

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

Financial Statements for the
Year Ended June 30, 2014 and
Independent Auditor's Report

11TH Street Family Health Services Inc.

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Independent Auditor's Report

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 statement of financial position as of June 30, 2014, and the related statement of activities and changes in net assets, cash flows for the period from December 12, 2013 (inception) to June 30, 2014.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit 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 Corporation'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 Corporation'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, 2014 and changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 30, 2014

11TH Street Family Health Services Inc.

STATEMENT of FINANCIAL POSITION AS OF JUNE 30, 2014

	<u>2014</u>
ASSETS	
CURRENT ASSETS:	
Cash	\$ 9,023,704
Total current assets	<u>9,023,704</u>
PROPERTY, PLANT and EQUIPMENT – Net	<u>3,250,546</u>
TOTAL ASSETS	<u>\$12,274,250</u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Due to affiliates -construction	\$ 646,766
Due to affiliates-operations	98,594
Accrued interest	<u>30,804</u>
Total current liabilities	776,164
Long-term Debt	<u>9,500,000</u>
Total liabilities	<u>10,276,164</u>
NET ASSETS:	
Unrestricted	1,998,086
Temporarily Restricted	<u>0</u>
Total net assets	<u>1,998,086</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$12,274,250</u>

See accompanying notes to financial statements.

11TH Street Family Health Services Inc.

STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM DECEMBER 12, 2013 (INCEPTION) TO JUNE 30, 2014

	Unrestricted	Temporarily Restricted	TOTAL
SUPPORT and REVENUE:			
Donation of land & building			
from Drexel University	\$ 2,313,170	\$ 0	\$ 2,313,170
Interest income	<u>15,694</u>	<u>0</u>	<u>15,694</u>
Total support and revenue	2,328,864	0	2,328,864
Net assets released from restriction	<u>0</u>	<u>0</u>	<u>0</u>
Total support and revenue and other	<u>2,328,864</u>	<u>0</u>	<u>2,328,864</u>
EXPENSES:			
Professional fees	294,739	0	294,739
Depreciation	<u>36,039</u>	<u>0</u>	<u>36,039</u>
Total expenses	<u>330,778</u>	<u>0</u>	<u>330,778</u>
Increase (decrease) in net assets	<u>1,998,086</u>	<u>0</u>	<u>1,998,086</u>
NET ASSETS			
Beginning of period	<u>0</u>	<u>0</u>	<u>0</u>
End of period	<u>\$ 1,998,086</u>	<u>\$ 0</u>	<u>\$ 1,998,086</u>

See accompanying notes to financial statements.

11TH Street Family Health Services Inc.

STATEMENTS OF CASH FLOWS

FOR THE PERIOD FROM DECEMBER 12, 2013 (INCEPTION) TO JUNE 30, 2014

	<u>2014</u>
OPERATING ACTIVITIES	
Increase in net assets	\$ 1,998,086
Adjustments to reconcile net income to net cash provided by operating activities:	
Non cash contributions received	(2,313,170)
Depreciation	36,039
Adjustment for increase in operating liabilities	<u>98,594</u>
Net cash provided / (used) by operating activities	<u>(180,451)</u>
INVESTING ACTIVITIES:	
Purchases of property, plant & equipment	<u>(326,649)</u>
Net cash provided / (used) from investing activities	(326,649)
FINANCING ACTIVITIES:	
Proceeds from long term debt	9,500,000
Advance from affiliate	<u>30,804</u>
Net cash provided / (used) from financing activities	<u>9,530,804</u>
NET INCREASE (DECREASE) IN CASH	9,023,704
CASH:	
Beginning of period	<u>0</u>
End of period	<u>\$ 9,023,704</u>
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	\$ 33,542

See accompanying notes to financial statements.

11TH Street Family Health Services Inc.

NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2014

1. ORGANIZATION

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

On December 23, 2013 the Corporation 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.

The Corporation 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 a qualified low income community investment loan 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 University to continue to be used as the 11TH Street Family Health Services of Drexel University. The new addition and renovated space will substantially increase the number of patients served, expand services to patients and enhance undergraduate and graduate health professions educational initiatives. The term of the lease runs from the date of the issuance of a certificate of occupancy or when Drexel University takes possession of the new addition (the "Rent Commencement Date") to December 31, 2042. The quarterly base rent is established in the lease. In addition to the base rent, Drexel University will be responsible for 100% of the operating costs of the Property and 100% of real estate taxes, assessments, encumbrances or fees as well as any other taxes imposed by any governmental authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Cash – Consists of bank deposits available for operations with original maturities of 90 days or less.

Use of Estimates – The preparation of financial statements in conformity with GAAP 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.

Revenue Recognition – Once construction has been completed and a certificate of occupancy is issued, the Corporation will receive rental income from Drexel University for the use of the Property.

The donation of the land and building from Drexel University is recorded at net book value. For this presentation, the donation is considered an internal transfer and not recorded at fair market value.

Property, Plant and Equipment – Property, plant and equipment are recorded at cost less accumulated depreciation. 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. Equipment ranging from three to seven years, and furniture and fixtures generally have useful lives of seven years. Leasehold improvements are depreciated over the shorter of their lease term, or their useful life.

Income Taxes – No provision or benefit for income taxes has been included in these financial statements. The Corporation is a nonprofit organization that has applied for tax exempt status under Section 501 (c) 3 of the Internal Revenue Code.

Recent Accounting Pronouncements – The Corporation has determined that there are no recently issued accounting standards that will have a material impact on its financial statements.

3. PROPERTY, PLANT and EQUIPMENT

	<u>2014</u>
Land	\$ 280,587
Building	2,162,356
Construction in progress	<u>843,642</u>
Total property, plant and equipment – gross	\$3,286,585
Less: accumulated depreciation	<u>(36,039)</u>
Total property, plant and equipment – net	<u>\$ 3,250,546</u>

4. CAPITALIZED INTEREST

During the period ended June 30, 2014 interest during construction amounted to \$64,346 was capitalized and added to the depreciable basis of the Property.

5. CLASSIFICATION OF NET ASSETS

Resources in the financial statements are classified for accounting and reporting purposes into classes of net assets according to the existence of restrictions. All assets, liabilities, and activities are accounted for in the following net asset classifications:

Unrestricted

Unrestricted net assets are used to account for funds which have not been restricted, and over which the Board has discretionary control.

Temporarily Restricted

Temporarily Restricted net assets are subject to funder-imposed stipulations that may be fulfilled by actions of the Corporation to meet the stipulations or become unrestricted at the date specified by the funder.

Permanently Restricted

Permanently Restricted net assets are subject to funder-imposed stipulations that they be retained and invested permanently by the Corporation. The funders require the Corporation to use net assets for specified or unspecified purposes.

There were no net assets classified as temporarily or permanently restricted as of June 30, 2014.

6. NOTES PAYABLE

A summary of the Corporation's notes payable is presented below:

	<u>2014</u>
Note A-TRF NMTC FUND XXVI, LP	\$6,783,250
Note B-TRF NMTC FUND XXVI, LP	<u>2,716,750</u>
Total Notes Payable	<u>\$ 9,500,000</u>

On December 23, 2013 TRF NMTC Fund XXVI, LP, a Pennsylvania limited partnership, issued two loans to the Corporation 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 on the basis of 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, payments in the amount of \$86,198.51 consisting of both interest and principal begin on April 1, 2021. The loan matures on October 1, 2043. The amount of interest accrued for 2014 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 on the basis of 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 the interest only period, payments in the amount of \$34,205.56 consisting of both interest and principal begin on April 1, 2021. The loan matures on October 1, 2043. The amount of interest accrued for 2014 on NOTE B was \$8,809.

The notes are collateralized by the Property and the improvements. The Corporation may not encumber, transfer ownership, relocate or otherwise act so as 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:

	<u>Note A</u>	<u>Note B</u>	<u>TOTAL</u>
2014	\$ 0	\$ 0	\$ 0
2015	0	0	0
2016	0	0	0
2017	0	0	0
2018	0	0	0
2019-2044	6,783,250	2,716,750	9,500,000

7. LEASE

On December 23, 2013 the Corporation leased the entirety of the Property to Drexel University 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 University takes actual possession of the new addition (the "Rent Commencement Date") to December 31, 2042. Rental payments to the Corporation are payable in advance on the first day of each calendar quarter, with the first of such quarterly installments to be payable on the Commencement Date. For this schedule the Commencement Date is projected to be July 1, 2015. Future minimum base rent payments in the aggregate by fiscal year is as follows:

2014	\$ 0
2015	0
2016	521,025
2017	521,025
2018	521,025
Thereafter	<u>13,736,420</u>
Total minimum lease payments	<u>\$15,299,495</u>

8. RELATED PARTY TRANSACTIONS

The Corporation is a non-profit real estate holding company of Drexel University, organized to operate in furtherance of the activities of Drexel University 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 will be Drexel University. All rental income will be a related party transaction. Construction is ongoing and no rental income was generated in fiscal 2014.

Drexel University incurs certain expense on behalf of the Corporation and is reimbursed by the Corporation. In addition Drexel University provided cash advances totaling \$61,608 for interest payments for calendar 2014. As of June 30, 2014 the Corporation owed the University \$745,360 for

qualified closing, construction and other related expenses. The amount is reflected in the liability section of the balance sheet under the heading Due to affiliates.

9. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events from June 30, 2014 through October 30, 2014, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.