

# **Drexel eLearning, Inc.**

(A wholly owned subsidiary of Drexel University)

Financial Statements for the  
Years Ended June 30, 2015 and 2014, and  
Independent Auditor's Report

# DREXEL eLEARNING, INC.

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## Independent Auditor's Report

To the Board of Directors and  
Stockholder of Drexel e-Learning, Inc.

We have audited the accompanying financial statements of Drexel e-Learning, Inc., the "Company," which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of income and retained earnings and of cash flows for the years 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 audits. We conducted our audits 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drexel e-Learning, Inc. as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

October 6, 2015

## DREXEL eLEARNING, INC.

### BALANCE SHEETS

AS OF JUNE 30, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$10,261,316	\$ 5,139,581
Prepaid expenses and other assets	597,126	896,058
Receivable from Drexel University – net	<u>          --</u>	<u>5,498,251</u>
Total current assets	10,858,442	11,533,890
PROPERTY, PLANT and EQUIPMENT – Net	723,830	711,155
DEFERRED TAX ASSET	<u>          --</u>	<u>11,837</u>
<b>TOTAL</b>	<u><b>\$11,582,272</b></u>	<u><b>\$12,256,882</b></u>
 <b>LIABILITIES AND STOCKHOLDER’S EQUITY</b>		
LIABILITIES:		
Accounts payable	\$ 449,327	\$ 416,549
Accrued expenses	<u>865,283</u>	<u>1,677,375</u>
Total current liabilities	1,314,610	2,093,924
Deferred tax liability	<u>63,343</u>	<u>          --</u>
Total liabilities	<u>1,377,953</u>	<u>2,093,924</u>
STOCKHOLDER’S EQUITY:		
Common stock, par value \$0.01 per share – authorized 100 voting shares, issued 100 shares; authorized 100 Non-voting shares, issued 0 shares	1	1
Additional paid-in capital	4,228,602	4,228,602
Retained earnings	<u>5,975,716</u>	<u>5,934,355</u>
Total Stockholder’s equity	<u>10,204,319</u>	<u>10,162,958</u>
<b>TOTAL</b>	<u><b>\$11,582,272</b></u>	<u><b>\$12,256,882</b></u>

See accompanying notes to financial statements.

## DREXEL eLEARNING, INC.

### STATEMENTS OF INCOME and RETAINED EARNINGS FOR THE YEARS ENDED JUNE 30, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
REVENUE – Fees	\$21,030,525	\$21,993,004
Total revenues	<u>21,030,525</u>	<u>21,993,004</u>
EXPENSES:		
Payroll, payroll taxes, and employee benefits	8,540,822	8,686,121
Marketing	6,942,466	6,944,320
Non-capital equipment and software	1,192,590	1,380,050
Depreciation	401,559	384,001
Professional fees	2,168,300	2,565,134
Office expenses	350,845	478,032
Rent	495,773	506,469
Taxes - other than income	29,710	31,132
Travel and entertainment	651,292	701,068
Miscellaneous	<u>163,692</u>	<u>227,448</u>
Total expenses	<u>20,937,049</u>	<u>21,903,775</u>
OPERATING INCOME	93,476	89,229
INTEREST INCOME	<u>6,720</u>	<u>8,267</u>
INCOME BEFORE INCOME TAXES	100,196	97,496
INCOME TAXES	<u>(58,835)</u>	<u>(94,294)</u>
NET INCOME	41,361	3,202
RETAINED EARNINGS – Beginning of year	<u>5,934,355</u>	<u>5,931,153</u>
RETAINED EARNINGS – End of year	<u>\$ 5,975,716</u>	<u>\$ 5,934,355</u>

See accompanying notes to financial statements.

## DREXEL eLEARNING, INC.

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES:		
Net income	\$ 41,361	\$ 3,202
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	401,559	384,001
Changes in assets and liabilities:		
Prepaid expenses and other assets	310,769	(144,755)
Receivable from Drexel University – net	5,498,251	32,309
Accounts payable and accrued expenses	<u>(715,971)</u>	<u>(71,758)</u>
Net cash provided by operating activities	<u>5,535,969</u>	<u>202,999</u>
INVESTING ACTIVITIES – Purchases of property, plant & equipment	<u>(414,234)</u>	<u>(168,895)</u>
Net cash used in investing activities	<u>(414,234)</u>	<u>(168,895)</u>
NET INCREASE IN CASH	5,121,735	34,104
CASH:		
Beginning of year	<u>5,139,581</u>	<u>5,105,477</u>
End of year	<u>\$10,261,316</u>	<u>\$ 5,139,581</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	<u>\$ 42,165</u>	<u>\$ 245,660</u>

See accompanying notes to financial statements.

# DREXEL eLEARNING, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 and 2014

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### 1. ORGANIZATION

Drexel eLearning, Inc. (the “Company”) is a wholly owned, for-profit subsidiary of Drexel University (“Drexel”) that specializes in marketing and supporting innovative internet-based distance education programs for working professionals and corporations in the U.S. and abroad.

### 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 (“US 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 US 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** – The Company earns fee revenue for the recruitment and support of students for Drexel online courses. This revenue is derived from a fixed fee arrangement with Drexel which is supported by a Master Agreement executed between the two parties effective July 1, 2012. The Master Agreement calls for the annual fixed fee amount to be agreed upon in advance of the start of the fiscal year and is payable in four equal quarterly invoices.

In addition, beginning in the year ended June 30, 2015, the Company also performed certain limited services for outside, third-party organizations. These services, principally related to video production and other learning technology, totaled \$40,525.

**Receivable from Drexel University, Net** – Represents the fees owed to the Company from Drexel in accordance with the revenue recognition policy stated above.

**Property, Plant and Equipment** – Property, plant and equipment are recorded at cost less accumulated depreciation. Expenditures for normal repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Software is depreciated based on a three year useful life. Equipment is depreciated over useful lives ranging from three to five years, and furniture and fixtures generally have useful lives of ten years. Leasehold improvements are depreciated over the shorter of their lease term, or their useful life.

**Professional fees** – Includes outsourced activity requiring specialized, technical capability. Activities recognized in this category include project-based consulting, outsourced call center operations, student coaching, and tax advisory services.

**Advertising** – The Company expenses advertising as it is incurred using various forms of media, including print, online search, email campaigns, radio and outdoor formats. Advertising costs for the years ended June 30, 2015 and 2014 were \$6,268,490 and \$6,192,712, respectively.

**Income Taxes** – The Company accounts for income taxes in accordance with the Accounting Standards Codification (“ASC”) 740-10, *Accounting for Income Taxes*. Accordingly, the Company uses the liability method whereby deferred tax assets and liabilities are determined based on temporary differences between the bases used for financial reporting and income tax reporting purposes. The Company has deferred tax assets and liabilities that are provided based on the enacted tax rates expected to be in effect at the time such temporary differences are expected to reverse. The Company’s Federal, State and City Income Tax Returns for 2012 through 2015 remain subject to examination by the Internal Revenue Service and its state and local counterparts. US GAAP requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The Company does not believe its financial statements include any uncertain tax positions.

**Recent Accounting Pronouncements** – In May 2014, the FASB issued Accounting Standards Update 2014-9, *Revenue from Contracts with Customers (Topic 606)*. The standard is intended to bring consistency of application and convergence with International Financial Reporting Standards (IFRS) with respect to revenue recognition. In July 2015, the FASB delayed the effective date of the standard by one year. Accordingly, the guidance will now become effective for annual periods beginning after December 15, 2018. The Company is currently assessing what impact, if any, the standard will have on its revenue recognition practices, but does not believe the impact will be material.

The Company has determined that all other recently issued accounting standards will either not have a material impact on its financial statements, or do not apply to its operations.

### 3. PROPERTY, PLANT and EQUIPMENT

Property, plant and equipment as of June 30, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Software	\$1,232,420	\$ 857,259
Equipment	602,188	574,665
Furniture and fixtures	307,525	295,975
Leasehold improvements	<u>810,510</u>	<u>810,510</u>
Total property, plant and equipment – gross	2,952,643	2,538,409
Less: accumulated depreciation	<u>(2,228,813)</u>	<u>(1,827,254)</u>
Total property, plant and equipment – net	<u>\$ 723,830</u>	<u>\$ 711,155</u>



Depreciation and amortization expense associated with property, plant and equipment totaled \$401,559 and \$384,001 for the years ended June 30, 2015 and 2014, respectively.

#### **4. RELATED PARTY TRANSACTIONS**

As noted above, the Company is a wholly owned, for-profit subsidiary of Drexel University (Parent) which provides marketing and support services for an agreed upon fixed-fee each fiscal year. These fees amounted to \$20,990,000 and \$21,993,004 for the years ended June 30, 2015 and 2014, respectively, and are paid quarterly. Certain nominal operating expenses are cross-charged between Parent and the Company and are settled quarterly on a net basis. As of June 30, 2015 and 2014, a net receivable due from the Parent amounted to \$ 0 and \$5,498,251.

On June 13, 2005, the Company signed a five-year lease agreement with Academic Properties, Inc. (a wholly owned subsidiary of Drexel) to rent space in One Drexel Plaza. This lease has been amended four times, most recently as of December 2011, and covers six specific spaces within the property. Annual base rent under the amended lease agreement was \$171,984 and \$166,968 for the years ended June 30, 2015 and 2014, respectively. The lease expires on June 30, 2016.

#### **5. 401(k) PLAN**

The Company established the Drexel eLearning 401(k) plan for the benefit of its employees. Upon the date of hiring, the plan provides eligible employees with an opportunity to make tax deferred contributions into a long-term investment and savings program. All employees over the age of 21 are eligible to participate and contribute up to 25% of pre-tax earnings, subject to Internal Revenue Service limitations. The Company matches up to the first 6% of such employee contributions. The Company's contributions amounted to \$207,688 and \$252,625 for the years ended June 30, 2015 and 2014, respectively.

#### **6. PROFIT SHARING PLAN**

The Company historically maintained a profit sharing plan that allocated a portion of a pre-approved profit sharing pool to each of its employees. The plan was discontinued in January 2015. The expense provided under the profit sharing plan during the plan years ended June 30, 2015 and 2014 was \$421,180 and \$899,455, respectively.

## 7. INCOME TAXES

The components of income tax expense for the years ended June 30, 2015 and 2014 are summarized as follows:

Current:	<b>2015</b>	<b>2014</b>
Federal	\$ (16,688)	\$ 134,320
State	1,649	47,994
Local	<u>(1,305)</u>	<u>22,667</u>
	<u>(16,344)</u>	<u>204,981</u>
Deferred:		
Federal	<u>75,179</u>	<u>(110,687)</u>
Total	<u>\$ 58,835</u>	<u>\$ 94,294</u>

A reconciliation of income tax computed at the U.S. statutory rate to the effective income tax rate is as follows:

	<b>2015</b>	<b>2014</b>
Statutory U.S. Federal income tax rate	35.0%	35.0%
Adjustment for progressive tax rate	(7.9)	-
State income taxes, net of Federal benefit	6.3	9.7
Local income taxes, net of Federal benefits	4.2	0.9
Non-deductible expenses	23.9	51.3
Other	<u>(2.8)</u>	<u>1.4</u>
Effective income tax rate	<u>58.7%</u>	<u>98.3%</u>

## 8. LEASES

Future minimum lease payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2015 are:

<b>Fiscal Years</b>	<b>Amount</b>
2016	\$ 187,903
2017	8,074
2018	-
2019	-
2020	<u>-</u>
Total minimum payments	<u>\$ 195,977</u>

## **9. SUBSEQUENT EVENTS**

On July 1, 2015 the Company was merged with and into Drexel University Online, LLC (“DUO”), a non-profit, Delaware single-member limited liability company whose sole member is Drexel University. On that date, DUO became the surviving entity and will carry on all of the operations previously performed by the Company. Accordingly, as of July 1, 2015, the Drexel eLearning, Inc. legal entity ceased to exist.

The Company has evaluated subsequent events from June 30, 2015 through October 6, 2015, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.