

# Drexel e-Learning, Inc.

Financial Statements as of and for the  
Years Ended June 30, 2009 and 2008, and  
Independent Auditors' Report

# DREXEL e-LEARNING, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Drexel e-Learning, Inc.  
Philadelphia, PA

We have audited the accompanying balance sheets of Drexel e-Learning, Inc. (the "Company") as of June 30, 2009 and 2008, and the related statements of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



November 19, 2009

# DREXEL e-LEARNING, INC.

## BALANCE SHEETS AS OF JUNE 30, 2009 AND 2008

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	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 6,323,667	\$ 4,114,836
Prepaid expenses and other assets	348,933	331,903
Receivable from Drexel University — Net	<u>3,251,914</u>	<u>3,230,019</u>
Total current assets	9,924,514	7,676,758
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>390,889</u>	<u>440,262</u>
<b>TOTAL</b>	<u>\$ 10,315,403</u>	<u>\$ 8,117,020</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 460,021	\$ 411,183
Accrued Expenses	<u>1,567,601</u>	<u>1,458,375</u>
Total liabilities	<u>2,027,622</u>	<u>1,869,558</u>
 <b>STOCKHOLDERS' EQUITY:</b>		
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>4,059,178</u>	<u>2,018,859</u>
Total stockholders' equity	<u>8,287,781</u>	<u>6,247,462</u>
<b>TOTAL</b>	<u>\$ 10,315,403</u>	<u>\$ 8,117,020</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<b>REVENUE:</b>		
Fees	\$ 15,750,314	\$ 12,520,212
<b>Total Revenues</b>	<u>15,750,314</u>	<u>12,520,212</u>
<b>EXPENSES:</b>		
Payroll, payroll taxes, and employee benefits	5,530,572	4,843,146
Marketing	4,872,572	4,336,810
Non-capital equipment and software	604,982	545,011
Depreciation	133,474	116,049
Professional fees	219,166	496,757
Office expenses	133,656	151,949
Rent	231,810	221,523
Other Tax Expense, Non-Income Tax	22,329	25,133
Travel and entertainment	54,256	44,276
Miscellaneous	145,934	150,221
Bad debt expenses	-	17,531
<b>Total Expenses</b>	<u>11,948,751</u>	<u>10,948,406</u>
<b>OPERATING INCOME</b>	3,801,563	1,571,806
<b>INTEREST INCOME</b>	<u>29,647</u>	<u>123,473</u>
<b>INCOME BEFORE INCOME TAXES</b>	3,831,210	1,695,279
<b>INCOME TAXES</b>	<u>(1,790,891)</u>	<u>(713,253)</u>
<b>NET INCOME</b>	2,040,319	982,026
RETAINED EARNINGS — Beginning of year	<u>2,018,859</u>	<u>1,036,833</u>
RETAINED EARNINGS — End of year	<u>\$ 4,059,178</u>	<u>\$ 2,018,859</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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	2009	2008
<b>OPERATING ACTIVITIES:</b>		
Net income	\$2,040,319	\$ 982,026
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	133,474	116,049
Changes in assets and liabilities:		
Prepaid expenses and other assets	(17,030)	60,137
Receivable from Drexel University — Net	(21,895)	(887,543)
Accounts payable and accrued expenses	<u>158,064</u>	<u>(159,387)</u>
Net cash provided by operating activities	<u>2,292,932</u>	<u>111,282</u>
<b>INVESTING ACTIVITIES :</b>		
Purchases of property, plant, and equipment	<u>(84,101)</u>	<u>(345,546)</u>
Net cash used in investing activities	<u>(84,101)</u>	<u>(345,546)</u>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<u>2,208,831</u>	<u>(234,264)</u>
<b>CASH:</b>		
Beginning of year	<u>4,114,836</u>	<u>4,349,100</u>
End of year	<u>\$6,323,667</u>	<u>\$4,114,836</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for income taxes</b>	<u>\$1,633,522</u>	<u>\$1,219,386</u>

See notes to financial statements.

# DREXEL e-LEARNING, INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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### 1. ORGANIZATION

Drexel e-Learning, 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.

**Cash** — Consist 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 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.

**Revenue Recognition** — The Company earns fee revenue for the recruitment of students for Drexel online courses as a percentage of the online course tuition. The fee percentage earned by the Company equals 35% of the net tuition collected for the courses. The fee revenue is recorded at the time the student actively enrolls in the course.

**Receivable from Drexel University – Net** – Represents the fees owed to the Company from Drexel University in accordance with the revenue recognition policy stated above as student billing and collections is performed by Drexel University.

**Property, Plant and Equipment** — The Company capitalizes property, plant, and equipment that is individually \$5,000 or greater. All other property, plant and equipment is expensed when purchased.

**Income taxes** – The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*.

**Recent Accounting Pronouncements** - In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* on the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued ("subsequent events"). The standard requires disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. This disclosure is intended to alert all users of the financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The standard was effective for interim and annual periods ending after June 15, 2009. Accordingly, we have evaluated

subsequent events through the issuance of these financial statements on November 19, 2009. The adoption of this standard did not have an impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which permits organizations to measure certain financial instruments and certain other items at fair value. SFAS No. 159 was effective for the Company on July 1, 2008. The Company did not elect to re-measure any of its existing financial assets or financial liabilities under the provisions of SFAS No. 159 or to apply the provisions of SFAS No. 159 to any other financial instruments.

For the year ended June 30, 2008, the Company implemented FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity, before being measured and recognized in the financial statements. The adoption of FIN 48 did not have an impact on the Company's financial statements.

### 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2009 and 2008, consisted of the following:

	2009	2008
Software	\$ 179,065	\$ 179,065
Equipment	120,200	66,997
Furniture and fixtures	138,930	110,756
Leasehold improvements	<u>351,130</u>	<u>348,406</u>
<b>Total property, plant, and equipment, Gross</b>	789,325	705,224
Less: Accumulated Depreciation	<u>(398,436)</u>	<u>(264,962)</u>
<b>Total property, plant, and equipment, Net</b>	<u>\$ 390,889</u>	<u>\$ 440,262</u>

### 4. RELATED PARTY TRANSACTIONS

Effective July 1, 2007, 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. Monthly base rent under the lease agreement is \$8,656.

### 5. 401(k) PLAN

On January 1, 2002, the Company established the Drexel e-Learning 401(k) Plan for the benefit of its employees and will match up to 6% of employee contributions. The Company's contributions amounted to \$199,625 and \$197,448 for the years ended June 30, 2009 and 2008, respectively.

### 6. PROFIT SHARING PLAN

The Company established a profit sharing plan during the year ended June 30, 2005, which allocates a portion of the profit sharing pool to each of its employees. The profit sharing pool for the years ended June 30, 2009 and 2008 was calculated as 3% of revenue plus 10% of Earnings before Interest (EBI). Expense under the profit sharing plan during the years ended June 30, 2009 and 2008, was \$856,523 and



\$763,055, respectively. The profit sharing pool will not exceed 25% of the Company's aggregate base compensation in the applicable fiscal year, and no amount paid to an individual employee may exceed 100% of that individual's base pay.

**7. INCOME TAXES**

Income tax expense for the years ended June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Federal	\$1,118,500	\$453,000
State	418,500	186,500
Local	<u>253,891</u>	<u>73,753</u>
	<u>\$1,790,891</u>	<u>\$713,253</u>

**8. LEASES**

Future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2009, are:

**Fiscal Years**

2010	\$ 121,775
2011	119,247
2012	<u>118,835</u>
Total minimum payments	<u>\$ 359,857</u>

**9. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through November 19, 2009 and determined that there were no subsequent events requiring adjustment or disclosure in the financial statements.

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