-08 for the year ending June 30, 2019.

(s) Reclassifications

Certain amounts in the fiscal year 2017 financial statements have been reclassified to conform to the current year presentation.

(3) Student, Sponsor and Other Receivables

Student, sponsor and other receivables, net, as of June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Student	\$ 6,363	6,995
Sponsored contracts and grants	8,942	8,864
Student loans	5,610	6,264
Other	<u>2,290</u>	<u>2,430</u>
	<u>23,205</u>	<u>24,553</u>
Less:		
Allowance for doubtful student accounts	(2,004)	(2,174)
Allowance for doubtful sponsor accounts	(571)	(560)
Allowance for doubtful student loan accounts	(1,162)	(1,149)
Allowance for doubtful other accounts	<u>(572)</u>	<u>(701)</u>
	<u>(4,309)</u>	<u>(4,584)</u>
Student, sponsor and other receivables, net	\$ <u>18,896</u>	<u>19,969</u>

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

A majority of the student loans outstanding are associated with the Federal Perkins Loan Program. At June 30, 2018 and 2017, student loans represented approximately 1% of total assets. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of \$4,668 and \$5,836 at June 30, 2018 and 2017, 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 reduction of the funds available for future loans and a decrease in the liability to the U.S. government.

At June 30, 2018 and 2017, 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:						
2018	\$ 3,898	60	98	46	1,266	5,368
2017	4,623	94	43	25	1,252	6,037

Also included in student loan receivables are private student loan and direct lending receivables totaling \$242 and \$227 in fiscal year 2018 and 2017, 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.

(4) Contributions Receivable

Contributions receivable, net, as of June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 14,176	8,973
One to five years	25,384	18,592
Greater than five years	2,809	3,985
	<u>42,369</u>	<u>31,550</u>
Less discount to present value	<u>(1,658)</u>	<u>(1,450)</u>
	40,711	30,100
Less allowance for doubtful contributions	<u>(933)</u>	<u>(937)</u>
Contributions receivable, net	<u>\$ 39,778</u>	<u>29,163</u>

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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, 2018 and 2017, approximately 78% and 70%, respectively, of gross contributions receivable is due from six donors. For the years ended June 30, 2018 and 2017, approximately 70% and 62% of contribution revenue was received from six donors.

(5) Investment and Trusts Held by Others

The fair value of investments and trusts held by others at June 30, 2018 and 2017 comprised the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 5,910	1,964
Mutual funds invested in equities	96,395	91,776
Mutual funds invested in fixed income	54,779	43,393
Pooled private equity	17,195	15,927
Pooled alternative investments	10,150	19,045
Other	111	111
	<u>184,540</u>	<u>172,216</u>
Split-interest agreements	2,709	2,790
Total investments	187,249	175,006
Trusts held by others	5,669	4,361
Total investments and trusts held by others	<u>\$ 192,918</u>	<u>179,367</u>

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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>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
<u>2017</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Cash and cash equivalents	\$ 1,964	1,964	—	—
Mutual funds invested in equities	91,776	91,776	—	—
Mutual funds invested in fixed income	43,393	43,393	—	—
Split-interest agreements	2,790	2,790	—	—
Other	111	48	—	63
	<u>140,034</u>	<u>\$ 139,971</u>	<u>—</u>	<u>63</u>
Investments reported at NAV or its equivalent:				
Pooled private equity	15,927			
Pooled alternative investments	<u>19,045</u>			
Total investments	<u>\$ 175,006</u>			
Trusts held by others	\$ 4,361	—	—	4,361

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

There were no transfers in or out of Levels 1, 2 or 3 within the fair value hierarchy during the years ended June 30, 2018 and 2017.

The following table summarizes the changes in value of the Level 3 investments for the fiscal year ended June 30, 2018:

	<u>Other</u>	<u>Trust held by others</u>
Balance as of June 30, 2016	\$ 72	3,650
(Distributions) new trusts, net	(6)	472
Total investment return, net	<u>(3)</u>	<u>239</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	\$ <u>63</u>	<u>5,669</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.

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, 2018, 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)	\$ <u>10,150</u>	<u>—</u>	Quarterly	91 days
	<u>10,150</u>	<u>—</u>		
Pooled private equity:				
Real estate fund (b)	836	810	Not eligible	
Private equity (c)	<u>16,359</u>	<u>18,385</u>	Not eligible	
	<u>17,195</u>	<u>19,195</u>		
Total investments reported at NAV	\$ <u>27,345</u>	<u>19,195</u>		

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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 30% in Natural Resources, 39% in U.S. Private Equities, 30% 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 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 5,062	4,070
Net realized gain (loss)	375	2,595
Net unrealized appreciation (depreciation)	5,357	9,476
Investment management fees	<u>(940)</u>	<u>(850)</u>
Total investment return (loss)	9,854	15,291
Endowment distribution, net of amounts returned to endowment	<u>(5,968)</u>	<u>(6,365)</u>
Net investment return (loss)	\$ <u>3,886</u>	<u>8,926</u>

In addition to the gross endowment distribution, net noninvestment return totaling \$745 and \$182 in fiscal 2018 and 2017, respectively, was included in the investment return in support of operations on the accompanying consolidated statement of activities.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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 387 and 378 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, 2018 and 2017, 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 the donor-restricted endowment funds. Following this approach, the University classifies as permanently restricted net assets (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 that are not classified in permanently restricted net assets are classified as temporarily restricted net assets 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, 2018:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1)	83,390	111,273	194,662
Board-designated endowment funds	<u>12,144</u>	<u>—</u>	<u>—</u>	<u>12,144</u>
Total net assets	<u>\$ 12,143</u>	<u>83,390</u>	<u>111,273</u>	<u>206,806</u>

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

Endowment net assets consisted of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (49)	80,221	93,545	173,717
Board-designated endowment funds	<u>10,217</u>	<u>—</u>	<u>—</u>	<u>10,217</u>
Total net assets	\$ <u>10,168</u>	<u>80,221</u>	<u>93,545</u>	<u>183,934</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 10,168	80,221	93,545	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	<u>1,571</u>	<u>94</u>	<u>299</u>	<u>1,964</u>
Endowment net assets, June 30, 2018	\$ <u>12,143</u>	<u>83,390</u>	<u>111,273</u>	<u>206,806</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ 8,073	71,763	86,189	166,025
Investment return, net	938	14,195	—	15,133
Contributions	—	—	1,444	1,444
Appropriation for expenditure	(256)	(6,109)	—	(6,365)
Distributions returned to endowment	—	329	—	329
Reclassification of net assets	<u>1,413</u>	<u>43</u>	<u>5,912</u>	<u>7,368</u>
Endowment net assets, June 30, 2017	\$ <u>10,168</u>	<u>80,221</u>	<u>93,545</u>	<u>183,934</u>

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(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, 2018 and 2017, 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. Endowment funds for which the total return is permanently restricted by donors, if any, are excluded from the spending rate.

(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, 2018 and 2017, the aggregate deficiencies of this nature totaling \$1 and \$49, respectively, were reported within unrestricted net assets. These deficiencies principally resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently 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 unrestricted net assets.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(7) Land, Buildings and Equipment, Net

At June 30, 2018 and 2017, property, plant and equipment, net consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,763	1,763
Buildings and improvements	272,447	241,938
Furniture, fixtures and equipment	51,565	58,658
Construction in progress	<u>37,145</u>	<u>24,909</u>
	362,920	327,268
Less accumulated depreciation and amortization	<u>(164,803)</u>	<u>(158,435)</u>
Total land, buildings and equipment, net	<u>\$ 198,117</u>	<u>168,833</u>

Depreciation and amortization expense, excluding accretion, totaled \$13,594 and \$12,265 for the years ended June 30, 2018 and 2017, respectively. Construction in progress includes costs associated with the Gianforte Family Academic Center, Workday Student system, 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, 2018 are approximately \$56 million.

(8) Long-Term Debt and Line of Credit

Long-term debt at June 30, 2018 and 2017 consisted of the following:

<u>Bond issue</u>	<u>2018</u>	<u>2017</u>	<u>Maturity date</u>	<u>Interest rate range</u>
(a) 2003 Dormitory Safety Trust Fund Series A	\$ —	15	1/15/2018	— %
(b) 2014 Higher Education Equipment Leasing Fund	577	690	6/1/2023	5.00 %
(c) 2016 Higher Education Capital Improvement Fund Series A	373	490	9/1/2024	2.84 %
(d) 2016 Higher Education Capital Improvement Fund Series B	8,342	8,523	9/1/2036	4.73 %
(e) 2017 Revenue Bonds Series A	<u>119,905</u>	<u>119,905</u>	7/1/2047	4.00%–5.00%
Long-term debt, net	129,197	129,623		
Plus unamortized bond premium	12,234	12,673		
Less unamortized bond issuance costs	<u>(860)</u>	<u>(890)</u>		
	<u>\$ 140,571</u>	<u>141,406</u>		

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(a) 2003 Dormitory Safety Trust Fund Series A

On January 15, 2004, the University entered into a loan agreement with the New Jersey Educational Facilities Authority (the Authority) for improvements of dormitory safety facilities, including fire prevention and sprinkler systems. The loan agreement was financed through the issuance of bonds by the Authority. The University's portion of the funds amounted to \$244. The loan was fully repaid in 2018.

(b) 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.

(c) 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.

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

(e) 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

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

requires the University to establish and maintain all original funds as deposits with a trustee in a separate account. At June 30, 2018, such deposits amounted to \$50,483.

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:			
2019	\$ 3,295	6,366	9,661
2020	2,977	6,209	9,186
2021	3,128	6,070	9,198
2022	3,153	5,920	9,073
2023	3,218	5,765	8,983
Thereafter	<u>113,426</u>	<u>80,006</u>	<u>193,432</u>
Total	<u>\$ 129,197</u>	<u>110,336</u>	<u>239,533</u>

Interest expense related to long-term debt is \$6,282 and \$4,162 for the years ended June 30, 2018 and 2017, respectively, of which \$2,756 and \$950 has been capitalized, respectively.

Line of Credit

The University has a \$25,000 line of credit with TD Bank for general corporate purposes, which may include the temporary financing of capital projects. This facility bears interest at ninety (90) 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, 2019. 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. The interest rates for the line of credit were 2.900% and 2.025% at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, there were no amounts outstanding under the TD Bank line of credit.

(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.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 6,008	6,176
Service cost	115	123
Interest cost	208	206
Plan participants' contributions	9	8
Amendments/curtailments/special termination	—	449
Actuarial (gain) loss	(334)	(556)
Benefits paid	<u>(403)</u>	<u>(398)</u>
Benefit obligation at end of year	\$ <u>5,603</u>	<u>6,008</u>

The discount rates used to determine benefit obligations for the years ended June 30, 2018 and 2017 were 3.99% and 3.58%, 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	\$ 40	(36)
Effect on total of service and interest cost components	1	(1)

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(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>2018</u>	<u>2017</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
Contributions (employer and plan participants)	403	398
Benefits paid	<u>(403)</u>	<u>(398)</u>
Fair value of plan assets at end of year	\$ <u>—</u>	<u>—</u>
Components of accrued benefit cost:		
Funded status	\$ (5,603)	(6,008)
Unamortized prior service credit (cost)	188	165
Unamortized actuarial net loss	<u>2,346</u>	<u>2,870</u>
Accrued benefit cost	\$ <u>(3,069)</u>	<u>(2,973)</u>
Components of net periodic benefit cost:		
Service cost	\$ 115	123
Interest cost	208	206
Amortization of unrecognized prior service cost (credit)	(22)	(22)
Amortization of net loss	<u>190</u>	<u>224</u>
Net periodic benefit cost	\$ <u>491</u>	<u>531</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate	3.58 %	3.39 %
Assumed pre-65 medical trend rates at June 30:		
Healthcare cost trend rate assumed	5.00	5.70
Prescription drug cost trend rate assumed	10.25	10.50
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.89	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, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Post-retirement benefit changes other than net periodic costs:		
Change in unamortized items:		
Prior service cost	\$ —	449
Actuarial (loss) gain	(334)	(556)
Amortization of:		
Actuarial loss	(190)	(224)
Unrecognized prior service credit	22	22
Total benefit changes other than periodic costs	<u>(502)</u>	<u>(309)</u>
Components of net periodic benefit cost, other than service cost	<u>376</u>	<u>408</u>
Post-retirement benefit changes other than service cost	\$ <u><u>(126)</u></u>	\$ <u><u>99</u></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:	
2019	\$ 404
2020	400
2021	391
2022	375
2023	365
2024 to 2028	1,698

Amounts that have not been recognized as components of net periodic benefit cost but are included in unrestricted net assets are as follows:

	<u>2018</u>	<u>2017</u>
Prior service credit (cost)	\$ 188	165
Net loss	<u>2,346</u>	<u>2,870</u>
	\$ <u><u>2,534</u></u>	\$ <u><u>3,035</u></u>

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

Amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost during fiscal year 2019 are as follows:

Prior service credit	\$	(22)
Net loss		190

(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 \$291 and \$293 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 totaled approximately \$5,764 and \$5,455, 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, 2018, the Non-Academic Staff Employees' Pension Plan had a funded status of \$349.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

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 accepted into the plans. As of June 30, 2018, the Local 660 Pension Plan had a funded status of \$59.

(12) Net Assets

At June 30, 2018 and 2017, net assets consisted of the following:

	2018	2017
Unrestricted:		
Undesignated	\$ 15,484	(1,832)
Net investment in plant	103,402	86,067
Endowment	12,143	10,168
Institutional portion of Federal Perkins Loans Program	1,017	940
Total unrestricted	132,046	95,343
Temporarily restricted:		
Education and research programs	16,850	16,589
Capital projects	26,177	26,363
Annuity and life income funds	3,475	2,459
Endowment	83,390	80,221
Total temporarily restricted	129,892	125,632
Permanently restricted:		
Endowment	111,273	93,545
Student loans	2,693	2,780
Annuity and life income funds	2,854	1,867
Total permanently restricted	116,820	98,192
Total net assets	\$ 378,758	319,167

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(13) Functional Classification of Expenses

The consolidated statement of activities presents operating expenses based upon their natural classification and before certain allocations such as depreciation and amortization, interest, and operations and maintenance of plant. For the years ended June 30, 2018 and 2017, operating expenses presented by their functional category and allocation of depreciation and amortization, interest, and operations and maintenance of plant were as follows:

2018	Operating expenses before allocations	Depreciation and amortization	Interest	Operations and maintenance of plant	Total operating expenses
Instruction	\$ 71,832	2,553	614	2,690	77,689
Research	22,735	2,057	495	2,167	27,454
Public services	1,297	—	—	—	1,297
Academic support	25,768	2,008	483	2,116	30,375
Student services	24,690	2,629	633	2,770	30,722
Institutional support	30,617	896	216	945	32,674
Auxiliary enterprises	17,291	3,367	810	3,548	25,016
Total	\$ 194,230	13,510	3,251	14,236	225,227

2017	Operating expenses before allocations	Depreciation and amortization	Interest	Operations and maintenance of plant	Total operating expenses
Instruction	\$ 72,921	2,280	1,013	2,575	78,789
Research	23,136	1,837	548	2,074	27,595
Public services	1,164	—	—	—	1,164
Academic support	23,933	1,793	522	2,024	28,272
Student services	23,043	2,348	428	2,650	28,469
Institutional support	28,965	801	123	904	30,793
Auxiliary enterprises	16,690	3,008	710	3,395	23,803
Total	\$ 189,852	12,067	3,344	13,622	218,885

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 institutional support and totaled \$5,298 and \$4,892 for the years ended June 30, 2018 and 2017, respectively. Advertising costs are expensed in the year they are incurred. Amounts totaled \$925 and \$885 for the years ended June 30, 2018 and 2017, respectively.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

(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, which is the University's cognizant Federal agency. The University's facilities and administrative cost reimbursements for the years ended June 30, 2018 and 2017 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. 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 2019.

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, major components of the audit have been completed, including resolution of the liability associated with student accounts, payroll and accounts payable. Other smaller areas of the audit are proceeding. 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:	
2019	\$ 8,225
2020	4,454
2021	1,711
2022	<u>345</u>
Total	<u>\$ 14,735</u>

Rent expense associated with the above leases, for the years ended June 30, 2018 and 2017, totaled \$8,690 and \$9,236, respectively.

STEVENS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

June 30, 2018

(with summarized comparative financial information as of June 30, 2017)

(Dollars in thousands)

Capital Leases

The University leases equipment under capital lease agreements that expire in fiscal year 2021. The value of the leased equipment of \$6,532 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 future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2018:

Fiscal year ending June 30:		
2019	\$	1,042
2020		1,042
2021		<u>910</u>
Total		2,994
Less amounts representing interest		<u>(162)</u>
	\$	<u><u>2,832</u></u>

Interest expense related to capital lease obligations is \$127 and \$161 for the years ended June 30, 2018 and 2017, respectively.

(15) 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 2018 and 2017, 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, 2018 and 2017, contributions receivable included \$11,091 and \$12,733, respectively, from members of the Board of Trustees.

(16) Subsequent Events

The University evaluated its June 30, 2018 consolidated financial statements for subsequent events through December 10, 2018 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.