

11th Street Family Health Services, Inc.
(A Non-Profit Real Estate Holding Company of Drexel University)

**Financial Statements for the Year Ended June 30, 2015 and
the Period from December 12, 2013 (inception) to June 30, 2014
(restated)**

11th Street Family Health Services, Inc.
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June 30, 2015 and 2014 (restated)

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Independent Auditor's Report

To the Board of Directors
11TH Street Family Health Services, Inc.

We have audited the accompanying financial statements of 11TH Street Family Health Services, Inc. (the "Corporation"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and of cash flows for the year ended June 30, 2015 and the period from December 12, 2013 (inception) to June 30, 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 11TH Street Family Health Services, Inc., at June 30, 2015 and 2014, and the results of its operations and its cash flows for the year ended June 30, 2015 and the period from December 12, 2013 (inception) to June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the Corporation has restated its June 30, 2014 financial statements to correct errors.

PricewaterhouseCoopers LLP

October 14, 2015

11th Street Family Health Services, Inc.
Statements of Financial Position
As of June 30, 2015 and 2014 (restated)

	2015	2014 (restated)
Assets		
Cash and cash equivalents	\$ 30,323	\$ 30,805
Restricted funds held by trustee	3,630,134	8,992,899
Other receivables	483	-
Land, buildings and equipment, net	<u>10,377,820</u>	<u>3,189,570</u>
Total assets	<u>\$ 14,038,760</u>	<u>\$ 12,213,274</u>
Liabilities		
Net borrowings from affiliate	\$ 2,745,101	\$ 745,360
Accrued interest	30,804	30,804
Long-term debt	<u>9,500,000</u>	<u>9,500,000</u>
Total liabilities	12,275,905	10,276,164
Net assets		
Unrestricted	1,762,855	1,937,110
Temporarily restricted	-	-
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>1,762,855</u>	<u>1,937,110</u>
Total liabilities and net assets	<u>\$ 14,038,760</u>	<u>\$ 12,213,274</u>

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

11th Street Family Health Services, Inc.
Statement of Activities
For the Year Ended June 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue				
Interest income	\$ 27,875	\$ -	\$ -	\$ 27,875
Net assets released from restrictions	-	-	-	-
Total operating revenue	<u>27,875</u>	<u>-</u>	<u>-</u>	<u>27,875</u>
Operating expense				
Professional fees	42,550	-	-	42,550
Interest expense	82,349	-	-	82,349
Depreciation and amortization	77,231	-	-	77,231
Total operating expense	<u>202,130</u>	<u>-</u>	<u>-</u>	<u>202,130</u>
Change in net assets from operating activities	<u>(174,255)</u>	<u>-</u>	<u>-</u>	<u>(174,255)</u>
Nonoperating activity				
Change in net assets from nonoperating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(174,255)</u>	<u>-</u>	<u>-</u>	<u>(174,255)</u>
Net assets				
Beginning of year (restated)	<u>1,937,110</u>	<u>-</u>	<u>-</u>	<u>1,937,110</u>
End of year	<u>\$ 1,762,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,762,855</u>

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

11th Street Family Health Services, Inc.
Statement of Activities
For the Period December 12, 2013 (inception) to June 30, 2014 (restated)

	Unrestricted (restated)	Temporarily restricted	Permanently restricted	Total (restated)
Operating revenue				
Donation of land & building from Drexel University	\$ 2,313,170	\$ -	\$ -	\$ 2,313,170
Interest income	15,694	-	-	15,694
Net assets released from restrictions	-	-	-	-
Total operating revenue	<u>2,328,864</u>	<u>-</u>	<u>-</u>	<u>2,328,864</u>
Operating expense				
Professional fees	294,739	-	-	294,739
Interest expense	60,976	-	-	60,976
Depreciation and amortization	36,039	-	-	36,039
Total operating expense	<u>391,754</u>	<u>-</u>	<u>-</u>	<u>391,754</u>
Change in net assets from operating activities	<u>1,937,110</u>	<u>-</u>	<u>-</u>	<u>1,937,110</u>
Nonoperating activity				
Change in net assets from nonoperating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>1,937,110</u>	<u>-</u>	<u>-</u>	<u>1,937,110</u>
Net assets				
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 1,937,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,937,110</u>

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

11th Street Family Health Services, Inc.
Statements of Cash Flows
For the Year Ended June 30, 2015 and the Period December 12, 2013
(inception) to June 30, 2014 (restated)

	2015	2014 (restated)
Cash flow from operating activities		
(Decrease) / increase in net assets	\$ (174,255)	\$ 1,937,110
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-cash contributions received	-	(2,313,170)
Depreciation and amortization	77,231	36,039
Changes in operating assets and liabilities:		
Other receivables	(483)	-
Accounts payable and accrued expenses	-	30,804
Net cash used in operating activities	<u>(97,507)</u>	<u>(309,217)</u>
Cash flow from investing activities		
Purchase of land, buildings and equipment	(7,265,481)	(912,439)
Release of restricted funds held by trustee	5,362,765	507,101
Net cash used in investing activities	<u>(1,902,716)</u>	<u>(405,338)</u>
Cash flow from financing activities		
Net borrowings from affiliate	1,999,741	745,360
Net cash provided by financing activities	<u>1,999,741</u>	<u>745,360</u>
Net (decrease) / increase in cash and cash equivalents	(482)	30,805
Cash and cash equivalents		
Beginning of year	30,805	-
End of year	<u>\$ 30,323</u>	<u>\$ 30,805</u>
Supplemental information		
Cash paid for interest	\$ 123,215	\$ 33,542
Non-cash financing activities	\$ -	\$ 9,500,000

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

11th Street Family Health Services, Inc.

Notes to Financial Statements

June 30, 2015 and 2014 (restated)

1. Organization

11TH Street Family Health Services, Inc. (the “Corporation”) a Pennsylvania non-profit corporation, was formed on December 12, 2013. The Corporation was organized and operates in furtherance of the activities of Drexel University, an organization exempt under Section 501 (c)(3) of the Internal Revenue Code.

On December 23, 2013 the Corporation received a donation of certain real estate property known as 850 North 11TH Street, Philadelphia Pennsylvania (the “Property”) from Drexel University. The Property is located in a qualified census tract that meets certain income, unemployment and poverty level requirements and qualifies under the New Market Tax Credit Program as a qualified active low-income community business (a “QALICB”) as defined by Section 45D of the Internal Revenue code of 1986, as amended, and Section 1.45D-1(d)(4) of the Code of Federal Regulations.

The Corporation entered into a contract with Gilbane Building Company on December 23, 2013 to renovate the existing structure and expand the Property creating a larger comprehensive nurse-managed community health center. The project is funded by qualified low income community investment loans through TRF New Market Tax Credit Fund XXVI, LP.

Under the terms of a lease agreement dated, December 23, 2013 the Corporation leased the entirety of the Property to Drexel University to continue to be used as the 11TH Street Family Health Services of Drexel University. The new addition and renovated space will substantially increase the number of patients served, expand services to patients and enhance undergraduate and graduate health professions educational initiatives. The term of the lease runs from the date of the issuance of a certificate of occupancy or when Drexel University takes possession of the new addition (the “Rent Commencement Date”) to December 31, 2042. The quarterly base rent is established in the lease.

2. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Reclassifications – Certain balances for the period ended June 30, 2014 have been reclassified to conform to the current year’s presentation. There was no impact on net assets.

Cash – Consists of bank deposits available for operations with original maturities of 90 days or less.

Restricted Funds Held by Trustee – Consists of bank deposits designated for New Market Tax Credit purposes controlled by a trustee.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

11th Street Family Health Services, Inc.
Notes to Financial Statements
June 30, 2015 and 2014 (restated)

Revenue Recognition – Once construction has been completed and a certificate of occupancy is issued, the Corporation will receive rental income from Drexel University for the use of the Property.

The donation of the land and building from Drexel University is recorded at net book value. For this presentation, the donation is considered a transfer between entities under common control and not recorded at fair market value.

Land, Buildings and Equipment – Land, buildings and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over useful lives of 30 years. Equipment ranging from three to seven years, and furniture and fixtures generally have useful lives of seven years. Leasehold improvements are depreciated over the shorter of their lease term, or their useful life.

Income Taxes – No provision or benefit for income taxes has been included in these financial statements. The Corporation is a nonprofit organization that has been granted tax exempt status under Section 501 (c)(3) of the Internal Revenue Code.

Recent Accounting Pronouncements – The Corporation has determined that there are no recently issued accounting standards that will have a material impact on its financial statements.

3. Restatement of June 30, 2014 Financial Statements

The Corporation determined that there was a material error within the June 30, 2014 financial statements related to the accounting for the New Market Tax Credit loans. The errors related to the classification of funds, calculation of capitalized interest, and related cash flow presentation matters. The impact of the restatement on the June 30, 2014 financial statements is summarized in the tables below:

Statement of Financial Position
As of June 30, 2014

	As originally presented	Correction	As restated
Assets			
Cash and cash equivalents	\$ 9,023,704	\$ (8,992,899)	\$ 30,805
Restricted funds held by trustee	-	8,992,899	8,992,899
Land, buildings and equipment, net	3,250,546	(60,976)	3,189,570
Net assets			
Unrestricted	1,998,086	(60,976)	1,937,110

11th Street Family Health Services, Inc.
Notes to Financial Statements
June 30, 2015 and 2014 (restated)

Statement of Activities
For the Period December 12, 2013 (inception)
to June 30, 2014

	As originally presented	Correction	As restated
	Unrestricted		Unrestricted
Operating expense			
Interest Expense	\$ -	\$ 60,976	\$ 60,976

Statement of Cash Flows
For the Period December 12, 2013 (Inception)
to June 30, 2014

	As originally presented	Correction	As restated
Cash flow from operating activities			
Increase / (decrease) in net assets	\$ 1,998,086	\$ (60,976)	\$ 1,937,110
Changes in operating assets and liabilities:			
Increase in operating liabilities	98,594	(67,790)	30,804
Cash flow from investing activities			
Purchase of land, buildings and equipment	(326,649)	(585,790)	(912,439)
Release of restricted funds held by trustee	-	507,101	507,101
Cash flow from financing activities			
Proceeds from long-term borrowings	9,500,000	(9,500,000)	-
Net borrowing from affiliate	30,804	714,556	745,360
Cash and cash equivalents			
Beginning of year	-	-	-
End of year	<u>\$ 9,023,704</u>	<u>\$ (8,992,899)</u>	<u>\$ 30,805</u>
Supplemental information			
Non-cash financing activities	\$ -	\$ 9,500,000	\$ 9,500,000

11th Street Family Health Services, Inc.
Notes to Financial Statements
As of June 30, 2015 and 2014 (restated)

4. Land, Building and Equipment

	2015	2014 (restated)
Land	\$538,231	\$280,587
Building	2,162,356	2,162,356
Construction in progress	<u>7,790,504</u>	<u>782,666</u>
Total land, building and equipment-gross	<u>10,491,091</u>	<u>3,225,609</u>
Less: accumulated depreciation	(113,271)	(36,039)
Total land, building and equipment-net	<u><u>\$10,377,820</u></u>	<u><u>\$3,189,570</u></u>

During the year ended June 30, 2015 and the period December 12, 2103 (inception) to June 30, 2014 interest during construction amounted to \$40,866 and \$3,369 respectively, which was capitalized and added to the depreciable basis of the property.

5. Classification of Net Assets

Resources in the financial statements are classified for accounting and reporting purposes into classes of net assets according to the existence of restrictions. All assets, liabilities, and activities are accounted for in the following net asset classifications:

Unrestricted

Unrestricted net assets are used to account for funds which have not been restricted, and over which the Board has discretionary control.

Temporarily restricted

Temporarily Restricted net assets are subject to funder-imposed stipulations that may be fulfilled by actions of the Corporation to meet the stipulations or become unrestricted at the date specified by the funder.

Permanently restricted

Permanently Restricted net assets are subject to funder-imposed stipulations that they be retained and invested permanently by the Corporation. The funders require the Corporation to use net assets for specified or unspecified purposes.

There were no net assets classified as temporarily or permanently restricted as of June 30, 2015 and 2014.

11th Street Family Health Services, Inc.
Notes to Financial Statements
June 30, 2015 and 2014 (restated)

6. Long-Term Debt

A summary of the Corporation's notes payable is presented below:

	2015	2014
Note A-TRF NMTC Fund XXVI, LP	\$6,783,250	\$6,783,250
Note B-TRF NMTC Fund XXVI, LP	2,716,750	2,716,750
Total long-term debt	<u>\$9,500,000</u>	<u>\$9,500,000</u>

On December 23, 2013 TRF NMTC Fund XXVI, LP, a Pennsylvania limited partnership, issued two loans to the Corporation providing financing for the project. The first loan, Note A in the amount of \$6,783,250, accrues interest at 1.297% per year and is computed on the basis of a 360 day year consisting of twelve 30-day months. The loan has a 30 year term with interest only payments required until December 31, 2020. Payments are due quarterly in arrears on the 1st day of each January, April, July, and October. Upon the conclusion of the interest only period, payments in the amount of \$86,199 consisting of both interest and principal begin on April 1, 2021. The loan matures on October 1, 2043. The amount of interest accrued for 2015 and 2014 on Note A was \$21,995.

The second loan, Note B in the amount of \$2,716,750, accrues interest at 1.297% per year and is computed on the basis of a 360 day year consisting of twelve 30-day months. The loan has a 30 year term with a one-time principal payment of \$25,000 due on December 23, 2020 and interest only payments required until December 31, 2020. Payments are due quarterly in arrears on the 1st day of each January, April, July, and October. Upon the conclusion of the interest only period, payments in the amount of \$34,206 consisting of both interest and principal begin on April 1, 2021. The loan matures on October 1, 2043. The amount of interest accrued for 2015 and 2014 on Note B was \$8,809.

The notes are collateralized by the Property and the improvements. The Corporation may not encumber, transfer ownership, relocate or otherwise act so as to decrease the value of all or any portion of the Property without prior written consent.

The following is a summary of principal payment requirements to maturity per fiscal year:

	Note A	Note B	Total
2015	\$ -	\$ -	\$ -
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020-2044	6,783,250	2,716,750	9,500,000

11th Street Family Health Services, Inc.
Notes to Financial Statements
As of June 30, 2015 and 2014 (restated)

7. Lease

On December 23, 2013 the Corporation leased the entirety of the Property to Drexel University to continue to be used as the 11th Street Family Health Services of Drexel University. The term of the lease runs from the date of the issuance of a certificate of occupancy or the date Drexel University takes actual possession of the new addition (the "Rent Commencement Date") to December 31, 2042. Rental payments to the Corporation are payable in advance on the first day of each calendar quarter, with the first of such quarterly installments to be payable on the Commencement Date. For this schedule the Commencement Date is projected to be November 1, 2015. Future minimum base rent payments in the aggregate by fiscal year is as follows:

2015	\$	-
2016		347,350
2017		521,025
2018		521,025
2019		521,025
Thereafter		13,215,395
Total minimum lease payments	\$	<u>15,125,820</u>

8. Related Party Transactions

The Corporation is a non-profit real estate holding company of Drexel University, organized to operate in furtherance of the activities of Drexel University and to facilitate the use of new market tax credits in rehabilitating and expanding the structures located at 850 North 11th Street, Philadelphia. The sole tenant of the Property will be Drexel University. All rental income will be a related party transaction. Construction is ongoing and no rental income was generated in fiscal 2015 or 2014.

Drexel University incurs certain expense on behalf of the Corporation and is reimbursed by the Corporation. In addition Drexel University provided cash advances totaling \$123,215 for interest payments in 2015 and \$61,608 for interest payments in 2014. As of June 30, 2015 the Corporation owed the University \$2,745,101 for qualified closing, construction and other related expenses. At June 30, 2014 the amount was \$745,360. These amounts represent temporary advances to the Corporation to be reimbursed with Restricted funds held by trustee. These borrowings are not interest bearing.

9. Subsequent Events

The Corporation has evaluated subsequent events from June 30, 2015 through October 14, 2015, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.