

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

Financial Statements
For the Years Ended June 30, 2019 and 2018

11th Street Family Health Services, Inc.
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June 30, 2019 and 2018

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Report of Independent Auditors

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., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets and of cash flows for the years then ended.

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.

Auditors' 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 Company'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 Company'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. as of June 30, 2019 and 2018, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 24, 2019

11th Street Family Health Services, Inc.
Statements of Financial Position
As of June 30, 2019 and 2018

	2019	2018
Assets:		
Cash and cash equivalents		
Operating	\$ 1,335,257	\$ 967,237
Prepaid expenses and other assets	132,564	96,873
Land, buildings and equipment, net	10,020,637	10,521,325
Total assets	\$ 11,488,458	\$ 11,585,435
Liabilities:		
Accrued liabilities	\$ 30,804	\$ 30,804
Bonds and notes payable	9,500,000	9,500,000
Total liabilities	\$ 9,530,804	\$ 9,530,804
Net Assets:		
Without donor restrictions	\$ 1,957,654	\$ 2,054,631
Total net assets	\$ 1,957,654	\$ 2,054,631
Total liabilities and net assets	\$ 11,488,458	\$ 11,585,435

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

11th Street Family Health Services, Inc.
Statements of Activities
For the Years Ended June 30, 2019 and 2018

	2019	2018
Operating		
Revenues:		
Rental Income	\$ 559,716	\$ 559,716
Interest Income	1,855	1,077
Total revenues	561,571	560,793
Expenses:		
Depreciation and amortization	500,688	500,688
Interest	123,215	123,215
Other operating expenses	34,645	34,020
Total expenses	658,548	657,923
Total (decrease) in net assets from operating activities	(96,977)	(97,130)
Net assets, beginning of year	2,054,631	2,151,761
Net assets, end of year	\$ 1,957,654	\$ 2,054,631

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

11th Street Family Health Services, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Operating activities:		
(Decrease) in net assets	\$ (96,977)	\$ (97,130)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	500,688	500,688
Changes in assets and liabilities that use cash:		
Prepaid and other assets	(35,691)	(35,691)
Net cash provided by operating activities	368,020	367,867
Net increase in cash and cash equivalents	368,020	367,867
Cash and cash equivalents, beginning of year	967,237	599,370
Cash and cash equivalents, end of year	\$ 1,335,257	\$ 967,237
Supplemental Information		
Cash paid for interest	\$ 123,215	\$ 123,215

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

11th Street Family Health Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

1. Nature of Organization and Operations

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

On December 23, 2013, 11th Street FHS 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.

11th Street FHS 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 to continue to be used as the 11th Street Family Health Services of Drexel University. The new addition and renovated space substantially increased the number of patients served, expanded services to patients and enhanced undergraduate and graduate health professions educational initiatives. The term of the lease runs from October 14, 2015, the date when Drexel took 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 Accounting and Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and with the provision of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, which requires 11th Street FHS to classify its net assets into two categories according to donor-imposed restrictions; net assets without donor imposed restrictions and net assets with donor imposed restrictions.

Net Assets without Donor Restrictions – Net assets without donor restrictions are funds which have no restrictions, and over which the Board has discretionary control.

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Net Assets with Donor Restrictions - Net assets with donor restrictions are subject to donor-imposed stipulations that (a) may be fulfilled by actions of 11th Street FHS to meet the stipulations, (b) may become unrestricted at the date specified by the donor or (c) are subject to donor-imposed stipulations that they be retained and invested permanently by 11th Street FHS.

There were no net assets classified as with donor restrictions as of June 30, 2019 and 2018.

Measure of Operations

11th Street FHS's measure of operations as presented in the consolidated statement of activities includes fees and support from Drexel. Operating expenses are reported on the statement of activities by natural classification.

Liquidity and Availability

11th Street FHS's financial assets available within one year of the balance sheet date for general expenditure as of June 30, 2019 are as follows:

	2019	2018
Total assets at year-end	\$ 11,488,458	\$ 11,585,435
Less non-financial assets:		
Prepaid expenses and other assets	(132,564)	(96,873)
Land, buildings and equipment, net	(10,020,637)	(10,521,325)
Financial assets available at year-end for current use	\$ 1,335,257	\$ 967,237

11th Street FHS has \$1,335,257 of financial assets (consisting of cash) that are available within one year of the balance sheet date to meet cash needs for general expenditures. In addition, 11th Street FHS's working capital and cash flow is based on rental income paid quarterly by its sole tenant, Drexel, and its cash expenses over the next year are limited to quarterly interest payments and certain professional fees, which the annual rental income covers.

Cash and cash equivalents

Cash and cash equivalents represent demand deposits. At June 30, 2019 and 2018, DUO had cash balances in financial institutions, which exceed federal depository limits. Management believes the credit risks related to these deposits to be minimal. Cash and cash equivalents are carried at cost, which approximates fair value.

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.

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Notes to Financial Statements
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Income Taxes

11th Street FHS is a nonprofit organization that has been granted tax exempt status under Section 501 (c)(3) of the Internal Revenue Code and files Federal Tax Return Form 990 (*Return of Organization Exempt from Income Tax*). No provision or benefit for income taxes has been included in these financial statements.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU No. 2016-14 is meant to reduce the complexity of and add clarity to net asset reporting, add additional disclosure regarding nature of self-imposed limits on unrestricted net assets and donor restricted net assets, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. 11th Street FHS has adopted this new guidance and grouped the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, 11th Street FHS has included expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in the financial statements. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which is meant to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for annual fiscal periods beginning after December 15, 2019. In July 2018, FASB issued ASU No. 2018-11 which amends the transition methods contained in ASU No. 2016-02. 11th Street FHS is currently evaluating these standards to determine the impact it will have on its financial statements.

11th Street FHS has determined that there are no other recently issued accounting standards that will have a material impact on its financial statements.

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3. Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost less accumulated depreciation. Expenditures for normal repairs and maintenance are expensed as incurred. 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. Building and land improvements are depreciated over useful lives of 25 years. Equipment, furniture and fixtures have useful lives of 10 years.

	2019	2018
Land and improvements	538,231	538,231
Buildings and improvements	10,568,828	10,568,828
Equipment and software	820,450	820,450
	<u>11,927,509</u>	<u>11,927,509</u>
Less: Accumulated depreciation	(1,906,872)	(1,406,184)
Total land, buildings and equipment	\$ 10,020,637	\$10,521,325

Depreciation and amortization expense associated with property and equipment totaled \$500,688 for both fiscal years ended June 30, 2019 and 2018, respectively.

4. Notes Payable

A summary of 11th Street FHS's notes payable is presented below:

	2019	2018
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 notes payable	<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 11th Street FHS 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 based on 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, quarterly 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 2019 and 2018 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 based on 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

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the interest only period, quarterly 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 2019 and 2018 on Note B was \$8,809.

The loan agreement contains several covenants that, among other things, prevent 11th Street FHS from incurring any other indebtedness without the Lender's prior written consent. 11th Street FHS is required to maintain a debt service coverage ratio of not less than 1.0 to 1.0 and a Tenant lease coverage ratio of not less than 1.1 to 1.0. 11th Street FHS is in compliance with the debt service ratio as of June 30, 2019. 11th Street FHS is not in compliance with the Tenet lease coverage ratio as of June 30, 2019, but has obtained a waiver for this covenant from the lender.

The notes are collateralized by the Property and the improvements. 11th Street FHS may not encumber, transfer ownership, relocate or otherwise act 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
2019	-	-	-
2020	-	-	-
2021	64,203	50,478	114,681
2022	258,904	102,739	361,643
2023	262,278	104,078	366,356
Thereafter	\$ 6,197,865	\$ 2,459,455	\$ 8,657,320

5. Leases

On December 23, 2013 11th Street FHS leased the entirety of the Property to Drexel 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 took actual possession of the new addition (the "Rent Commencement Date") to December 31, 2042. The Rent Commencement Date was October 14, 2015. Rental payments to 11th Street FHS are payable in advance on the first day of each calendar quarter, with the first of such quarterly installments payable on the Rent Commencement Date.

Future minimum base rent payments, in the aggregate, by fiscal year are as follows:

2020	521,025
2021	528,841
2022	536,656
2023	536,656
2024	536,656
Thereafter	10,555,561
Total minimum lease payments	\$ 13,215,395

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11th Street FHS leased from the Philadelphia Housing Authority the land parcel utilized for its parking lot. It is expected that a year-to-year lease will be renewed annually until a pending ten-year ground lease is approved by the U.S. Department of Housing and Urban Development. 11th Street FHS anticipates continual renewals of the ground lease given Drexel's long-term commitment to the 11th Street Family Health Services facility. The land lease expense was \$3,000 for 2019 and 2018.

6. Revenue Recognition

Due to the completion of construction and issuance of a certificate of occupancy, 11th Street FHS began receiving rental income from Drexel for the use of the Property effective October 14, 2015. Drexel's lease is a "net lease", and as such, in addition to base rent, Drexel is also responsible for all operating costs of 11th Street FHS. Total rental income was \$559,716 for 2019 and \$559,716 for 2018 and is recorded on a straight-line basis.

7. Functional and Natural Classification of Expenses

Expenses are presented by functional classification in accordance with the overall service mission of 11th Street FHS. Each functional classification displays all expenses related to the underlying operations by natural classification. There were no allocations of costs between functional categories. Management and general expenses are comprised of professional fees for accounting and tax services. Expenses by functional classification for the years ended June 30, 2019 and June 30, 2018 consist of the following:

	2019		
	Program Services	Management and General	Total
Depreciation and amortization	\$ 500,688	\$ -	\$ 500,688
Interest	123,215	-	123,215
Other operating expenses	3,000	31,645	34,645
Total operating expenses	\$ 626,903	\$ 31,645	\$ 658,548

	2018		
	Program Services	Management and General	Total
Depreciation and amortization	\$ 500,688	\$ -	\$ 500,688
Interest	123,215	-	123,215
Other operating expenses	3,000	31,020	34,020
Total operating expenses	\$ 626,903	\$ 31,020	\$ 657,923

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8. Related Party Transactions

11th Street FHS is a non-profit real estate holding company of Drexel, organized to operate in furtherance of the activities of Drexel 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 is Drexel. All rental income is a related party transaction. Drexel incurs certain expenses on behalf of 11th Street FHS and is reimbursed by 11th Street FHS. These amounts represent temporary advances to 11th Street FHS and are not interest bearing. As of June 30, 2019, 11th Street FHS had no liability to Drexel for such expenses.

9. Subsequent Events

11th Street FHS has evaluated subsequent events from June 30, 2019 through October 24, 2019, the date which financial statements were issued, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.