

Academic Properties, Inc.
Financial Statements and Supplemental
Schedules for the Fiscal Years Ended
June 30, 2017 and 2016

Academic Properties, Inc.

Index

June 30, 2017 and 2016

	Page(s)
Review Report of Independent Accountants	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities.....	3
Statements of Cash Flows	4
Notes to Financial Statements	5-7
Supplemental Schedules	
Supplemental Schedules of Revenue and Expenses by Property Category.....	8-9
Notes to the Supplemental Schedules of Revenue and Expense by Property Category	10



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, 2017 and 2016 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 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 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 conclusion.

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

December 5, 2017

Academic Properties, Inc.
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 9,447,018	\$ 6,240,771
Accounts receivable	433,252	672,654
Prepaid expense and other assets	24,668	58,951
Tenants' escrow accounts	242,323	247,013
Deferred charges, net	1,007,897	851,079
Due from Drexel University: Funding operations	77,519	43,219
Rental property and equipment, net	21,966,457	22,160,329
Total assets	<u>\$ 33,199,134</u>	<u>\$ 30,274,016</u>
 Liabilities and Unrestricted Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 511,469	\$ 339,544
Deferred revenue	193,265	282,654
Tenants' escrow accounts	242,323	247,013
Total liabilities	<u>\$ 947,057</u>	<u>\$ 869,211</u>
Unrestricted net assets	32,252,077	29,404,805
Total liabilities and net assets	<u>\$ 33,199,134</u>	<u>\$ 30,274,016</u>

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

Academic Properties, Inc.
Statements of Activities
For the Years Ended June 30, 2017 and 2016

	2017	2016
Revenue		
Rents		
Minimum lease payments	\$ 7,512,726	\$ 7,295,790
Common area expense and utilities	5,706,646	5,589,550
Interest	10,780	16,641
Management fee income - affiliate	196,696	203,515
Rent escalation adjustment	156,818	55,420
Miscellaneous	240,101	335,830
Total revenue	<u>13,823,767</u>	<u>13,496,746</u>
Expenses		
Depreciation, amortization, and accretion	1,149,075	1,127,122
Insurance	209,703	209,703
Office expenses	161,882	168,617
Payroll and employee benefits	1,137,326	1,183,016
Property and other taxes	386,756	441,218
Repairs and maintenance	2,980,763	2,830,446
Security	507,946	483,701
Utilities	1,037,638	1,103,437
Miscellaneous	20,397	20,657
Total expenses	<u>7,591,486</u>	<u>7,567,917</u>
Change in net assets from operating activities	<u>6,232,281</u>	<u>5,928,829</u>
Transfers to Drexel Endowment	(3,385,009)	(3,387,143)
Transfers to Calhoun	-	(2,500,000)
Change in net assets	<u>\$ 2,847,272</u>	<u>\$ 41,686</u>
Net Assets		
Beginning of year	<u>\$ 29,404,805</u>	<u>\$ 29,363,119</u>
End of year	<u>\$ 32,252,077</u>	<u>\$ 29,404,805</u>

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

Academic Properties, Inc.
Statements of Cash Flows
June 30, 2017 and 2016

	2017	2016
Cash flow from operating activities		
Total change in net assets	\$ 2,847,272	\$ 41,686
Adjustments to reconcile net assets to net cash provided / (used) by operating activities:		
Depreciation, amortization and accretion	1,149,075	1,127,122
Transfer to Drexel Endowment	3,385,009	3,387,143
Transfer to Calhoun	-	2,500,000
Changes in asset and liabilities:		
Accounts receivable	239,402	(587,497)
Prepaid expenses and other assets	34,282	45,343
Tenants' escrow asset	4,690	33,238
Tenants' escrow liability	(4,690)	(33,238)
Deferred charges, net	(156,818)	(55,420)
Accounts payable and accrued expenses	171,925	(218,569)
Deferred revenue	(89,388)	(322,567)
Net cash provided by operating activities	<u>7,580,759</u>	<u>5,917,241</u>
Cash flow from investing activities		
Purchase of rental property and equipment	<u>(955,203)</u>	<u>(2,098,475)</u>
Net cash (used) by investing activities	<u>(955,203)</u>	<u>(2,098,475)</u>
Cash flow from financing activities		
Due (from) Drexel University	(34,300)	(32,156)
Transfer to Drexel Endowment	(3,385,009)	(3,387,143)
Transfer to Calhoun	-	(2,500,000)
Net cash (used) by financing activities	<u>(3,419,309)</u>	<u>(5,919,299)</u>
Net increase / (decrease) in cash and cash equivalent	3,206,247	(2,100,533)
Cash and cash equivalents		
Beginning of year	6,240,771	8,341,304
End of year	<u>\$ 9,447,018</u>	<u>\$ 6,240,771</u>

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

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

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 Accounting and Financial Statement Presentation

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

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2017 and 2016, 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 future 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 certain fire doors, carpeting and storage tanks. The total asset retirement cost and obligation recognized was \$11,383 and \$159,586, respectively, for 2017 and \$12,750 and \$151,792, respectively, for 2016 and is included in rental property and equipment, net and accrued expenses, respectively.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

3. Rental Property and Equipment

At June 30, 2017 and 2016, rental property and equipment consisted of the following:

	2017	2016
Land	\$ 4,427,655	\$ 4,427,655
Buildings and building improvements		
One Drexel Plaza Building	5,380,461	5,380,461
Leasehold improvements	27,478,176	26,530,766
All other buildings	<u>6,557,844</u>	<u>6,557,844</u>
Total buildings and building improvements	<u>39,416,481</u>	<u>38,469,071</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>234,856</u>
Total rental property and equipment	<u>44,078,991</u>	<u>43,131,582</u>
Less: Accumulated depreciation	<u>(22,112,534)</u>	<u>(20,971,252)</u>
Total rental property and equipment, net	<u>\$ 21,966,457</u>	<u>\$ 22,160,329</u>

The values related to One Drexel Plaza included in rental property and equipment - net amounted to \$9,554,921 and \$9,631,451 at June 30, 2017 and 2016, 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 was approximately \$123,837 during the years ended June 30, 2017 and 2016.

The Company also received \$196,696 and \$203,515 from Drexel for services rendered in managing properties owned by Drexel during the years ended June 30, 2017 and 2016, respectively.

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 \$3,385,009 and \$3,387,143 for the years ended June 30, 2017 and 2016, respectively, represent a payout to the Drexel endowment.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

5. Lease Rentals

	Minimum Lease Payments	Estimated Common Area Expenses and Utilities	Total
2018	5,224,712	3,846,448	9,071,160
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
Thereafter	-	-	-
	<u>\$ 5,224,712</u>	<u>\$ 3,846,448</u>	<u>\$ 9,071,160</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 30, 2017 and 2016 was \$156,818 and \$55,420 and resulted in a reduction of that amount of deferred charges. As of June 30, 2017 and 2016, accrued rent revenue amounted to \$1,007,898 and \$851,079, respectively.

6. Subsequent Events

The Company has evaluated subsequent events through December 5, 2017.

Schuylkill Yards

On October 13, 2017, Drexel completed the initial conveyance for the Schuylkill Yards project involving the transfer of 3001 and 3025 Market Street to Brandywine Realty Trust (“BRT”), the sole general partner of Brandywine Operating Partnership, LP. Drexel anticipates two additional parcels will be conveyed during fiscal year 2018. BRT will commence construction of a large public realm area on the 3001 Market Street parking lot with completion on or about the second quarter of fiscal year 2019 to be followed immediately by the commencement of remodeling and re-tenanting of the 3025 Market Street building. The surface rights for 3001 Market were conveyed through a ground lease in consideration for \$100, as Drexel agreed to provide the land for a park to define and significantly enhance the value of the entire project. The 3025 Market Street parcel was conveyed through a 99-year prepaid ground lease combined with the conveyance of the vertical improvements and the subterranean rights of 3001 Market Street for \$35,000,000. The proceeds from both parcels will be invested in Drexel’s endowment portfolio replacing the real estate values for the 3001 and 3025 Market Street parcels. In addition to the conveyance transactions BRT provided \$370,000 for access to the property management staff at the Company to assist with the repositioning and re-tenanting of the 3025 Market Street property.

Supplemental Schedules

Academic Properties, Inc.
Supplemental Schedule of Revenue and Expenses by Property Category
Year Ended June 30, 2017

	One Drexel Plaza	201 Cheswold Street	All Other Properties	Total
Revenue				
Rents				
Minimum lease payment	\$ 5,404,689	\$ -	\$ 2,108,037	\$ 7,512,726
Common area expense and utilities	5,699,692	-	6,954	5,706,646
Interest	-	-	10,780	10,780
Management fee income, affiliate	-	-	196,696	196,696
Rent escalation adjustment	156,818	-	-	156,818
Miscellaneous	189,982	-	50,118	240,101
Total revenue	<u>11,451,181</u>	<u>-</u>	<u>2,372,585</u>	<u>13,823,767</u>
Expenses				
Depreciation and amortization	486,368	-	662,707	1,149,075
Dues and licenses	3,678	-	10,505	14,183
Payroll and payroll taxes	688,316	48,609	132,655	869,580
Employee benefits	230,773	653	36,320	267,746
Insurance	167,801	-	41,902	209,703
Office	13,508	-	19,745	33,253
Professional development	12,889	-	2,274	15,163
Professional fees	55,549	-	2,383	57,932
Property taxes	194,175	-	2,103	196,278
Repairs and maintenance	2,404,823	-	500,984	2,905,807
Security	483,268	-	24,678	507,946
Taxes other	152,099	-	38,379	190,478
Telephone	22,508	-	18,842	41,350
Trash removal	24,928	-	50,028	74,956
Utilities	848,188	-	189,450	1,037,638
Miscellaneous	12,109	-	8,288	20,397
Intercompany overhead charges*	28,651	-	(28,651)	-
Total expenses	<u>5,829,631</u>	<u>49,262</u>	<u>1,712,592</u>	<u>7,591,486</u>
Change in net assets from operating activities	<u>5,621,550</u>	<u>(49,262)</u>	<u>659,993</u>	<u>6,232,281</u>
Transfers to Drexel Endowment	(2,835,007)	-	(550,002)	(3,385,009)
Transfers to Calhoun	-	-	-	-
Change in net assets	<u>\$ 2,786,543</u>	<u>\$ (49,262)</u>	<u>\$ 109,991</u>	<u>\$ 2,847,272</u>
Net Assets				
Beginning of year	<u>29,342,614</u>	<u>(372,790)</u>	<u>434,981</u>	<u>29,404,805</u>
End of year	<u>\$ 32,129,157</u>	<u>\$ (422,052)</u>	<u>\$ 544,972</u>	<u>\$ 32,252,077</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, 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
Rent escalation adjustment	55,420	-	-	55,420
Miscellaneous	287,011	-	48,819	335,830
Total revenue	<u>11,338,718</u>	<u>-</u>	<u>2,158,028</u>	<u>13,496,746</u>
Expenses				
Depreciation and amortization	468,300	-	658,822	1,127,122
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>5,832,385</u>	<u>110,962</u>	<u>1,624,570</u>	<u>7,567,917</u>
Change in net assets from operating activities	<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)
Change in net assets	<u>\$ 579,353</u>	<u>\$ (110,962)</u>	<u>\$ (426,705)</u>	<u>\$ 41,686</u>
Net Assets				
Beginning of year	28,763,261	(261,828)	861,686	29,363,119
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, 2016

1. Notes to the Supplemental Schedule of Revenue and Expenses by Property Category

The accompanying supplemental information includes the information related to certain properties owned by the Company as of June 30, 2017 and 2016 and the related statements of activities for the years then ended. It has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the statement of activities.