

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

**Financial Statements for the  
Years Ended June 30, 2018 and 2017**

**Drexel University Online, LLC**  
**Index**  
**June 30, 2018**

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## **Review Report of Independent Accountants**

To the Board of Managers, Drexel University Online, LLC  
To the Board of Trustees, Drexel University

We have reviewed the accompanying financial statements of Drexel University Online, LLC, which comprise the statements of financial position as of June 30, 2018 and June 30, 2017, and the related statements of activities and 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.

*PricewaterhouseCoopers LLP*

Philadelphia, PA  
October 24, 2018

**Drexel University Online, LLC**  
**Statement of Financial Position**  
**June 30, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash	\$ 4,905,108	\$ 4,789,008
Prepaid expenses and other assets	250,680	396,614
Receivable from Drexel University	6,598,971	6,376,192
Contributions receivable	31,979	42,524
Property and equipment, net	<u>151,258</u>	<u>425,402</u>
Total assets	<u><u>\$ 11,937,996</u></u>	<u><u>\$ 12,029,740</u></u>
<b>Liabilities</b>		
Accounts payable	\$ 774,440	\$ -
Accrued expenses	<u>960,148</u>	<u>2,185,146</u>
Total liabilities	1,734,588	2,185,146
<b>Net Assets</b>		
Unrestricted	<u>10,203,408</u>	<u>9,844,594</u>
Total net assets	<u>10,203,408</u>	<u>9,844,594</u>
Total liabilities and net assets	<u><u>\$ 11,937,996</u></u>	<u><u>\$ 12,029,740</u></u>

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

**Drexel University Online, LLC**  
**Statement of Activities**  
**June 30, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
<b>Operating Revenue</b>		
Fees from Drexel University	\$ 21,177,696	\$ 21,224,472
Fees from third parties	-	80,171
Other revenue	7,662	57,161
Support from Drexel	558,091	2,180,311
Total operating revenues	<u>21,743,449</u>	<u>23,542,115</u>
<b>Operating Expense</b>		
Payroll, taxes and benefits	9,335,586	9,866,188
Advertising	8,404,288	9,105,230
Channel and marketing	326,759	640,047
Non-capital equipment and software	826,258	843,134
Depreciation	349,144	429,882
Professional fees	406,227	886,160
Office expenses	175,971	277,747
Rent and maintenance	596,566	575,310
Business travel	242,891	389,190
Miscellaneous	134,306	180,638
Recruitment and staff development	28,548	59,276
Services provided by Drexel	558,091	479,792
Total operating expense	<u>21,384,635</u>	<u>23,732,594</u>
<b>Non-Operating Expense</b>		
Total non-operating expense	<u>-</u>	<u>169,245</u>
Total non-operating expense	<u>-</u>	<u>169,245</u>
Change in net assets	358,814	(359,724)
<b>Net assets</b>		
Beginning of year	<u>9,844,594</u>	<u>10,204,318</u>
End of year	<u>\$ 10,203,408</u>	<u>\$ 9,844,594</u>

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

**Drexel University Online, LLC**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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	<b>2018</b>	<b>2017</b>
<b>Cash flow from operating activities</b>		
Increase (Decrease) in Net Assets	\$ 358,814	\$ (359,724)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	349,144	429,882
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	145,934	402,429
Receivable from Drexel University	(1,086,765)	(818,052)
Contributions receivable	10,545	(42,524)
Accounts payable and accrued expenses	413,428	(420,170)
Net cash used by operating activities	<u>191,100</u>	<u>(808,159)</u>
 <b>Cash flow from investing activities</b>		
Purchases of property & equipment	<u>(75,000)</u>	<u>(401,666)</u>
Net cash used in investing activities	<u>(75,000)</u>	<u>(401,666)</u>
 Net cash used by operating activities	116,100	(1,209,825)
 <b>Cash</b>		
Beginning of year	<u>4,789,008</u>	<u>5,998,833</u>
End of year	<u>\$ 4,905,108</u>	<u>\$ 4,789,008</u>

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

# Drexel University Online, LLC

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### 1. **Organization**

Drexel University Online, LLC (the “Company”) is a wholly owned, non-profit subsidiary of Drexel University that specializes in marketing, recruiting, instructional design, and supporting innovative internet-based distance education programs for working professionals and corporations in the U.S. and abroad. The Company also provides training, performs industry comparison research, and support for grants.

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 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 between the two parties dated July 1, 2015. The agreement is amended every year, with the most recent amendment executed as of July 20, 2017. 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 may perform 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 statement of activities. Revenues recognized for the investment initiative program were \$0 and \$1,700,519 for the years ended June 30, 2018 and 2017 respectively.

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 work, totaled \$0 and \$80,171 for the years ended June 30, 2018 and 2017, respectively.

**Unrestricted Net Assets** – Net assets that are not subject to donor-imposed restrictions.

**Drexel University Online, LLC**  
**Notes to Financial Statements**  
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**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.

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

**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.

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

**Advertising** – Advertising is a form of marketing communication used to promote or sell the online degree program offerings which uses various forms of ad placements including online display, email, eNewsletter, print ads, direct mail, outdoor/transit, radio, television, organic search, paid search, lead generation and specialty advertising. Costs totaled \$8,404,288 and \$9,105,230 for the years ending June 30, 2018 and 2017, respectively.

**Channel and Marketing** – The Company expenses include premium item branding, events such as orientations and open houses, partner events, media, online search, email campaigns, public relations and in-house creative development. Two main channels are utilized: direct-to-consumer advertising and recruitment through partnerships with larger organizations. Team is responsible for finding, securing, maintaining and cultivating the relationship between the organization and the University. Costs totaled \$326,759 and \$640,047 for the years ending June 30, 2018 and 2017, 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.



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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. 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 has assessed the standard and is planning to implement retrospectively and determined that it will have an immaterial impact to its operations.

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 No. 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 No. 2016-14 is effective for fiscal years beginning after December 15, 2017. The Company is positioned to 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.

On June 21, 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is meant to provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. Entities can apply the guidance on a modified prospective basis or retrospective basis. The Company is currently evaluating the standard to evaluate the impact on the financial statements.

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In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The ASU aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. ASU No. 2018-15 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. Entities can apply the guidance prospectively or retrospectively. The Company is currently evaluating the standard to determine the impact it will have on its financial statements.

**3. Property and Equipment**

	<b>2018</b>	<b>2017</b>
Software	\$ 1,187,950	\$ 1,110,006
Equipment	618,060	584,741
Furniture and fixtures	277,204	253,588
Leasehold improvements	<u>1,026,446</u>	<u>1,086,324</u>
Total property and equipment, gross	\$ 3,109,660	\$ 3,034,659
Less: accumulated depreciation	<u>(2,958,402)</u>	<u>(2,609,257)</u>
Total property and equipment, net	<u>\$ 151,258</u>	<u>\$ 425,402</u>

Depreciation and amortization expense associated with property and equipment totaled \$349,144 and \$429,882 for the years ended June 30, 2018 and 2017 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 \$21,177,697 and \$21,224,472 for the years ending June 30, 2018, and 2017. Certain nominal operating expenses are cross-charged between Parent and the Company, which are settled net along with the fixed fee arrangement. As of June 30, 2018, and 2017, a net receivable due from the Parent amounted to \$6,598,971 and \$6,376,192. Drexel University provided in-kind services valued at \$558,091 and \$479,792 for the years ending June 30, 2018 and 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 six times, most recently as of October 13, 2017, and covers four specific spaces within the property. Annual base rent payments under the amended lease agreement was \$128,976 and \$208,398 for the years ended June 30, 2018, and 2017. The lease expired on June 30, 2018. Outside of this amendment there are three other spaces that are currently being sub-leased from the Parent Company who is leasing from Brandywine Realty and Trust.

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**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 \$258,873 and \$242,873 for the years ended June 30, 2018, and 2017.

**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, 2018 are:

Fiscal Years	Amount
2019	84,504
2020	-
2021	-
2022	-
2023	-
Thereafter	-
Total minimum payments	84,504

**7. Operating Expenses**

The below chart categorizes expenses incurred by functional expense. Rent, depreciation and in-kind services expenses are not included.

	2018	2017
Academic Support	\$ 771,704	\$ 2,505,671
Student Services	14,708,982	14,686,649
Institutional Support	4,400,148	5,055,290
	\$ 19,880,834	\$ 22,247,610

**Drexel University Online, LLC**  
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**8. Subsequent Events**

The Company has evaluated subsequent events from June 30, 2018 through October 24, 2018 and determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.