

Drexel University Online, LLC
(A wholly owned subsidiary of Drexel University)

**Financial Statements for the
Year Ended June 30, 2016**

Drexel University Online, LLC
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June 30, 2016

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Report of Independent Auditors

To the Board of Trustees
Drexel University Online, LLC

We have audited the accompanying financial statements of Drexel University Online, LLC, the "Company," which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drexel University Online, LLC as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 26, 2016

Drexel University Online, LLC
Statement of Financial Position
June 30, 2016

	2016
Assets	
Cash	\$ 5,998,833
Prepaid expenses and other assets	799,043
Receivable from Drexel University	5,558,140
Property and equipment, net	<u>453,618</u>
Total assets	<u><u>\$ 12,809,634</u></u>
Liabilities	
Accounts payable	\$ 733,673
Accrued expenses	<u>1,871,643</u>
Total liabilities	<u>2,605,316</u>
Net Assets	
Unrestricted	<u>10,204,318</u>
Total net assets	<u>10,204,318</u>
Total liabilities and net assets	<u><u>\$ 12,809,634</u></u>

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

Drexel University Online, LLC
Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted
Operating Revenue	
Fees from Drexel University	\$ 21,162,068
Fees from Third Parties	74,600
Interest Income	18,124
Support from Drexel	<u>267,623</u>
Total operating revenues	<u>21,522,415</u>
Operating Expense	
Payroll, payroll taxes, and employee benefits	8,869,316
Marketing	9,046,849
Non-capital equipment and software	1,096,891
Depreciation	326,624
Professional fees	811,762
Office expenses	293,467
Rent	486,535
Travel and entertainment	411,687
Miscellaneous	<u>179,284</u>
Total operating expense	<u>21,522,415</u>
Change in net assets	-
Net assets	
Beginning of year	<u>10,204,318</u>
End of year	<u>\$ 10,204,318</u>

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

Drexel University Online, LLC
Statement of Cash Flows
For the Year Ended June 30, 2016

Increase in Net Assets	\$ -
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	326,624
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	(201,917)
Receivable from Drexel University	(5,558,140)
Accounts payable and accrued expenses	<u>1,216,224</u>
Net cash used by operating activities	<u>(4,217,209)</u>
 Cash flow from investing activities	
Purchases of property & equipment	<u>(45,274)</u>
Net cash used in investing activities	<u>(45,274)</u>
 Net decrease in cash	(4,262,483)
 Cash	
Beginning of year	<u>10,261,316</u>
End of year	<u><u>\$ 5,998,833</u></u>
 Supplemental information	
Amounts accrued for purchase of property & equipment	\$ 11,138

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

Drexel University Online, LLC

Notes to Financial Statements

June 30, 2016

1. **Organization**

Drexel University Online, LLC (the “Company”) is a wholly owned, non-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.

The Company was created on July 1, 2015 as the successor entity to the former for profit operations of Drexel eLearning, Inc., which was merged with and into the Company on that date.

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, 2015. 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.

The services rendered by the company on behalf of Drexel for the relevant fiscal year is included but not limited to the services described in the Master Services Agreement.

In addition, the Company also performed certain limited services for outside, third-party organizations. These services, principally related to video production and other learning technology, totaled \$74,600.

Receivable from Drexel University – Represents amounts owed to the Company from Drexel in accordance with the Master Agreement noted above as well as other intercompany receivables.

Property and Equipment, Net – Property 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

Drexel University Online, LLC
Notes to Financial Statements
June 30, 2016

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 temporary support, student coaching, and tax advisory services.

Marketing – The Company expenses marketing as it is incurred including marketing research projects and various forms of media such as print, online search, email campaigns, direct mail, and radio.

Income Taxes – The Company was formed in the State of Delaware as a non-profit, single member limited liability company (LLC), whose ‘single member’ is the Parent, Drexel University. As a single member LLC, the Company is deemed a disregarded entity by the Internal Revenue Service, and thus benefits from the same tax-exempt status of a nonprofit organization under Section 501(c) (3) as its Parent. Accordingly, the Company’s operations will be filed annually within the Drexel University Federal Form 990 (Return of Organization Exempt from Income Tax) return.

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.

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, 2019. The Company is currently evaluating the standard to determine the impact it will have on its financial statements.

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.

Drexel University Online, LLC
Notes to Financial Statements
June 30, 2016

3. Property and Equipment

	2016
Software	\$ 1,232,420
Equipment	615,303
Furniture and fixtures	307,525
Leasehold improvements	821,648
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Total property and equipment, gross	\$ 2,976,896
Less: accumulated depreciation	<hr/> (2,523,278)
Total property and equipment, net	<hr/> <u>\$ 453,618</u>

Depreciation and amortization expense associated with property and equipment totaled \$326,624 for the year ended June 30, 2016.

4. Related Party Transactions

As noted above, the Company is a wholly owned, nonprofit subsidiary of Drexel University ("Parent") which provides marketing and support services for an agreed upon fixed-fee each fiscal year. These fees amounted to \$21,162,068 for the year ended June 30, 2016, 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, 2016, a receivable due from the Parent amounted to \$5,558,140.

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 five times, most recently as of November 2015, and covers seven specific spaces within the property. Annual base rent payments under the amended lease agreement was \$177,137 for the year ended June 30, 2016. The lease expires on June 30, 2018.

Drexel University Online, LLC
Notes to Financial Statements
For the Year Ended June 30, 2016

5. 401(k) Plan

On January 1, 2002, the Company's predecessor, Drexel eLearning, Inc. established the Drexel eLearning 401(k) Plan for the benefit of its employees. Effective with the merger of Drexel eLearning, Inc. into Drexel University Online, LLC, on July 1, 2015, sponsorship of the Plan was assumed by the Company. Accordingly, the name of the Plan has also been changed to its current 'Drexel University Online 401(k) Plan'.

Upon date of hire, 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 can contribute up to 25% of pre-tax earnings, subject to Internal Revenue Service limitations. The Company matches 117% of the first 6% of such employee contributions. The Company's contributions amounted to \$228,965 for the year ended June 30, 2016.

6. 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, 2016 are:

Fiscal Years	Amount
2017	218,104
2018	222,012
2019	-
2020	-
2020	-
2021	-
Thereafter	-
Total minimum payments	<u><u>440,116</u></u>

7. Subsequent Events

The Company has evaluated subsequent events from June 30, 2016 through October 26, 2016, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.