

Academic Properties, Inc.
Financial Statements and Supplemental Schedules
June 30, 2014 and 2013

Academic Properties, Inc.

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June 30, 2014 and 2013

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Review Report of Independent Accountants

To the Board of Directors,

We have reviewed the accompanying statement of financial position of Academic Properties Incorporated as of June 30, 2014 and the related statement of activities and statement of cash flows for the year 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.

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

Philadelphia, Pennsylvania
December 1, 2014

Academic Properties, Inc.
Statements of Financial Position
June 30, 2014 and 2013

	2014	2013
Assets		
Cash	\$ 7,340,005	\$ 7,608,339
Accounts receivable	132,530	80,408
Prepaid expenses and other assets	140,745	264,701
Tenants' escrow accounts	287,493	287,073
Deferred charges, net	906,978	1,152,126
Rental property and equipment, net	<u>20,228,952</u>	<u>19,915,379</u>
Total assets	<u>\$ 29,036,704</u>	<u>\$ 29,308,027</u>
Liabilities and Net Asset		
Liabilities		
Accounts payable and accrued expenses	\$ 335,522	\$ 344,017
Deferred revenue	503,338	404,935
Tenants' escrow accounts	287,493	287,073
Loans payable - PIDC	-	11,008
Due to Drexel University		
Funding operations	<u>(149,241)</u>	<u>40,704</u>
Total liabilities	<u>977,113</u>	<u>1,087,737</u>
Unrestricted net assets	<u>28,059,591</u>	<u>28,220,290</u>
Total liabilities and net assets	<u>\$ 29,036,704</u>	<u>\$ 29,308,027</u>

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

Academic Properties, Inc.
Statements of Activities
Years Ended June 30, 2014 and 2013

	2014	2013
Revenue		
Rents		
Minimum lease payments	\$ 7,325,723	\$ 7,440,399
Common area expenses and utilities	5,525,343	5,332,186
Interest	37,738	27,367
Management fee income - affiliate	189,682	187,376
Rent escalation adjustment	(245,148)	(104,173)
Miscellaneous	377,844	238,505
Total revenue	<u>13,211,182</u>	<u>13,121,661</u>
Expenses		
Commissions	80,000	115,000
Depreciation, amortization, and accretion	1,027,363	1,220,008
Insurance	201,193	183,703
Interest	41	1,390
Office expenses	177,224	299,319
Payroll and employee benefits	1,225,361	1,177,252
Property and other taxes	453,016	382,467
Repairs and maintenance	2,715,902	2,719,140
Security	428,076	412,608
Utilities	1,343,337	1,215,872
Miscellaneous	20,367	21,337
Total expenses	<u>7,671,880</u>	<u>7,748,096</u>
Change in net assets before transfers	<u>5,539,301</u>	<u>5,373,565</u>
Total Transfers to Drexel Endowment	<u>(5,700,000)</u>	<u>(1,750,000)</u>
Total changes after transfers	<u>(160,699)</u>	<u>3,623,565</u>
Net surplus		
Beginning of year	<u>28,220,290</u>	<u>24,596,724</u>
End of year	<u>\$ 28,059,591</u>	<u>\$ 28,220,290</u>

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

Academic Properties, Inc.
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating activities		
Total change in net assets	\$ (160,699)	\$ 3,623,565
Adjustments to reconcile net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	1,027,363	1,220,008
Transfer to Drexel Endowment University City High School Property Contribution	3,200,000	1,750,000
Contribution	2,500,000	-
Changes in assets and liabilities		
Accounts receivable	(52,123)	40,273
Prepaid expenses and other assets	123,956	65,735
Tenants' escrow asset	(420)	(60,085)
Tenants' escrow liability	420	60,085
Deferred charges, net	245,148	104,172
Accounts payable and accrued expenses	(8,494)	(177,614)
Deferred revenue	98,403	27,569
Net cash provided by operating activities	<u>6,973,555</u>	<u>6,653,708</u>
Investing activities		
Purchase of rental property and equipment	<u>(1,340,936)</u>	<u>(1,011,707)</u>
Net cash used in investing activities	<u>(1,340,936)</u>	<u>(1,011,707)</u>
Financing activities		
Net decrease in due to Drexel University	(189,945)	18,067
Principal payments on loans payable - PIDC	(11,008)	(64,906)
Transfer to Drexel Endowment	(3,200,000)	(1,750,000)
University City High School Property Contribution	<u>(2,500,000)</u>	<u>-</u>
Net cash used in financing activities	<u>(5,900,953)</u>	<u>(1,796,840)</u>
Net change in cash	(268,335)	3,845,162
Cash		
Beginning of year	<u>7,608,339</u>	<u>3,763,177</u>
End of year	<u>\$ 7,340,005</u>	<u>\$ 7,608,339</u>
Cash paid for interest	\$ 41	\$ 1,390

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2014 and 2013

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

These are bank deposits available for operations.

Expenses

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

Property and Equipment

Property 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 \$16,003 and \$138,168, respectively, for 2014 and \$17,699 and \$131,591, respectively, for 2013 and is included in land, buildings, and equipment and accrued expenses, respectively.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

3. Rental Property and Equipment

At June 30, 2014 and 2013, rental property and equipment consisted of the following:

	2014	2013
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	22,404,878	21,070,518
All other properties	<u>6,557,844</u>	<u>6,557,844</u>
Total buildings and building improvements	<u>34,343,183</u>	<u>33,008,823</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	39,005,693	37,671,333
Less: Accumulated depreciation	<u>(18,776,741)</u>	<u>(17,755,954)</u>
Total rental property and equipment, net	<u>\$ 20,228,952</u>	<u>\$ 19,915,379</u>

The values related to One Drexel Plaza included in rental property and equipment - net amounted to \$11,664,477 and \$7,976,797 at June 30, 2014 and 2013, respectively.

4. Related-Party Transactions

Drexel rents approximately 163,662 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 \$102,197.

The Company also received \$189,682 from Drexel during the year ended June 30, 2014 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 in February 2011. Accordingly, The Distribution to Endowment of \$3,200,000 for the year ended June 30, 2014 represents a payout to the Drexel Endowment of approximately 3% of the fair market value of the Company's buildings and improvements for 2014 (as prorated) of \$96,900,000.

API contributed \$2,500,000 to the acquisition of the property known as University City High School. It should be noted that University City High School is not on the API accounting records.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

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 estimated future rent receivable on noncancelable leases is as follows:

	Minimum Lease Payments	Estimated Common Area Expenses and Utilities	Total
Years Ending June 30,			
2015	\$ 6,849,106	\$ 5,654,943	\$ 12,504,049
2016	3,748,594	4,148,125	7,896,719
2017	3,384,807	4,189,606	7,574,414
2018	1,524,767	4,231,502	5,756,269
Thereafter	-	-	-
	<u>\$ 15,507,274</u>	<u>\$ 18,224,177</u>	<u>\$ 33,731,451</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 was \$245,148 and resulted in a reduction of that amount of deferred charges. As of June 30, 2014 and 2013, accrued rent revenue amounted to \$906,978 and \$1,152,126, respectively.

6. Subsequent Events

The Company has evaluated subsequent events through November XX, 2014 and determined that there were no subsequent events requiring adjustment or disclosure in the financial statements.

Supplemental Schedule

Academic Properties, Inc.
Supplemental Schedule of Revenue and Expenses by Property Category
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	-	-	134,210	68,261	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	29,118	-	-	8,054	-	37,171
Property taxes	138,794	-	-	-	-	138,794
Repairs and maintenance	2,219,607	-	-	422,066	-	2,641,673
Security	392,402	-	-	35,674	-	428,076
Taxes - other	282,338	-	-	31,883	-	314,222
Telephone	11,734	-	-	26,476	-	38,210
Trash removal	28,149	-	-	46,081	-	74,229
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	(428,254)	-	-	(599,110)	-	(1,027,363)
Interest	(41)	-	-	-	-	(41)
Change in surplus	4,893,549	-	-	720,812	(75,060)	5,539,301
Transfer to Drexel Endowment	(1,195,000.00)	-	-	(2,005,000.00)	-	(3,200,000)
University City High School Property Contribution	(2,093,750.00)	-	-	(406,250.00)	-	(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)	\$ 1,859,142	\$(154,860)	\$28,059,591

* 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, 2013

	One Drexel Plaza	75 Crestline Road	1216 Ridgewood Street	All Other Properties	201 Cheswold Lane	Total
Revenue						
Rents						
Minimum lease payments	\$ 5,494,668	\$ -	\$ -	\$ 1,945,731	\$ -	\$ 7,440,399
Common area expenses and utilities	5,324,234	-	-	7,952	-	5,332,186
Interest	-	-	-	27,367	-	27,367
Management fee income - affiliate	-	-	-	187,376	-	187,376
Miscellaneous	159,722	-	-	78,783	-	238,505
Total revenue	10,978,624	-	-	2,247,210	-	13,225,834
Expenses						
Commissions	115,000	-	-	-	-	115,000
Dues and licenses	2,340	-	-	12,468	-	14,808
Payroll and payroll taxes	662,574	-	-	150,241	72,890	885,705
Employee benefits	239,218	-	-	45,420	6,909	291,547
Insurance	143,929	-	-	39,774	-	183,703
Office	27,451	-	-	16,851	-	44,302
Professional development	43,930	-	-	9,197	-	53,128
Professional fees	128,105	-	-	17,180	-	145,285
Property taxes	173,080	-	-	-	-	173,080
Repairs and maintenance	2,233,590	-	-	412,116	-	2,645,706
Security	387,434	-	-	25,174	-	412,608
Taxes - other	141,469	-	-	67,917	-	209,387
Telephone	18,069	-	-	23,727	-	41,796
Trash removal	36,921	-	-	36,513	-	73,434
Utilities	1,012,895	-	-	202,977	-	1,215,872
Miscellaneous	10,856	-	-	10,480	-	21,337
Intercompany overhead charges*	39,853	-	-	(39,853)	-	-
Total expenses	5,416,715	-	-	1,030,182	79,800	6,526,698
	5,561,908	-	-	1,217,028	(79,800)	6,699,136
Rent escalation adjustment	(104,173)	-	-	-	-	(104,173)
Depreciation, amortization, and accretion	(647,707)	-	-	(572,301)	-	(1,220,008)
Interest	(1,390)	-	-	-	-	(1,390)
Change in net assets	4,808,639	-	-	644,727	(79,800)	5,373,565
Transfer to Drexel Endowment	(1,465,625)	-	-	(284,375)	-	(1,750,000)
Net assets						
Beginning of year	22,438,518	(472,472)	(558,550)	3,189,229	-	24,596,724
End of year	\$ 25,781,532	\$ (472,472)	\$ (558,550)	\$ 3,549,581	\$ (79,800)	\$ 28,220,290

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