

**Academic Properties, Inc.**  
**Financial Statements and Supplemental Schedules**  
**for the Fiscal Years Ended**  
**June 30, 2018 and 2017**

# Academic Properties, Inc.

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June 30, 2018 and 2017

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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, 2018 and 2017 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*

May 15, 2019

**Academic Properties, Inc.**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 10,403,963	\$ 9,447,018
Accounts receivable	184,906	433,251
Prepaid expense and other assets	-	24,668
Tenants' escrow accounts	196,033	242,323
Deferred charges, net	-	122,592
Due from Drexel University	98,034	77,519
Rental property and equipment, net	16,213,001	21,966,457
Total assets	<u>\$ 27,095,937</u>	<u>\$ 32,313,828</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 785,333	\$ 511,469
Deferred revenue	130,357	193,265
Deferred charges, net	15,495	-
Tenants' escrow accounts	196,033	242,323
Total liabilities	<u>\$ 1,127,218</u>	<u>\$ 947,057</u>
 Unrestricted net assets	 25,968,719	 31,366,771
Total liabilities and net assets	<u>\$ 27,095,937</u>	<u>\$ 32,313,828</u>

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

**Academic Properties, Inc.**  
**Statements of Activities**  
**For the Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Revenue</b>		
Rents		
Minimum lease payments	\$ 5,083,341	\$ 7,481,760
Common area expense and utilities	3,695,225	5,706,646
Interest	12,643	10,780
Management fee income - affiliate	200,400	196,696
Miscellaneous	583,387	240,101
Total revenue	<u>9,574,996</u>	<u>13,635,983</u>
<b>Expenses</b>		
Depreciation, amortization, and accretion	1,015,467	1,149,075
Insurance	182,603	209,703
Office expenses	153,773	161,882
Payroll and employee benefits	1,027,947	1,137,326
Property and other taxes	174,761	386,756
Repairs and maintenance	2,038,780	2,980,763
Security	396,133	507,946
Utilities	679,666	1,037,638
Miscellaneous	7,863	20,397
Total expenses	<u>5,676,993</u>	<u>7,591,486</u>
Change in net assets from operating activities	<u>3,898,003</u>	<u>6,044,497</u>
<b>Non-operating activities</b>		
Transfers to Drexel Endowment	(913,101)	(3,385,009)
Transfers to Calhoun	(2,488,058)	-
Loss on disposal of Schuykill Yards Properties	(5,894,896)	-
Change in net assets from non-operating activities	<u>\$ (9,296,055)</u>	<u>\$ (3,385,009)</u>
Change in net assets	<u>\$ (5,398,052)</u>	<u>\$ 2,659,488</u>
<b>Net Assets</b>		
Beginning of year	<u>\$ 31,366,771</u>	<u>\$ 28,707,283</u>
End of year	<u>\$ 25,968,719</u>	<u>\$ 31,366,771</u>

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

**Academic Properties, Inc.**  
**Statements of Cash Flows**  
**June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flow from operating activities</b>		
Total change in net assets	\$ (5,398,052)	\$ 2,659,488
Adjustments to reconcile net assets to net cash provided / (used) by operating activities:		
Depreciation, amortization and accretion	1,015,467	1,149,075
Transfer to Drexel Endowment	913,101	3,385,009
Transfer to Calhoun	2,488,058	-
Loss on disposal of Schuykill Yards Properties	5,894,896	-
Changes in asset and liabilities:		
Accounts receivable	248,344	239,402
Prepaid expenses and other assets	24,668	34,282
Tenants' escrow asset	46,290	4,690
Tenants' escrow liability	(46,290)	(4,690)
Deferred charges, net	138,087	30,966
Accounts payable and accrued expenses	273,864	171,925
Deferred revenue	(62,908)	(89,389)
Net cash provided by operating activities	<u>5,535,525</u>	<u>7,580,758</u>
<b>Cash flow from investing activities</b>		
Purchase of rental property and equipment	(1,156,905)	(955,203)
Net cash (used) by investing activities	<u>(1,156,905)</u>	<u>(955,203)</u>
<b>Cash flow from financing activities</b>		
Due (from) Drexel University	(20,515)	(34,300)
Transfer to Drexel Endowment	(913,101)	(3,385,009)
Transfer to Calhoun	(2,488,058)	-
Net cash (used) by financing activities	<u>(3,421,674)</u>	<u>(3,419,309)</u>
Net increase in cash and cash equivalents	956,945	3,206,246
<b>Cash and cash equivalents</b>		
Beginning of year	9,447,018	6,240,771
End of year	<u>\$ 10,403,963</u>	<u>\$ 9,447,018</u>
<b>Supplemental Information</b>		
Cash paid for interest	-	-

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

# **Academic Properties, Inc.**

## **Notes to Financial Statements**

### **June 30, 2018 and 2017**

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#### **1. Organization**

Academic Properties, Inc. (the “Company” or “API”), is a wholly owned subsidiary of Drexel University (“Drexel”) and 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 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, 2018 and 2017, 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’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 \$10,083 and \$167,591, respectively, for 2018 and \$11,383 and \$159,586, respectively, for 2017 and is included in rental property and equipment, net and accrued expenses, respectively.

**Academic Properties, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**Recently Issued Accounting Pronouncements**

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU No. 2015-14 is that revenue be 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. The standard permits the use of either retrospective or cumulative effect transition method. The API has assessed the standard and determined that the impact on financial statements will be immaterial. API is planning to apply this standard on a retrospective basis.

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. API is currently evaluating the standard to determine the impact it will have 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 unrestricted net assets and donor restricted net assets, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. API will implement this standard for its fiscal year beginning July 1, 2018 and is developing the additional disclosures and formatting required to conform with the standard.

**3. Revision to Financial Statements**

The Company's financial statements have been revised to reflect the correction of an error related to straight-line revenue calculations for fiscal year 2017 and prior. The Company assessed the materiality of this misstatement on prior periods' financial statements in accordance with ASC Topic 250, Accounting Changes and Error Corrections, ("ASC 250") and concluded it was not material to any prior annual periods. In accordance with ASC 250, the Company corrected our presentation of net assets for all prior periods presented in these financial statements. The impact of the revision to June 30, 2017 net assets is approximately \$0.9 million. The effects of the revision of the Company's previously issued June 30, 2017 financial statements is as follows:

Statement of Activities (2017):

	<b>As Reported</b>	<b>As Revised</b>
Minimum Lease Payments	\$ 7,512,726	\$ 7,481,760
<b>Total Revenue</b>	<b>13,823,767</b>	<b>13,635,983</b>
<b>Change in Net Assets</b>	<b>\$ 2,847,272</b>	<b>\$ 2,659,488</b>

Statement of Financial Position (2017):

	<b>As Reported</b>	<b>As Revised</b>
Deferred Charges (Asset)	\$ 1,007,898	\$ 122,592
<b>Total Assets</b>	<b>33,199,134</b>	<b>32,313,828</b>
<b>Total Net Assets</b>	<b>\$ 32,252,077</b>	<b>\$ 31,366,771</b>



**Academic Properties, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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Statement of Cash Flows (2017):

	<b>As Reported</b>	<b>As Revised</b>
Total change in net assets	\$ 2,847,272	\$ 2,659,488
Deferred Charges, net	\$ (156,818)	\$ 30,966

**4. Rental Property and Equipment**

At June 30, 2018 and 2017, rental property and equipment consisted of the following:

	<b>2018</b>	<b>2017</b>
Land	\$ 4,427,655	\$ 4,427,655
Buildings and building improvements		
One Drexel Plaza	2,033,814	5,380,461
Leasehold improvements	22,027,461	27,478,176
All other properties	6,557,844	6,557,844
Total buildings and building improvements	<u>30,619,119</u>	<u>39,416,481</u>
Furniture and fixtures	187,596	187,596
Equipment	47,259	47,259
Total furniture, fixtures, and equipment	<u>234,855</u>	<u>234,855</u>
Total rental property and equipment	<u>35,281,630</u>	<u>44,078,992</u>
Less: Accumulated depreciation	<u>(19,068,629)</u>	<u>(22,112,534)</u>
Total rental property and equipment, net	<u>\$ 16,213,001</u>	<u>\$ 21,966,457</u>

The values related to One Drexel Plaza included in rental property and equipment, net amounted to \$3,982,768 and \$9,554,921 at June 30, 2018 and 2017, respectively

**5. 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, 2018 and 2017.

The Company also received \$200,400 and \$196,696 from Drexel for services rendered in managing properties owned by Drexel during the years ended June 30, 2018 and 2017, 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 \$3,4401,159 and \$3,385,009 for the years ended June 30, 2018 and 2017, respectively, represent a payout to the Drexel endowment.

**Academic Properties, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**Schuylkill Yards**

On May 9, 2016, the University entered into a master development agreement (the “Development Agreement”) with Brandywine Realty Trust (“BRT”), the sole general partner of Brandywine Operating Partnership, LP. As the master developer, BRT is provided certain rights and obligations, for a multi-phase, multi-component development on approximately 10.11 acres of University owned land (the “Drexel Site”) adjacent to the University’s main campus in the University City section of Philadelphia. The project’s master planned area includes the Drexel Site and up to four additional adjacent acres owned separately by the University and BRT, to be branded as “Schuylkill Yards.”

Schuylkill Yards is contemplated to be developed in six phases over approximately 20 years, excluding extension options, and will consist of approximately 5.0 million square feet of floor area ratio (FAR) of commercial, office, educational, research, residential, and related facilities, as well as accessory green space uses. Approximately 50% of the total FAR value will consist of office, educational and research space, and the balance in residential, retail, hospitality and parking uses.

BRT intends to fund costs to develop each phase of Schuylkill Yards through a combination of cash on hand, capital raised through one or more joint venture formations, proceeds from the sale of other assets or debt financing, including project-specific leasehold mortgage financing. Terms of the Development Agreement were determined through arm’s-length negotiation between the University and BRT.

On October 13, 2017, the University 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. The two Market Street properties are removed from the Academic Properties Inc. (API) Statement of Financial Position rental property and equipment net line item without any recognition for the proceeds received under the conveyance. The conveyance transaction results in a non-operating loss of \$5,894,896 which is reflected on the API Statement of Activities. In addition to the conveyance transactions BRT provided \$370,000 for access to the property management staff at API to assist with the repositioning and re-tenanting of the 3025 Market Street property. The proceeds from the conveyance were invested in the Drexel University endowment portfolio replacing the real estate investment values for 3001 and 3025 Market Street parcels in the portfolio.

**Academic Properties, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**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 two to fifteen years on commercial leases. The estimated future rent receivable on non-cancelable leases is as follows:

	<b>Minimum Lease Payments</b>
Years Ending June 30,	
2019	1,394,543
Thereafter	<u>526,262</u>
	<u>\$ 1,920,805</u>

Rent for new leases or the exercise of renewal options under existing leases is not included in the table above. Additionally, variable lease payments (i.e. utilities) are not included in the above schedule.

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 actual rent and straight-line rent for the fiscal year ending June 30, 2018 and 2017 was \$138,087 and \$30,966, both of which are included as reductions of minimum lease rental payment revenues within the statement of activities. As of June 30, 2018, and 2017, the deferred rent asset amounted to \$0 and \$122,592, respectively and the deferred rent liability amounted to \$15,495 and \$0, respectively.

**7. Subsequent Events**

API evaluated events subsequent from June 30, 2018 through May 15, 2019.

## **Supplemental Schedules**

**Academic Properties, Inc.**  
**Supplemental Schedule of Revenue and Expenses by Property Category**  
**Year Ended June 30, 2018**

	<b>One Drexel Plaza</b>	<b>201 Cheswold Street</b>	<b>All Other Properties</b>	<b>Total</b>
<b>Revenue</b>				
Rents				
Minimum lease payment	\$ 3,269,400	\$ -	\$ 1,813,941	\$ 5,083,341
Common area expense and utilities	3,687,672	-	7,553	3,695,225
Interest	-	-	12,643	12,643
Management fee income, affiliate	-	-	200,400	200,400
Miscellaneous	449,545	-	133,842	583,387
Total revenue	<u>7,406,617</u>	<u>-</u>	<u>2,168,379</u>	<u>9,574,996</u>
<b>Expenses</b>				
Depreciation and amortization	360,299	-	655,168	1,015,467
Dues and licenses	1,563	-	3,473	5,036
Payroll and payroll taxes	564,696	48,247	134,170	747,113
Employee benefits	241,619	4,032	35,183	280,834
Insurance	138,212	-	44,391	182,603
Office	10,642	-	18,859	29,501
Professional development	19,247	-	2,482	21,729
Professional fees	49,922	-	2,592	52,514
Property taxes	120,090	-	-	120,090
Repairs and maintenance	1,440,312	-	521,340	1,961,652
Security	367,614	-	28,519	396,133
Taxes other	28,681	-	25,991	54,672
Telephone	21,459	-	23,533	44,992
Trash removal	17,512	-	59,616	77,128
Utilities	464,320	-	215,346	679,666
Miscellaneous	(3,686)	-	11,549	7,863
Intercompany overhead charges*	31,146	-	(31,146)	-
Total expenses	<u>3,873,648</u>	<u>52,279</u>	<u>1,751,066</u>	<u>5,676,993</u>
Change in net assets from operating activities	<u>3,532,969</u>	<u>(52,279)</u>	<u>417,313</u>	<u>3,898,003</u>
<b>Non-Operating Activities</b>				
Transfers to Drexel Endowment	(703,500)	-	(209,601)	(913,101)
Transfers to Calhoun	-	-	(2,488,058)	(2,488,058)
Loss on Disposal of Schuylkill Yards Properties	(5,894,896)	-	-	(5,894,896)
Change in net assets from non-operating activities	<u>\$ (6,598,396)</u>	<u>\$ -</u>	<u>\$ (2,697,659)</u>	<u>\$ (9,296,055)</u>
Change in net assets	<u>\$ (3,065,427)</u>	<u>\$ (52,279)</u>	<u>\$ (2,280,346)</u>	<u>\$ (5,398,052)</u>
<b>Net Assets</b>				
Beginning of year	31,243,851	(422,052)	544,971	31,366,771
End of year	<u>\$ 28,178,424</u>	<u>\$ (474,331)</u>	<u>\$ (1,735,375)</u>	<u>\$ 25,968,719</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, 2017**

	<b>One Drexel Plaza</b>	<b>201 Cheswold Street</b>	<b>All Other Properties</b>	<b>Total</b>
<b>Revenue</b>				
Rents				
Minimum lease payment	\$ 5,373,723	\$ -	\$ 2,108,037	7,481,760
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
Miscellaneous	189,982	-	50,118	240,101
Total revenue	<u>11,263,397</u>	<u>-</u>	<u>2,372,585</u>	<u>13,635,983</u>
<b>Expenses</b>				
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>5,433,766</u>	<u>(49,262)</u>	<u>659,993</u>	<u>6,044,497</u>
<b>Non-operating activities</b>				
Transfers to Drexel Endowment	(2,835,007)	-	(550,002)	(3,385,009)
Transfers to Calhoun	-	-	-	-
Loss on Disposal of Schuylkill Yards Properties	-	-	-	-
Change in net assets from non-operating activities	<u>\$ (2,835,007)</u>	<u>\$ -</u>	<u>\$ (550,002)</u>	<u>\$ (3,385,009)</u>
Change in net assets	<u>\$ 2,598,759</u>	<u>\$ (49,262)</u>	<u>\$ 109,991</u>	<u>\$ 2,659,488</u>
<b>Net Assets</b>				
Beginning of year	28,645,092	(372,790)	434,981	28,707,283
End of year	<u>\$ 31,243,851</u>	<u>\$ (422,052)</u>	<u>\$ 544,972</u>	<u>\$ 31,366,771</u>

\* 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, 2018 and 2017**

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**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, 2018 and 2017 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.