

Academic Properties, Inc.
Financial Statements and Supplemental
Schedules for the Fiscal Years Ended
June 30, 2016 and 2015

Academic Properties, Inc.

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June 30, 2016 and 2015

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Review Report of Independent Accountants

To the Board of Directors,

We have reviewed the accompanying financial statements of Academic Properties Inc., which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities and statements of cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our report.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our reviews were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the review procedures applied in the reviews of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

PricewaterhouseCoopers LLP

October 26, 2016

Academic Properties, Inc.
Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash	\$ 6,240,771	\$ 8,341,304
Accounts receivable	672,654	85,157
Prepaid expenses and other assets	58,951	104,294
Tenants' escrow accounts	247,013	280,251
Deferred charges, net	851,079	795,660
Rental property and equipment, net	<u>22,160,329</u>	<u>21,188,976</u>
Total assets	<u>\$ 30,230,797</u>	<u>\$ 30,795,642</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 339,544	\$ 558,115
Deferred revenue	282,654	605,220
Tenants' escrow accounts	247,013	280,251
Due from Drexel University: Funding operations	<u>(43,219)</u>	<u>(11,063)</u>
Total liabilities	<u>825,992</u>	<u>1,432,523</u>
Unrestricted Net Assets	<u>29,404,805</u>	<u>29,363,119</u>
Total liabilities and net assets	<u>\$ 30,230,797</u>	<u>\$ 30,795,642</u>

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

Academic Properties, Inc.
Statements of Activities
For the Years Ended June 30, 2016 and 2015

	2016	2015
Revenue		
Rents		
Minimum lease payments	\$ 7,295,790	\$ 7,403,736
Common area expense and utilities	5,589,550	5,429,948
Interest	16,641	21,505
Management fee income - Drexel University	203,515	192,747
Rent escalation adjustment	55,420	(111,319)
Miscellaneous	335,830	323,975
Total revenue	<u>13,496,746</u>	<u>13,260,592</u>
Expenses		
Commissions	-	80,000
Depreciation, amortization, and accretion	1,127,122	1,081,014
Insurance	209,703	194,909
Office expenses	168,617	244,342
Payroll and employee benefits	1,183,016	1,223,419
Property and other taxes	441,218	436,576
Repairs and maintenance	2,830,446	2,901,035
Security	483,701	458,727
Utilities	1,103,437	1,250,728
Miscellaneous	20,657	26,314
Total expenses	<u>7,567,917</u>	<u>7,897,064</u>
Change in net assets	<u>5,928,829</u>	<u>5,363,528</u>
Total transfers to Drexel Endowment	(3,387,143)	(4,060,000)
Total transfer to Calhoun	<u>(2,500,000)</u>	<u>-</u>
Total changes after transfers	<u>41,686</u>	<u>1,303,528</u>
Net Assets		
Beginning of year	<u>29,363,119</u>	<u>28,059,591</u>
End of year	<u>\$ 29,404,805</u>	<u>\$ 29,363,119</u>

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

Academic Properties, Inc.
Statements of Cash Flows
June 30, 2016 and 2015

	2016	2015
Operating activities		
Total change in net assets	\$ 41,686	\$ 1,303,528
Adjustments to reconcile net assets to net cash provided by operating activities		
Depreciation, amortization and accretion	1,127,122	1,081,014
Transfer to Drexel University	3,387,143	4,060,000
Transfer to Calhoun	2,500,000	-
Changes in asset and liabilities		
Accounts receivable	(587,497)	47,373
Prepaid expenses and other assets	45,343	36,451
Tenants' escrow asset	33,238	7,242
Tenants' escrow liability	(33,238)	(7,242)
Deferred charges, net	(55,420)	111,319
Accounts payable and accrued expenses	(218,569)	222,593
Deferred revenue	(322,567)	101,882
Net cash provided by operating activities	<u>5,917,241</u>	<u>6,964,160</u>
Investing activities		
Purchase of rental property and equipment	<u>(2,098,475)</u>	<u>(2,041,039)</u>
Net cash used in investing activities	<u>(2,098,475)</u>	<u>(2,041,039)</u>
Financing activities		
Net decrease in due to/(from) Drexel University	(32,156)	138,178
Transfer to Drexel University	(3,387,143)	(4,060,000)
Transfer to Calhoun	<u>(2,500,000)</u>	-
Net cash used in financing activities	<u>(5,919,299)</u>	<u>(3,921,822)</u>
Net change in cash	(2,100,533)	1,001,299
Cash		
Beginning of year	<u>8,341,304</u>	<u>7,340,005</u>
End of year	<u>\$ 6,240,771</u>	<u>\$ 8,341,304</u>
Cash paid for interest	\$ -	\$ -

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

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

1. Organization

Academic Properties, Inc. (the “Company” or “API”), a wholly owned subsidiary of Drexel University (“Drexel”), acquires, improves, or gains control of properties of strategic importance to the future growth of Drexel.

The Company is exempt from federal income taxes under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Cash

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2016 and 2015, API had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes the credit risks related to these deposits to be minimal.

Expenses

All API expenses are in support of one program, which is managing Drexel University’s properties.

Rental Property and Equipment, Net

Land, building and equipment are stated at cost or the original purchased cost transferred from Drexel. The Company recognizes depreciation over the useful lives of the depreciable assets on a straight-line basis. Useful lives range from 3 to 20 years.

Deferred Charges

Deferred charges represent rent revenues recognized on a straight-line basis over the term of the Company’s lease agreements that have not been billed as of year-end.

Deferred Revenue

Deferred revenue represents cash paid in advance for rent.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Asset Retirement Obligation/Asset

The Company determined there were legal obligations to perform certain asset retirement activities associated with facilities and equipment. The total asset retirement cost and obligation recognized was \$12,750 and \$151,792, respectively, for 2016 and \$14,306 and \$145,074, respectively, for 2015 and is included in rental property and equipment, net and accrued expenses, respectively.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

Transfer to Calhoun

In the year ended June 30, 2016, API provided a one-time cash contribution in the amount of \$2,500,000 to Drexel University for the completion of the dorm renovations of Calhoun Hall.

3. Rental Property and Equipment

At June 30, 2016 and 2015, rental property and equipment consisted of the following:

	2016	2015
Land	\$ 4,427,655	\$ 4,427,655
Buildings and building improvements		
One Drexel Plaza	5,380,461	5,380,461
Leasehold improvements	26,530,766	24,439,009
All other properties	<u>6,557,844</u>	<u>6,557,844</u>
Total buildings and building improvements	38,469,071	36,377,314
Furniture and fixtures	187,596	187,596
Equipment	<u>47,259</u>	<u>47,259</u>
Total furniture, fixtures, and equipment	<u>234,855</u>	<u>234,855</u>
Total rental property and equipment	43,131,581	41,039,824
Less: Accumulated depreciation	<u>(20,971,252)</u>	<u>(19,850,848)</u>
Total rental property and equipment, net	<u>\$ 22,160,329</u>	<u>\$ 21,188,976</u>

The values related to One Drexel Plaza included in rental property and equipment, net amounted to \$9,631,451 and \$9,008,652 at June 30, 2016 and 2015, respectively.

4. Related-Party Transactions

Drexel rents approximately 168,537 square feet of space at One Drexel Plaza from the Company. These leases are for a ten-year period, and the monthly base rent is approximately \$123,837 during the year ended June 30, 2016.

The Company also received \$203,515 from Drexel during the year ended June 30, 2016 for services rendered in managing properties owned by Drexel.

All of the buildings and improvements for the Company were designated by the Drexel Board of Trustees as quasi-endowment assets of the Drexel University in February 2011. Accordingly, the distribution to endowment of \$3,387,143 for the year ended June 30, 2016 represents a payout to the Drexel endowment.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2016 and 2015

5. Lease Rentals

	Minimum Lease Payments
Years Ending June 30,	
2017	\$ 3,384,807
2018	1,524,767
2019	-
2020	-
2021	-
Thereafter	-
	<u>\$ 4,909,574</u>

Rent for new leases or the exercise of renewal options under existing leases is not included in the table above.

For its operating leases, the Company records rent revenue on a straight-line basis over the term of the lease agreements based on fixed and scheduled minimum rent increases. The difference between billed rents and rent revenue for the fiscal year ending June 20, 2016 was \$55,420 and resulted in a reduction of that amount of deferred charges. As of June 30, 2016 and 2015, accrued rent revenue amounted to \$851,079 and \$795,660, respectively.

6. Subsequent Events

The Company has evaluated subsequent events through October 26, 2016 and determined that there were no subsequent events requiring adjustment or disclosure in the financial statements.

Supplemental Schedules

Academic Properties, Inc.
Supplemental Schedule of Revenue and Expenses by Property Category
Year Ended June 30, 2016

	One Drexel Plaza	201 Cheswold Street	All Other Properties	Total
Revenue				
Rents				
Minimum Lease Payment	\$ 5,413,198	\$ -	\$ 1,882,592	\$ 7,295,790
Common Area Expense and Utilities	5,583,089	-	6,461	5,589,550
Interest	-	-	16,641	16,641
Management fee income, affiliate	-	-	203,515	203,515
Miscellaneous	287,011	-	48,819	335,830
Total revenue	<u>11,283,298</u>	<u>-</u>	<u>2,158,028</u>	<u>13,441,326</u>
Expenses				
Dues and licenses	3,276	-	10,286	13,562
Payroll and payroll taxes	690,746	104,297	134,905	929,948
Employee benefits	214,282	6,665	32,121	253,068
Insurance	167,801	-	41,902	209,703
Office	14,817	-	14,232	29,049
Professional development	29,320	-	13,776	43,096
Professional fees	34,720	-	13,396	48,116
Property taxes	229,204	-	-	229,204
Repairs and maintenance	2,347,581	-	403,495	2,751,076
Security	434,137	-	49,564	483,701
Taxes other	167,942	-	44,072	212,014
Telephone	16,083	-	18,711	34,794
Trash removal	29,571	-	49,799	79,370
Utilities	937,245	-	166,192	1,103,437
Miscellaneous	13,563	-	7,094	20,657
Intercompany overhead charges*	33,797	-	(33,797)	-
Total expenses	<u>5,364,085</u>	<u>110,962</u>	<u>965,748</u>	<u>6,440,795</u>
Subtotal	5,919,213	(110,962)	1,192,280	7,000,531
Rent escalation adjustment	55,420	-	-	55,420
Depreciation and amortization	(468,300)	-	(658,822)	(1,127,122)
Change in net assets	<u>5,506,333</u>	<u>(110,962)</u>	<u>533,458</u>	<u>5,928,829</u>
Transfer to Drexel Endowment	(2,839,092)	-	(548,051)	(3,387,143)
Transfer to Calhoun	(2,087,888)	-	(412,112)	(2,500,000)
Subtotal	579,353	(110,962)	(426,705)	41,686
Net Assets				
Beginning of year	<u>28,763,261</u>	<u>(261,828)</u>	<u>861,686</u>	<u>29,363,119</u>
End of year	<u>\$ 29,342,614</u>	<u>\$ (372,790)</u>	<u>\$ 434,981</u>	<u>\$ 29,404,805</u>

* Amounts have been allocated to One Drexel Plaza from all other properties for report purposes.

Academic Properties, Inc.
Supplemental Schedule of Revenue and Expenses by Property Category
Year Ended June 30, 2015

	One Drexel Plaza	75 Crestline Road	1216 Ridgewood Street	201 Cheswold Street	All Other Properties	Total
Revenue						
Minimum Lease Payment	\$ 5,321,050	\$ -	\$ -	\$ -	\$ 2,082,686	\$ 7,403,736
Common Area Expense and Utilities	5,421,628	-	-	-	8,320	5,429,948
Interest	-	-	-	-	21,505	21,505
Management fee income, affiliate	-	-	-	-	192,747	192,747
Miscellaneous	294,714	-	-	-	29,261	323,975
Total revenue	<u>11,037,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,334,519</u>	<u>13,371,911</u>
Expenses						
Commissions	80,000	-	-	-	-	80,000
Dues and licenses	4,838	-	-	-	11,216	16,054
Payroll and payroll taxes	728,743	-	-	101,061	134,715	964,519
Employee benefits	220,106	-	-	5,907	32,887	258,900
Insurance	156,701	-	-	-	38,208	194,909
Office	48,412	-	-	-	24,351	72,763
Professional development	34,497	-	-	-	9,722	44,219
Professional fees	62,098	-	-	-	10,108	72,206
Property taxes	171,950	-	-	-	-	171,950
Repairs and maintenance	2,360,000	-	-	-	449,688	2,809,688
Security	422,624	-	-	-	36,103	458,727
Taxes other	229,658	-	-	-	34,968	264,626
Telephone	12,894	-	-	-	26,206	39,100
Trash removal	40,329	-	-	-	51,018	91,347
Utilities	1,050,435	-	-	-	200,293	1,250,728
Miscellaneous	16,317	-	-	-	9,997	26,314
Intercompany overhead charges*	59,326	-	-	-	(59,326)	-
Total expenses	<u>5,698,928</u>	<u>-</u>	<u>-</u>	<u>106,968</u>	<u>1,010,154</u>	<u>6,816,050</u>
Subtotal	5,338,464	-	-	(106,968)	1,324,365	6,555,861
Rent escalation adjustment	(111,319)	-	-	-	-	(111,319)
Depreciation and amortization, and accreti	(449,964)	-	-	-	(631,050)	(1,081,014)
Change in net assets	4,777,181	-	-	(106,968)	693,315	5,363,528
Transfer to Drexel Endowment	(3,400,250)	-	-	-	(659,750)	(4,060,000)
Subtotal	1,376,931	-	-	(106,968)	33,565	1,303,528
Net surplus						
Beginning of Year	<u>27,386,330</u>	<u>(472,470)</u>	<u>(558,550)</u>	<u>(154,860)</u>	<u>1,859,141</u>	<u>28,059,591</u>
End of Year	<u>\$ 28,763,261</u>	<u>\$ (472,470)</u>	<u>\$ (558,550)</u>	<u>\$ (261,828)</u>	<u>\$ 1,892,706</u>	<u>\$ 29,363,119</u>

* Amounts have been allocated to One Drexel Plaza from all other properties for report purposes.