

Academic Properties, Inc.
Financial Statements and Supplemental Schedule
June 30, 2013 and 2012

Index
June 30, 2013 and 2012

	Page(s)
Independent Auditors' Report	1–2
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows	5
Notes to Financial Statements	6–8
Supplemental Schedule	
Supplemental Schedules of Revenue and Expenses by Property Category.....	9–10



Independent Auditors' Report

To The Board of Directors of Academic Properties, Inc.

We have audited the accompanying financial statements of Academic Properties, Inc. (the "Company"), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and cash flows for the year then ended.

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 Company'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 Company'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.



Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Supplemental Schedule is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Opinion

In our opinion, the June 30, 2013 financial statements referred to above present fairly, in all material respects, the financial position of Academic Properties, Inc. at June 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Company as of June 30, 2012 and for the year then ended were audited by other auditors whose report, dated February 11, 2013, expressed an unmodified opinion on those statements.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
December 16, 2013

Academic Properties, Inc.
Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
Assets		
Cash	\$ 7,608,339	\$ 3,763,177
Accounts receivable	80,408	120,681
Prepaid expenses and other assets	264,701	330,436
Tenants' escrow accounts	287,073	226,988
Deferred charges, net	1,152,126	1,256,298
Rental property and equipment, net	<u>19,915,379</u>	<u>20,123,680</u>
Total assets	<u>\$ 29,308,027</u>	<u>\$ 25,821,260</u>
Liabilities and Net Asset		
Liabilities		
Accounts payable and accrued expenses	\$ 344,017	\$ 521,631
Deferred revenue	404,935	377,366
Tenants' escrow accounts	287,073	226,988
Loans payable - PIDC	11,008	75,914
Due to Drexel University		
Funding operations	<u>40,704</u>	<u>22,637</u>
Total due to Drexel University	<u>40,704</u>	<u>22,637</u>
Total liabilities	<u>1,087,737</u>	<u>1,224,536</u>
Net assets	<u>28,220,290</u>	<u>24,596,724</u>
Total liabilities and net assets	<u>\$ 29,308,027</u>	<u>\$ 25,821,260</u>

Academic Properties, Inc.
Statements of Activities
Years Ended June 30, 2013 and 2012

	2013	2012
Revenue		
Rents		
Minimum lease payments	\$ 7,440,399	\$ 6,966,117
Common area expenses and utilities	5,332,186	5,096,883
Interest	27,367	16,968
Management fee income - affiliate	187,376	172,656
Rent escalation adjustment	(104,173)	(90,864)
Miscellaneous	238,505	161,792
Total revenue	<u>13,121,661</u>	<u>12,323,552</u>
Expenses		
Commissions	115,000	80,000
Depreciation, amortization, and accretion	1,220,008	1,374,482
Insurance	183,703	192,695
Interest	1,390	3,306
Office expenses	299,319	167,347
Payroll and employee benefits	1,177,252	1,120,052
Property and other taxes	382,467	357,728
Repairs and maintenance	2,719,140	2,556,972
Security	412,608	365,556
Utilities	1,215,872	1,261,533
Miscellaneous	21,336	44,939
Total expenses	<u>7,748,095</u>	<u>7,524,610</u>
Change in net assets before transfer	<u>5,373,566</u>	<u>4,798,942</u>
Transfer to Drexel Endowment	(1,750,000)	(1,500,000)
Net assets		
Beginning of year	<u>24,596,724</u>	<u>21,297,782</u>
End of year	<u>\$ 28,220,290</u>	<u>\$ 24,596,724</u>

Academic Properties, Inc.
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating activities		
Change in net assets	\$ 5,373,566	\$ 4,798,942
Adjustments to reconcile net assets to net cash provided by operating activities		
Depreciation, amortization, and accretion	1,220,008	1,374,482
Changes in assets and liabilities		
Accounts receivable	40,273	(13,281)
Prepaid expenses and other assets	65,735	116,888
Tenants' escrow asset	(60,085)	(12,540)
Tenants' escrow liability	60,085	12,540
Deferred charges, net	104,171	90,864
Accounts payable and accrued expenses	(177,614)	202,829
Deferred revenue	27,569	(197,086)
Net cash provided by operating activities	<u>6,653,708</u>	<u>6,373,638</u>
Investing activities		
Purchase of rental property and equipment	<u>(1,011,707)</u>	<u>(3,555,179)</u>
Net cash used in investing activities	<u>(1,011,707)</u>	<u>(3,555,179)</u>
Financing activities		
Net decrease in due to Drexel University	18,067	(310,158)
Principal payments on loans payable - PIDC	(64,906)	(62,990)
Transfer to Drexel Endowment	<u>(1,750,000)</u>	<u>(1,500,000)</u>
Net cash used in financing activities	<u>(1,796,839)</u>	<u>(1,873,148)</u>
Net change in cash	3,845,162	945,311
Cash		
Beginning of year	<u>3,763,177</u>	<u>2,817,866</u>
End of year	<u>\$ 7,608,339</u>	<u>\$ 3,763,177</u>
Cash paid for interest	\$ 1,390	\$ 3,306

Academic Properties, Inc.

Notes to Financial Statements

June 30, 2013 and 2012

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.

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 include rent revenues recognized on a straight-line basis over the term of the Company's lease agreements that exceed the rent billed as of 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 and obligation recognized was \$17,699 and \$131,591, respectively, for 2013 and \$20,086 and \$125,328, respectively, for 2012 and is included in land, buildings, and equipment and accrued expenses, respectively.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

3. Rental Property and Equipment

At June 30, 2013 and 2012, rental property and equipment consisted of the following:

	2013	2012
Land	\$ 4,427,655	\$ 4,427,655
Buildings and building improvements	5,380,461	5,380,461
	21,070,518	20,064,384
	<u>6,557,844</u>	<u>6,557,844</u>
Total buildings and building improvements	<u>33,008,823</u>	<u>32,002,689</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	37,671,333	36,665,199
Less: Accumulated depreciation	<u>(17,755,954)</u>	<u>(16,541,519)</u>
Total rental property and equipment, net	<u>\$ 19,915,379</u>	<u>\$ 20,123,680</u>

The values related to One Drexel Plaza included in rental property and equipment - net amounted to \$7,976,797 and \$8,120,076 at June 30, 2013 and 2012, respectively.

4. Related-Party Transactions

Drexel rents 85,552 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 \$75,891.

The Company also received \$187,376 from Drexel during the year ended June 30, 2013 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 \$1,750,000 for the year ended June 30, 2013 represents a payout to the Drexel Endowment of approximately 1%-2% of the fair market value of the Company's buildings and improvements for 2013 (as prorated) of \$88,045,000.

5. Debt

The Company's debt as of June 30, 2013 and 2012 consisted of the following:

Philadelphia Industrial Development Corporation ("PIDC") Loans Payable

In July 1998, the Company borrowed \$800,000 from the PIDC for One Drexel Plaza renovations. Equal monthly payments of \$5,525, including principal and interest, are due through the loan's maturity on August 1, 2013. The stated interest rate is 3%. This loan is secured by a mortgage lien on One Drexel Plaza.

Academic Properties, Inc.
Notes to Financial Statements
June 30, 2013 and 2012

Due to Drexel

Funding Operations

Represents amounts that are due to or due from Drexel for various expenses of the Company that will be settled within a period of twelve months.

Debt service requirements for all of the above debt for the fiscal years ending June 30 are as follows:

	Due to PIDC	Due to Drexel	Total
Years Ending June 30,			
2014	\$ 11,008	\$ 40,704	\$ 51,712
	<u>\$ 11,008</u>	<u>\$ 40,704</u>	<u>\$ 51,712</u>

6. 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 2 to 15 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,			
2014	\$ 6,652,832	\$ 5,492,152	\$ 12,144,984
2015	6,278,314	5,656,916	11,935,231
2016	5,575,397	5,826,624	11,402,021
2017	6,325,156	6,001,423	12,326,579
Thereafter	-	-	-
	<u>\$ 24,831,700</u>	<u>\$ 22,977,115</u>	<u>\$ 47,808,814</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. This resulted in a decrease of (\$104,173) in rent revenue billed for the year ended June 30, 2013, included in deferred charges on the statements of financial position. As of June 30, 2013 and 2012, accrued rent revenue amounted to \$1,152,126 and \$1,256,299, respectively.

7. Subsequent Events

The Company has evaluated subsequent events through December 16, 2013 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, 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	<u>10,978,624</u>	<u>-</u>	<u>-</u>	<u>2,247,210</u>	<u>-</u>	<u>13,225,834</u>
Expenses						
Commissions	115,000	-	-	-	-	115,000
Dues and licenses	2,340	-	-	12,468	-	14,809
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	-	21,336
Intercompany overhead charges*	39,853	-	-	(39,853)	-	-
Total expenses	<u>5,416,715</u>	<u>-</u>	<u>-</u>	<u>1,030,182</u>	<u>79,800</u>	<u>6,526,697</u>
Subtotal	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)	5,373,566
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	<u>\$ 25,781,532</u>	<u>\$ (472,472)</u>	<u>\$ (558,550)</u>	<u>\$ 3,549,581</u>	<u>\$ (79,800)</u>	<u>\$ 28,220,290</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, 2012

	One Drexel Plaza	75 Crestline Road	1216 Ridgewood Street	All Other Properties	Total
Revenue					
Rents					
Minimum lease payments	\$ 5,054,137	\$ -	\$ -	\$ 1,911,980	\$ 6,966,117
Common area expenses and utilities	5,089,446	-	-	7,437	5,096,883
Interest	-	-	-	16,968	16,968
Management fee income - affiliate	-	-	-	172,656	172,656
Miscellaneous	120,053	-	-	41,739	161,792
Total revenue	<u>10,263,636</u>	<u>-</u>	<u>-</u>	<u>2,150,780</u>	<u>12,414,416</u>
Expenses					
Commissions	80,000	-	-	-	80,000
Dues and licenses	2,240	-	58	13,094	15,392
Payroll and payroll taxes	630,173	-	91,703	136,026	857,902
Employee benefits	215,800	-	6,101	40,249	262,150
Insurance	152,339	-	-	40,356	192,695
Office	18,748	-	233	26,336	45,317
Professional development	23,498	-	-	7,438	30,936
Professional fees	18,093	-	-	14,702	32,795
Property taxes	196,442	-	-	-	196,442
Repairs and maintenance	2,033,963	-	36,282	413,842	2,484,087
Security	331,828	-	601	33,127	365,556
Taxes - other	125,289	-	-	35,997	161,286
Telephone	11,190	-	3,992	27,725	42,907
Trash removal	38,517	-	-	34,368	72,885
Utilities	1,059,395	-	11,160	190,978	1,261,533
Miscellaneous	15,583	-	2,450	26,906	44,939
Intercompany overhead charges	50,903	-	-	(50,903)	-
Total expenses	<u>5,004,001</u>	<u>-</u>	<u>152,580</u>	<u>990,241</u>	<u>6,146,822</u>
	5,259,635	-	(152,580)	1,160,539	6,267,594
Rent escalation adjustment	(90,864)	-	-	-	(90,864)
Depreciation, amortization, and accretion	(834,631)	-	-	(539,851)	(1,374,482)
Interest	(3,306)	-	-	-	(3,306)
Change in net assets	<u>4,330,834</u>	<u>-</u>	<u>(152,580)</u>	<u>620,688</u>	<u>4,798,942</u>
Transfer to Drexel Endowment	(1,256,250)	-	-	(243,750)	(1,500,000)
Net assets					
Beginning of year	<u>19,363,930</u>	<u>(472,472)</u>	<u>(405,970)</u>	<u>2,812,294</u>	<u>21,297,782</u>
End of year	<u>\$ 22,438,514</u>	<u>\$ (472,472)</u>	<u>\$ (558,550)</u>	<u>\$ 3,189,232</u>	<u>\$ 24,596,724</u>