

Academic Properties, Inc.
Financial Statements and Supplemental
Schedules for the Fiscal Years Ended
June 30, 2015 and 2014

Academic Properties, Inc.

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June 30, 2015 and 2014

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Review Report of Independent Accountants

To the Board of Directors,

We have reviewed the accompanying statements of financial position of Academic Properties, Inc. as of June 30, 2015 and 2014 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 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 and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the basic financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. The other data accompanying the financial statements are presented for the purpose of additional analysis and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and we do not express an opinion or provide any assurance on such information.

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

PricewaterhouseCoopers LLP

October 9, 2015

Academic Properties, Inc.
Statements of Financial Position
As of June 30, 2015 and 2014

	2015	2014
Assets		
Cash	\$ 8,341,304	\$ 7,340,005
Accounts receivable	85,157	132,530
Prepaid expenses and other assets	104,294	140,745
Tenants' escrow accounts	280,251	287,493
Deferred charges, net	795,660	906,978
Rental property and equipment, net	<u>21,188,976</u>	<u>20,228,953</u>
Total assets	<u>\$ 30,795,642</u>	<u>\$ 29,036,704</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 558,115	335,523
Deferred revenue	605,220	503,338
Tenants' escrow accounts	280,251	287,493
Due from Drexel University		
Funding operations	<u>(11,063)</u>	<u>(149,241)</u>
Total liabilities	<u>1,432,523</u>	<u>977,113</u>
Unrestricted net assets	<u>29,363,119</u>	<u>28,059,591</u>
Total liabilities and net assets	<u>\$ 30,795,642</u>	<u>\$ 29,036,704</u>

Academic Properties, Inc.
Statements of Activities
For the Years Ended June 30, 2015 and 2014

	2015	2014
Revenue		
Rents		
Minimum lease payments	\$ 7,403,736	\$ 7,325,723
Common area expenses and utilities	5,429,948	5,525,343
Interest	21,505	37,738
Management fee income – affiliate	192,747	189,682
Rent escalation adjustment	(111,319)	(245,148)
Miscellaneous	323,975	377,844
Total revenue	<u>13,260,592</u>	<u>13,211,182</u>
Expenses		
Commissions	80,000	80,000
Depreciation, amortization, and accretion	1,081,014	1,027,363
Insurance	194,909	201,193
Interest	-	42
Office expenses	244,342	177,224
Payroll and employee benefits	1,223,419	1,225,361
Property and other taxes	436,576	453,016
Repairs and maintenance	2,901,035	2,715,902
Security	458,727	428,076
Utilities	1,250,728	1,343,337
Miscellaneous	26,314	20,367
Total expenses	<u>7,897,064</u>	<u>7,671,881</u>
Change in net assets before transfers	<u>5,363,528</u>	<u>5,539,301</u>
Total Transfers to Drexel Endowment	<u>(4,060,000)</u>	<u>(5,700,000)</u>
Total changes after transfers	<u>1,303,528</u>	<u>(160,699)</u>
Net surplus		
Beginning of year	<u>28,059,591</u>	<u>28,220,290</u>
End of year	<u>\$ 29,363,119</u>	<u>\$ 28,059,591</u>

Academic Properties, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating activities		
Total change in net assets	\$ 1,303,528	\$ (160,699)
Adjustments to reconcile net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	1,081,014	1,027,363
Transfer to Drexel Endowment University City High School Property Contribution	4,060,000	3,200,000
Contribution	-	2,500,000
Changes in assets and liabilities		
Accounts receivable	47,373	(52,122)
Prepaid expenses and other assets	36,451	123,956
Tenants' escrow asset	7,242	(420)
Tenants' escrow liability	(7,242)	420
Deferred charges, net	111,319	245,148
Accounts payable and accrued expenses	222,593	(8,494)
Deferred revenue	101,882	98,403
Net cash provided by operating activities	<u>6,964,160</u>	<u>6,973,555</u>
Investing activities		
Purchase of rental property and equipment	<u>(2,041,039)</u>	<u>(1,340,936)</u>
Net cash used in investing activities	<u>(2,041,039)</u>	<u>(1,340,936)</u>
Financing activities		
Net decrease in due from Drexel University	138,178	(189,945)
Principal payments on loans payable - PIDC	-	(11,008)
Transfer to Drexel Endowment	(4,060,000)	(3,200,000)
University City High School Property Contribution	-	(2,500,000)
Net cash used in financing activities	<u>(3,921,822)</u>	<u>(5,900,953)</u>
Net change in cash	1,001,299	(268,334)
Cash		
Beginning of year	<u>7,340,005</u>	<u>7,608,339</u>
End of year	<u>\$ 8,341,304</u>	<u>\$ 7,340,005</u>
Cash paid for interest	\$ -	\$ 42

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2015 and 2014

1. Organization

Academic Properties, Inc. (the “Company”), a wholly owned subsidiary of Drexel University (“Drexel”), acquires and/or 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 represents bank deposits available for operations.

Expenses

All 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 fiscal year end.

Deferred Revenue

Deferred revenue represents cash received 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 recognized and obligation was \$14,306 and \$145,074, respectively, for 2015 and \$16,003 and \$138,168, respectively, for 2014 and is included in rental property and equipment, net and accrued expenses, respectively.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2015 and 2014

3. Rental Property and Equipment, net

At June 30, 2015 and 2014, rental property and equipment, net consisted of the following:

	2015	2014
Land	<u>\$ 4,427,655</u>	<u>\$ 4,427,655</u>
Buildings and building improvements		
One Drexel Plaza	5,380,461	5,380,461
Leasehold improvements	24,439,009	22,404,878
All other properties	<u>6,557,844</u>	<u>6,557,844</u>
Total buildings and building improvements	<u>36,377,314</u>	<u>34,343,183</u>
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	41,039,824	39,005,693
Less: Accumulated depreciation	<u>(19,850,848)</u>	<u>(18,776,740)</u>
Total rental property and equipment, net	<u>\$ 21,188,976</u>	<u>\$ 20,228,953</u>

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 \$104,997.

The Company also received \$192,747 from Drexel during the year ended June 30, 2015 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 University and the company jointly established distribution to endowment of \$4,060,000 for the year ended June 30, 2015 which represents a payout to the Drexel Endowment.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2015 and 2014

5. Lease Rentals

The Company leases space to tenants under leases that are accounted for as operating leases. Lease periods range from six months to one year on student leases and from two to fifteen years on commercial leases. The future minimum lease payments on non-cancelable leases are as follows:

	Minimum Lease Payments
Years Ending June 30,	
2016	3,748,594
2017	3,384,807
2018	1,524,767
Thereafter	-
	<hr/>
	\$ 8,658,168

Rent for new leases executed subsequent to year end and the exercise of renewal options under existing leases are 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 was \$111,319 and resulted in a reduction of that amount of deferred charges. As of June 30, 2015 and 2014, accrued rent revenue amounted to \$795,660 and \$906,978, respectively.

6. Subsequent Events

The Company has evaluated subsequent events through October 9, 2015 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
For the Year Ended June 30, 2015

	One Drexel Plaza	75 Crestline Road	1216 Ridgewood Street	All Other Properties	201 Cheswold Lane	Total
Revenue						
Rents						
Minimum lease payments	\$ 5,321,050	\$ -	\$ -	\$ 2,082,686	\$ -	\$ 7,403,736
Common area expenses 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>2,334,519</u>	<u>-</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	-	-	134,715	101,061	964,519
Employee benefits	220,106	-	-	32,887	5,907	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>1,010,154</u>	<u>106,968</u>	<u>6,816,050</u>
Subtotal	5,338,464	-	-	1,324,365	(106,968)	6,555,861
Rent escalation adjustment	(111,319)	-	-	-	-	(111,319)
Depreciation, amortization, and accretion	(449,964)	-	-	(631,050)	-	(1,081,014)
Interest	-	-	-	-	-	-
Change in surplus	<u>4,777,181</u>	<u>-</u>	<u>-</u>	<u>693,315</u>	<u>(106,968)</u>	<u>5,363,528</u>
Transfer to Drexel Endowment	(3,400,250)	-	-	(659,750)	-	(4,060,000)
Subtotal	<u>1,376,931</u>	<u>-</u>	<u>-</u>	<u>33,565</u>	<u>(106,968)</u>	<u>1,303,528</u>
Net surplus						
Beginning of year	27,386,330	(472,470)	(558,550)	1,859,141	(154,860)	28,059,591
End of year	<u>\$28,763,261</u>	<u>\$(472,470)</u>	<u>\$(558,550)</u>	<u>\$ 1,892,706</u>	<u>\$(261,828)</u>	<u>\$29,363,119</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
For the Year Ended June 30, 2014

	One Drexel Plaza	75 Crestline Road	1216 Ridgewood Street	All Other Properties	201 Cheswold Lane	Total
Revenue						
Rents						
Minimum lease payments	\$ 5,283,970	\$ -	\$ -	\$ 2,041,753	\$ -	\$ 7,325,723
Common area expenses and utilities	5,514,057	-	-	11,286	-	5,525,343
Interest	-	-	-	37,738	-	37,738
Management fee income - affiliate	-	-	-	189,682	-	189,682
Miscellaneous	328,513	-	-	49,331	-	377,844
Total revenue	11,126,540	-	-	2,329,790	-	13,456,330
Expenses						
Commissions	80,000	-	-	-	-	80,000
Dues and licenses	3,657	-	-	12,324	-	15,981
Payroll and payroll taxes	705,647	-	-	134,211	68,260	908,118
Employee benefits	262,262	-	-	48,181	6,800	317,243
Insurance	161,084	-	-	40,109	-	201,193
Office	28,350	-	-	14,919	-	43,269
Professional development	29,950	-	-	12,643	-	42,593
Professional fees	29,117	-	-	8,054	-	37,171
Property taxes	138,794	-	-	-	-	138,794
Repairs and maintenance	2,219,607	-	-	422,065	-	2,641,672
Security	392,402	-	-	35,674	-	428,076
Taxes - other	282,339	-	-	31,883	-	314,222
Telephone	11,734	-	-	26,476	-	38,210
Trash removal	28,149	-	-	46,081	-	74,230
Utilities	1,124,361	-	-	218,976	-	1,343,337
Miscellaneous	10,587	-	-	9,780	-	20,367
Intercompany overhead charges*	51,508	-	-	(51,508)	-	-
Total expenses	5,559,548	-	-	1,009,868	75,060	6,644,476
Subtotal	5,566,992	-	-	1,319,922	(75,060)	6,811,854
Rent escalation adjustment	(245,148)	-	-	-	-	(245,148)
Depreciation, amortization, and accretion	(428,253)	-	-	(599,110)	-	(1,027,363)
Interest	(42)	-	-	-	-	(42)
Change in surplus	4,893,549	-	-	720,812	(75,060)	5,539,301
Transfer to Drexel Endowment	(1,195,000)	-	-	(2,005,000)	-	(3,200,000)
University City High School Property Contribution	(2,093,750)	-	-	(406,250)	-	(2,500,000)
Subtotal	1,604,799	-	-	(1,690,438)	(75,060)	(160,699)
Net surplus						
Beginning of year	25,781,531	(472,470)	(558,550)	3,549,579	(79,800)	28,220,290
End of year	\$27,386,330	\$(472,470)	\$(558,550)	\$ 1,859,141	\$(154,860)	\$28,059,591

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