

Academic Properties, Inc.
Financial Statements and Supplemental Schedules
for the Fiscal Years Ended
June 30, 2020 and 2019

Academic Properties, Inc.

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June 30, 2020 and 2019

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Review Report of Independent Accountants

To the Board of Trustees of Drexel University,

We have reviewed the accompanying financial statements of Academic Properties Inc., which comprise the statements of financial position as of June 30, 2020 and 2019 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 a conclusion 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 a conclusion or provide any assurance on them.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 30, 2020

Academic Properties, Inc.
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets:		
Cash and cash equivalents		
Operating	\$ 4,603,770	\$ 10,102,165
Accounts receivable	69,994	360,509
Prepaid expenses and other assets	72,480	147,887
Tenants' escrow accounts	171,603	189,148
Deferred charges, net	416,672	57,862
Due from Drexel University	857,813	247,711
Rental property and equipment, net	18,853,393	18,200,099
Total assets	\$ 25,045,725	\$ 29,305,381
Liabilities:		
Accounts payable and accrued liabilities	\$ 216,612	\$ 500,953
Deferred revenue	537,293	140,131
Tenants' escrow accounts	171,603	189,148
Total liabilities	925,508	830,232
Net Assets:		
Without donor restrictions	24,120,217	28,475,149
Total net assets	24,120,217	28,475,149
Total liabilities and net assets	\$ 25,045,725	\$ 29,305,381

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

Academic Properties, Inc.
Statements of Activities
For the Years Ended June 30, 2020 and 2019

	2020	2019
Operating		
Revenues:		
Rents		
Minimum lease payments	\$ 5,360,063	\$ 5,738,817
Common area expense and utilities	1,716,080	2,234,526
Interest	5,852	15,970
Management fee income - affiliate	168,632	151,537
Miscellaneous	269,514	541,309
Total revenues	7,520,141	8,682,159
Expenses:		
Salaries and wages	887,339	551,550
Employee benefits	215,678	292,791
Depreciation and amortization	781,542	737,541
Other operating expenses	2,999,514	3,052,847
Total expenses	4,884,073	4,634,729
Increase in net assets from operating activities	2,636,068	4,047,430
Non-operating		
Transfer to Drexel Endowment	(1,541,000)	(1,541,000)
Transfer to Drexel for St. Chris Hospital	(5,450,000)	-
Decrease in net assets from non-operating activities	(6,991,000)	(1,541,000)
Total increase / (decrease) in net assets	(4,354,932)	2,506,430
Net assets, beginning of year	28,475,149	25,968,719
Net assets, end of year	\$ 24,120,217	\$ 28,475,149

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

Academic Properties, Inc.
Statements of Cash Flows
June 30, 2020 and 2019

	2020	2019
Operating activities:		
Increase / (decrease) in net assets	\$ (4,354,932)	\$ 2,506,430
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	781,542	737,541
Transfer to Drexel Endowment	1,541,000	1,541,000
Transfer to Drexel for St. Chris Hospital	5,450,000	-
Changes in assets and liabilities that provide / (use) cash:		
Accounts receivable	290,514	(175,601)
Prepaid expenses and other assets	(24,592)	(147,888)
Tenants' escrow asset	17,545	6,885
Tenants' escrow liability	(17,545)	(6,885)
Deferred charges, net	(358,811)	(73,357)
Accounts payable and accrued liabilities	(184,341)	(284,380)
Deferred revenue	397,163	9,774
Net cash provided by operating activities	3,537,543	4,113,519
Investing activities:		
Purchases of rental property and equipment	(1,434,836)	(2,724,640)
Net cash (used in) investment activities	(1,434,836)	(2,724,640)
Financing activities:		
Due from Drexel University	(610,102)	(149,677)
Transfer to Drexel Endowment	(1,541,000)	(1,541,000)
Transfer to Drexel for St. Chris Hospital	(5,450,000)	-
Net cash (used in) financing activities	(7,601,102)	(1,690,677)
Net (decrease) in cash and cash equivalents	(5,498,395)	(301,798)
Cash and cash equivalents, beginning of year	10,102,165	10,403,963
Cash and cash equivalents, end of year	\$ 4,603,770	\$ 10,102,165

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

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

1. Organization

Academic Properties, Inc. (the “Company” or “API”) is 100% owned by Academic Assets, Inc. and Academic Assets, Inc. is 100% owned by the Drexel University. API is an exempt organization under Section 501 (c) (3) or the Internal Revenue Code. API manages properties used by Drexel, as well as other strategically located properties contiguous to its campus.

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 API 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.

Net Assets with Donor Restrictions - Net assets with donor restrictions are subject to donor-imposed stipulations that (a) may be fulfilled by actions of API 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 API.

There were no net assets classified as with donor restrictions as of June 30, 2020 and 2019.

Measure of Operations

API’s measure of operations as presented in the statement of activities includes rental income from properties, management fee income from affiliates, and other miscellaneous revenues. Operating expenses are reported on the statement of activities by natural classification.

Liquidity and Availability

API’s financial assets available within one year of the balance sheet date for general expenditure as of June 30, 2020 and 2019 are as follows:

	2020	2019
Total assets at year-end	\$ 25,045,725	\$ 29,305,381
Less: non-financial and financial assets not available within one year		
Prepaid expenses and other assets	(72,480)	(147,887)
Tenants' escrow accounts	(171,603)	(189,148)
Deferred charges, net	(416,672)	(57,862)
Rental property and equipment, net	(18,853,393)	(18,200,099)
Financial assets available at year-end for current use	\$ 5,531,577	\$ 10,710,385

API has \$5,531,577 of financial assets that are available within one year of the balance sheet date to meet cash needs for general expenditure. In addition to these available financial assets, a significant portion of API’s annual expenditures will be funded by current year operating revenues including rental income from properties, management fee income from affiliates, and other miscellaneous revenues. API structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

Cash

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. On June 30, 2020 and 2019, 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. Cash and cash equivalents are carried at cost, which approximates fair value.

Expenses

All API expenses are in support of one program, which is managing Drexel'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 \$7,484 and \$185,533 respectively, for 2020 and \$8,784 and \$176,706, respectively, for 2019 and is included in rental property and equipment, net and accrued expenses, respectively.

Recently Adopted Accounting Pronouncements

Beginning in May 2014, the FASB issued several Accounting Standard Updates which established a new framework for *Revenue from Contracts with Customers (Topic 606)*. The core principle is that revenue is recognized in manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be compensated in exchange for those goods or services. The guidance is effective for annual fiscal periods beginning after December 15, 2017. API has adopted the standard by applying the retrospective transition method. The impact of the adoption was immaterial and the impact of applying the standard retrospectively had no impact on total revenues, total changes in net assets or the presentation of financial statements.

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

In February 2016, the FASB issued 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, 2018. In July 2018, FASB issued ASU No. 2018-11 which amends the transition methods contained in ASU No. 2016-02. API has early adopted the standard on a modified retrospective basis effective July 1, 2019 and there was no material impact on its financial statements.

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 net assets without donor restrictions and net assets with donor restrictions, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. API has adopted this new guidance retrospectively, 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, API 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.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The ASU aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. ASU No. 2018-15 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. Entities can apply the guidance prospectively or retrospectively. API is currently evaluating the standard to determine the impact it will have on its financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808) – Clarifying the Interaction between Topic 808 and Topic 606*, which seeks to clarify that certain transaction between collaborative arrangement participants should be accounted for as revenue and apply all relevant guidance under Topic 606 to these revenues. In addition this ASU provides more comparability in the presentation of revenue for certain transaction between collaborative arrangement participants. ASU No. 2018-18 is effective for annual periods beginning after December 15, 2020 API is currently evaluating the standard to determine the impact it will have on its financial statements.

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

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

3. Rental Property and Equipment

At June 30, 2020 and 2019, rental property and equipment consisted of the following:

	2020	2019
Land	\$ 4,427,655	\$ 4,427,655
Buildings and building improvements:		
One Drexel Plaza	2,033,814	2,033,814
Leasehold improvements	26,168,995	24,742,985
All other properties	6,557,844	6,557,844
Total buildings and building improvements	34,760,653	33,334,644
Furniture, fixtures, and equipment:		
Furniture and fixtures	187,596	187,596
Equipment	47,259	47,259
Total furniture, fixtures, and equipment	234,855	234,855
Total rental property and equipment, gross	39,423,163	37,997,154
Less: Accumulated depreciation	(20,569,770)	(19,797,055)
Total rental property and equipment, net	\$ 18,853,393	\$ 18,200,099

The values related to One Drexel Plaza included in rental property and equipment - net amounted to \$6,352,541 and \$5,729,344 at June 30, 2020 and 2019, respectively.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

4. 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 non-cancelable leases is as follows:

	Minimum Lease Payments
June 30,	
2021	2,702,293
2022	2,781,821
2023	2,854,780
2024	2,938,681
2025	3,025,079
Thereafter	12,647,907
Total	\$ 26,950,561

Rent for new leases or the exercise of renewal options under existing leases is not included in the table above, 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 actual rent and straight-line rent for the fiscal year ending June 30, 2020 and 2019 was (\$358,811) and (\$73,357), respectively. As of June 30, 2020, and 2019, the deferred rent asset amounted to \$416,672 and \$57,862, respectively and the deferred rent liability amounted to \$0 for both years.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

5. Functional and Natural Classification of Expenses

Expenses are presented by functional classification in accordance with the overall service mission of API. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation is allocated based on the square footage occupancy. Plant operations and maintenance represent space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy.

Expenses by functional classification for the year ended June 30, 2020 consist of the following:

	2020		
	Program Services	Management and General	Total
Salaries and wages	\$ 887,338	\$ -	\$ 887,338
Employee benefits	215,678	-	215,678
Depreciation and amortization	781,542	-	781,542
Other operating expenses	2,989,965	9,550	2,999,515
Total expenses	\$ 4,874,523	\$ 9,550	\$ 4,884,073

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

	2019		
	Program Services	Management and General	Total
Salaries and wages	\$ 551,550	\$ -	\$ 551,550
Employee benefits	292,791	-	292,791
Depreciation and amortization	737,541	-	737,541
Other operating expenses	3,028,547	24,300	3,052,847
Total expenses	\$ 4,610,429	\$ 24,300	\$ 4,634,729

6. Related-Party Transactions

Drexel rents approximately 113,590 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 \$218,151.75 during the years ended June 30, 2020.

The Company also received \$168,632 and \$151, 537 from Drexel for services rendered in managing properties owned by Drexel during the years ended June 30, 2020 and 2019, respectively.

All 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 for both years ended June 30, 2020 and 2019 was \$1,541,000 and represent a payout to the Drexel endowment.

API transferred \$5,450,000 to Drexel in fiscal year 2020 to purchase Drexel's 50% share of St. Christopher's Hospital for Children. Drexel University partnered with Tower Health Systems to purchase the hospital from the bankruptcy estate of American Academic Health Systems.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

7. Legal Contingencies

As of June 30, 2019, API recorded \$100,000 of legal reserves within Accounts Payable and Accrued Liabilities, with a corresponding \$100,000 of insurance recoverable within Prepaid Expenses and Other Assets. This relates to pending litigation, which is covered by external insurance policies. As of June 30, 2020, there is no other pending litigation.

8. COVID-19

The outbreak of the COVID-19 pandemic has caused domestic disruptions in the operations for API. The long-term effect to API of the COVID-19 pandemic depends on various factors, which cannot be fully quantified at this time. As of June 30, 2020, and through the date of these financial statements, API evaluated its accounting estimates for any potential future impacts of the pandemic. While this evaluation did not result in a material effect to API's financial statements as of June 30, 2020, future evaluations could result in a material effect depending on the eventual impact and duration of the pandemic.

9. Subsequent Events

API evaluated events subsequent to June 30, 2020 through October 30, 2020 and determined that there were no additional events requiring adjustment to or disclosure in the financial statements.

Supplemental Schedules

Academic Properties, Inc.
Supplemental Schedule of Revenue and Expenses by Property Category
Year Ended June 30, 2020

	One Drexel Plaza	201 Cheswold Street	All Other Properties	Total
Operating				
Revenues:				
Rents				
Minimum lease payment, net	\$ 3,535,323	\$ -	\$ 1,824,740	\$ 5,360,063
Common area expense and utilities	1,713,150	-	2,930	1,716,080
Interest	-	-	5,852	5,852
Management fee income, affiliate	-	-	168,632	168,632
Miscellaneous	42,083	-	227,431	269,514
Total revenues	5,290,556	-	2,229,585	7,520,141
Expenses:				
Depreciation and amortization	234,646	-	546,896	781,542
Dues and licenses	1,447	-	1,665	3,112
Payroll and payroll taxes	702,515	44,189	140,635	887,339
Employee benefits	185,580	7,060	23,038	215,678
Insurance	116,413	-	45,451	161,864
Office	12,943	-	15,752	28,695
Professional development	44,542	-	3,736	48,278
Professional fees	84,293	-	40,654	124,947
Property taxes	96,675	-	3,415	100,090
Repairs and maintenance	899,874	-	481,009	1,380,883
Security	398,754	-	28,699	427,453
Taxes other	3,774	-	24,065	27,839
Telephone	15,761	-	22,009	37,770
Trash removal	17,080	-	57,387	74,467
Utilities	314,500	-	254,060	568,560
Miscellaneous	7,743	-	7,813	15,556
Intercompany overhead charges*	34,404	-	(34,404)	-
Total expenses	3,170,944	51,249	1,661,880	4,884,073
Increase / (decrease) in net assets from operating activities	2,119,612	(51,249)	567,705	2,636,068
Non-operating				
Transfers to Drexel Endowment	(1,290,588)	-	(250,412)	(1,541,000)
Transfers to St. Chris Hospital	(5,450,000)	-	-	(5,450,000)
Decrease in net assets from non-operating activities	(6,740,588)	-	(250,412)	(6,991,000)
Total increase / (decrease) in net assets	\$ (4,620,976)	\$ (51,249)	\$ 317,293	\$ (4,354,932)
Net assets, beginning of year	30,524,180	(529,477)	(1,519,555)	28,475,149
Net assets, end of year	\$ 25,903,204	\$ (580,726)	\$ (1,202,262)	\$ 24,120,217

* 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, 2019

	One Drexel Plaza	201 Cheswold Street	All Other Properties	Total
Operating				
Revenues:				
Rents				
Minimum lease payment, net	\$ 3,937,747	\$ -	\$ 1,801,070	\$ 5,738,817
Common area expense and utilities	2,228,231	-	6,295	2,234,526
Interest	-	-	15,970	15,970
Management fee income, affiliate	-	-	151,537	151,537
Miscellaneous	405,463	-	135,846	541,309
Total revenues	6,571,441	-	2,110,718	8,682,159
Expenses:				
Depreciation and amortization	203,024	-	534,517	737,541
Dues and licenses	2,630	-	8,350	10,980
Payroll and payroll taxes	431,214	48,022	130,234	609,470
Employee benefits	182,616	7,124	45,130	234,870
Insurance	120,713	-	46,502	167,215
Office	8,323	-	11,193	19,516
Professional development	4,976	-	702	5,678
Professional fees	91,528	-	14,982	106,510
Property taxes	188,745	-	2,146	190,891
Repairs and maintenance	885,922	-	473,820	1,359,742
Security	308,301	-	31,891	340,192
Taxes other	7,948	-	31,168	39,116
Telephone	13,934	-	22,425	36,359
Trash removal	16,180	-	57,540	73,720
Utilities	435,184	-	244,170	679,354
Miscellaneous	8,638	-	14,937	23,575
Intercompany overhead charges*	25,221	-	(25,221)	-
Total expenses	2,935,097	55,146	1,644,486	4,634,729
Increase / (decrease) in net assets from operating activities	3,636,344	(55,146)	466,232	4,047,430
Non-operating				
Transfers to Drexel Endowment	(1,290,588)	-	(250,412)	(1,541,000)
Decrease in net assets from non-operating activities	(1,290,588)	-	(250,412)	(1,541,000)
Total increase / (decrease) in net assets	\$ 2,345,756	\$ (55,146)	\$ 215,820	\$ 2,506,430
Net assets, beginning of year	28,178,424	(474,331)	(1,735,375)	25,968,719
Net assets, end of year	\$ 30,524,180	\$ (529,477)	\$ (1,519,555)	\$ 28,475,149

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

Academic Properties, Inc.
Notes to the Supplement Schedules of Revenue and Expenses by Property Category
June 30, 2020 and 2019

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, 2020 and 2019 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.