

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

**Financial Statements for the
Years Ended June 30, 2017 and 2016**

Drexel University Online, LLC
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June 30, 2017

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Review Report of Independent Accountants

To the Board of Trustees
Drexel University Online, LLC

We have reviewed the accompanying financial statements of Drexel University Online, LLC, which comprise the statements of financial position as of June 30, 2017, and the related statements of activities and of cash flows for the year 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 taken 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 review, 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

The financial statements of the Company as of June 30, 2016 and for the year then ended were audited by us and in our report dated October 26, 2016 we expressed an unmodified opinion on those financial statements. We have not performed any auditing procedures since that date.

PricewaterhouseCoopers LLP

October 25, 2017

Drexel University Online, LLC
Statement of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash	\$ 4,789,008	\$ 5,998,833
Prepaid expenses and other assets	396,614	799,043
Receivable from Drexel University	6,376,192	5,558,140
Contributions Receivable	42,524	-
Property and equipment, net	<u>425,402</u>	<u>453,618</u>
Total assets	<u><u>\$ 12,029,740</u></u>	<u><u>\$ 12,809,634</u></u>
Liabilities		
Accounts payable	\$ -	\$ 733,673
Accrued expenses	<u>2,185,146</u>	<u>1,871,643</u>
Total liabilities	2,185,146	2,605,316
Net Assets		
Unrestricted	<u>9,844,594</u>	<u>10,204,318</u>
Total net assets	<u>9,844,594</u>	<u>10,204,318</u>
Total liabilities and net assets	<u><u>\$ 12,029,740</u></u>	<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
June 30, 2017 and 2016

	2017	2016
Operating Revenue		
Fees from Drexel University	\$ 21,224,472	\$ 21,162,068
Fees from Third Parties	80,171	74,600
Contributions Revenue	49,524	-
Interest Income	7,637	18,124
Support from Drexel	<u>2,180,311</u>	<u>267,623</u>
Total operating revenues	<u>23,542,115</u>	<u>21,522,415</u>
Operating Expense		
Payroll, payroll taxes, and employee benefits	9,866,188	8,869,316
Marketing	9,863,375	9,046,849
Non-capital equipment and software	843,134	1,096,891
Depreciation	429,882	326,624
Professional fees	768,062	811,762
Office expenses	337,023	293,467
Rent	575,310	486,535
Travel and entertainment	389,190	411,687
Miscellaneous	180,638	179,284
Services Provided by Drexel	<u>479,792</u>	<u>-</u>
Total operating expense	<u>23,732,594</u>	<u>21,522,415</u>
Non-Operating Expense		
Other Non-Operating Expense	<u>169,245</u>	<u>-</u>
Total non- operating expense	<u>169,245</u>	<u>-</u>
Change in net assets	(359,724)	-
Net assets		
Beginning of year	<u>10,204,318</u>	<u>10,204,318</u>
End of year	<u>\$ 9,844,594</u>	<u>\$ 10,204,318</u>

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

Drexel University Online, LLC
Notes to Financial Statements
June 30, 2017 and 2016

	2017	2016
Cash flow from operating activities		
Decrease in Net Assets	\$ (359,724)	\$ -
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	429,882	326,624
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	402,429	(201,917)
Receivable from Drexel University	(818,052)	(5,558,140)
Contributions Receivable	(42,524)	-
Accounts payable and accrued expenses	(420,170)	1,216,224
Net cash used by operating activities	<u>(808,159)</u>	<u>(4,217,209)</u>
 Cash flow from investing activities		
Purchases of property & equipment	<u>(401,666)</u>	<u>(45,274)</u>
Net cash used in investing activities	<u>(401,666)</u>	<u>(45,274)</u>
 Net decrease in cash	(1,209,825)	(4,262,483)
 Cash		
Beginning of year	<u>5,998,833</u>	<u>10,261,316</u>
End of year	<u>\$ 4,789,008</u>	<u>\$ 5,998,833</u>
 Supplemental information		
Amounts accrued for purchase of property & equipment	\$ -	\$ 11,138

Drexel University Online, LLC

Notes to Financial Statements

June 30, 2017 and 2016

1. **Organization**

Drexel University Online, LLC (the “Company”) is a wholly owned, non-profit subsidiary of Drexel University that specializes in marketing, recruiting, 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**

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 August 2015, the FASB issued ASU No. 2015-14 and 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. For companies that meet the “public business entity” definition outlined by FASB the guidance is effective for annual reporting periods beginning after December 15, 2017. The Consolidated Drexel University (“Parent”) meets this definition, and therefore, the company expects to adopt in accordance with the December 15, 2017 effective date. 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. For companies that meet the “public business entity” definition outlined by FASB the guidance is effective for annual reporting periods beginning after December 15, 2018. The Consolidated Drexel University (“Parent”) meets this definition, and therefore, the company expects to adopt in accordance with the December 15, 2018 effective date. The Company is currently evaluating the standard to determine the impact it will have on its financial statements.

In August, 2016 the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for profit financial reporting model. ASU 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 expense. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the standard to determine the impact it will have on its financial statements.

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”).

Drexel University Online, LLC
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Cash – Consists of bank deposits available for operations readily available.

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, re-enrollment, 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. This revenue is presented as ‘Fees from Drexel University’ in the statement of activities.

In addition to the services rendered in accordance with the Master Agreement, the company performs additional services on behalf of Drexel under the investment initiatives program.

This includes the upfront support for program development, course design, marketing, disability accommodations and regulations, and the overall goal to improve the student experience. Infrastructure support and improved operational efficiency is vital to sustain online student growth. This revenue is within ‘Support from Drexel’ in the statements of activities.

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 \$80,171 and \$74,600 for the years ended June 30, 2017 and 2016, respectively.

Contributions - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions having restrictions that are general purpose in nature are released in the year of the donation. Contributions are disclosed on the balance sheet net of discounts which amounted to \$2,476 and \$0 for the years ended June 30, 2017 and 2016, respectively.

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

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Professional Fees – Includes outsourced activity requiring specialized, technical capability. Activities recognized in this category include project-based consulting, outsourced temporary support, and tax advisory services.

Marketing – The Company expenses advertising as it is incurred using various forms of media, including print, online search, email campaigns, radio, and outdoor formats. This includes an in-house Advertisement creation and Marketing Research. Marketing and Advertising costs totaled \$9,863,375 and \$9,046,849 for the years ending June 30, 2017 and 2016, respectively.

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.

Non-Operating Expenses – Includes severance and vacation expenses due to restructuring costs.

3. Property and Equipment

	2017	2016
Software	\$ 1,110,006	\$ 1,232,420
Equipment	584,741	615,303
Furniture and fixtures	253,588	307,525
Leasehold improvements	<u>1,086,324</u>	<u>821,648</u>
Total property and equipment, gross	\$ 3,034,659	\$ 2,976,896
Less: accumulated depreciation	<u>(2,609,257)</u>	<u>(2,523,278)</u>
Total property and equipment, net	<u>\$ 425,402</u>	<u>\$ 453,618</u>

Depreciation and amortization expense associated with property and equipment totaled \$429,882 and \$326,624 for the years ended June 30, 2017 and 2016 respectively.

4. Related Party Transactions

As noted above, the Company is a wholly owned, nonprofit subsidiary of Drexel University which provides recruitment, re-enrollment, marketing and support services for an agreed upon fixed-fee each fiscal year. These fees amounted to \$21,224,472 and \$21,162,068 for the years ending June 30, 2017, and 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, 2017 and 2016, a net receivable

Drexel University Online, LLC
Notes to Financial Statements
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due from the Parent amounted to \$6,376,192 and \$5,558,140. Drexel University provided in-kind services valued at \$479,792 for the year ending June 30, 2017.

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 \$208,398 and \$177,137 for the years ended June 30, 2017, and 2016. The lease expires on June 30, 2018.

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 \$242,873 and \$228,965 for the years ended June 30, 2017, and 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, 2017 are:

Fiscal Years	Amount
2018	222,012
2019	-
2020	-
2021	-
2022	-
Thereafter	-
Total minimum payments	<u>222,012</u>

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7. Operating Expenses

The below chart categorizes expenses incurred by functional expense.

Rent, depreciation and in-kind services expenses are not included.

	2017	2016
Academic Support	\$ 2,505,671	\$ 2,645,218
Student Services	14,686,649	14,544,410
Institutional Support	<u>5,055,290</u>	<u>3,519,628</u>
	<u>\$ 22,247,610</u>	<u>\$ 20,709,256</u>

8. Subsequent Events

The Company has evaluated subsequent events from June 30, 2017 through October 25, 2017, and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.