

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

Financial Statements
For the Years Ended June 30, 2020 and 2019

Drexel University Online, LLC
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June 30, 2020 and 2019

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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, 2020 and June 30, 2019, 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, Pennsylvania
October 30, 2020

Drexel University Online, LLC
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets:		
Cash and cash equivalents		
Operating	\$ 607,269	\$ 563,037
Prepaid expenses and other assets	102,067	319,623
Land, buildings and equipment, net	195,190	612,465
Operating lease right-of-use (ROU) asset	562,784	-
Due from Drexel University	13,040,763	10,750,353
Total assets	\$ 14,508,073	\$ 12,245,478
Liabilities:		
Accounts Payable	\$ 447,382	\$ 957,414
Accrued liabilities	1,042,100	819,656
Operating lease liability	596,559	-
Total liabilities	\$ 2,086,041	\$ 1,777,070
Net Assets:		
Without donor restrictions	\$ 12,422,032	\$10,468,408
Total net assets	\$ 12,422,032	\$10,468,408
Total liabilities and net assets	\$ 14,508,073	\$12,245,478

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

Drexel University Online, LLC
Statement of Activities
For the Years Ended June 30, 2020 and 2019

	2020	2019
Operating		
Revenues:		
Fees from Drexel University	\$ 20,186,670	\$ 23,177,697
Other income	563	7,662
Support from Drexel	762,718	529,098
Total revenues	20,949,951	23,714,457
Expenses:		
Salaries and wages	5,333,657	6,760,483
Employee benefits	1,400,800	1,818,051
Depreciation and amortization	114,795	70,544
Other operating expenses	12,147,075	14,800,379
Total expenses	18,996,327	23,449,457
Increase in net assets from operating activities	1,953,624	265,000
Net assets, beginning of year	10,468,408	10,203,408
Net assets, end of year	\$ 12,422,032	\$ 10,468,408

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

Drexel University Online, LLC
Statements of Cash Flows
June 30, 2020 and 2019

	2020	2019
Operating activities:		
Increase in net assets	\$ 1,953,624	\$ 265,000
Adjustments to reconcile change in net assets to net cash (used in)/provided by operating activities:		
Depreciation and amortization	114,795	70,544
Changes in assets and liabilities that provide / (use) cash:		
Contributions receivable	-	31,979
Prepaid and other assets	217,556	(68,942)
Due from Drexel University	(2,290,410)	(4,151,302)
Accounts payable and accrued liabilities	(287,588)	42,402
Operating lease right-of-use asset and liabilities	33,775	-
Net cash (used in) / provided by operating activities	(258,248)	(3,810,319)
Investing activities:		
Purchases of land, buildings and equipment	302,480	(531,752)
Net cash (used in) investment activities	302,480	(531,752)
Net (decrease) / (increase) in cash and cash equivalents	44,232	(4,342,071)
Cash and cash equivalents, beginning of year	563,037	4,905,108
Cash and cash equivalents, end of year	\$ 607,269	\$ 563,037

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

Drexel University Online, LLC

Notes to the Financial Statements

June 30, 2020 and 2019

1. Nature of Organization and Operations

Drexel University Online, LLC (“DUO”) is a wholly owned, non-profit subsidiary of Drexel University (“Drexel”) 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. DUO also provides training, performs industry comparison research, and support for grants.

DUO 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 DUO on that date.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and with the provision of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, which requires DUO to classify its net assets into two categories according to donor-imposed restrictions; net assets without donor imposed restrictions and net assets with donor imposed restrictions.

Net Assets without Donor Restrictions – Net assets without donor restrictions are funds which have no restrictions, and over which the Board has discretionary control.

Net Assets with Donor Restrictions - Net assets with donor restrictions are subject to donor-imposed stipulations that (a) may be fulfilled by actions of DUO to meet the stipulations, (b) may become unrestricted at the date specified by the donor or (c) are subject to donor-imposed stipulations that they be retained and invested permanently by DUO.

There were no net assets classified as with donor restrictions as of June 30, 2020 and 2019.

Measure of Operations

DUO’s measure of operations as presented in the consolidated statement of activities includes fees and support from Drexel. Operating expenses are reported on the statement of activities by natural classification.

Drexel University Online, LLC
Notes to the Financial Statements
June 30, 2020 and 2019

Liquidity and Availability

DUO's financial assets available within one year of the balance sheet date for general expenditure as of June 30, 2020 and 2019 are as follows:

	2020	2019
Total assets at year-end	\$ 14,508,073	\$ 12,245,478
Less non-financial and financial assets not available within one year		
Contributions receivable with donor restrictions	-	-
Prepaid expenses and other assets	(102,067)	(319,623)
Land, buildings and equipment, net	(195,190)	(612,465)
Financial assets available at year-end for current use	\$ 14,210,816	\$ 11,313,390

DUO has \$14,210,816 of financial assets that are available within one year of the balance sheet date to meet cash needs for general expenditure. In addition to these available financial assets, a significant portion of DUO's annual expenditures will be funded by current year operating revenues including fees and support from Drexel related to recruitment, re-enrollment, and support of students for Drexel's online courses. DUO structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

Cash and cash equivalents

Cash and cash equivalents represent demand deposits. At June 30, 2020 and 2019, DUO had cash balances in financial institutions, which exceed federal depository limits. Management believes the credit risks related to these deposits to be minimal. Cash and cash equivalents are carried at cost, which approximates fair value.

Contributions Receivable

Contributions and unconditional pledges are recorded at the present value of their expected future cash flows. Unconditional pledges that are expected to be collected in one year are recorded at their estimated net realizable value. Conditional pledges are not included as revenue until the conditions, which represent barriers that must be overcome before the University is entitled to the assets transferred, are fulfilled. Contributions are reported as an increase in the appropriate net asset category.

Contributions

All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are classified as "net assets with donor restriction". Contributions having restrictions that are general purpose in nature are released in the year of the donation and classified as "net assets without donor restriction". Contributions are disclosed on the balance sheet net of discounts.

Drexel University Online, LLC

Notes to the Financial Statements

June 30, 2020 and 2019

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.

Income Taxes

DUO was formed in the State of Delaware as a non-profit, single member limited liability company (LLC), whose 'single member' is the parent, Drexel. As a single member LLC, DUO 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, DUO's operations will be filed annually within the Drexel University Federal Form 990 (Return of Organization Exempt from Income Tax) return.

Recently Adopted Accounting Pronouncements

Beginning in May 2014, the FASB issued several Accounting Standard Updates which established a new framework for *Revenue from Contracts with Customers (Topic 606)*. The core principle is that revenue is 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. The guidance is effective for annual fiscal periods beginning after December 15, 2017. DUO has adopted the standard by applying the retrospective transition method, and the impact is reflected in the Statements of Activities and Note 6 for both periods presented.

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, 2018. In July 2018, FASB issued ASU No. 2018-11 which amends the transition methods contained in ASU No. 2016-02. DUO has early adopted the standard on a modified retrospective basis effective July 1, 2019. As a result, DUO has recorded the operating lease right-of-use (ROU) assets and liabilities related to real estate and equipment leases. The impact is reflected in the Statements of Financial Position and Note 4 for the period ending June 30, 2020. There was no change to the beginning net assets for the period ending June 30, 2019.

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 No. 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 expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. DUO has adopted this new guidance and grouped the three-category (unrestricted, temporarily restricted, and permanently restricted)

Drexel University Online, LLC

Notes to the Financial Statements

June 30, 2020 and 2019

classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, DUO has included expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in the financial statements. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the 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 No. 2018-08 is effective for annual periods beginning after June 15, 2018, with early adoption permitted. Entities can apply the guidance on a modified prospective basis or retrospective basis. DUO has adopted ASU No. 2018-08 by applying the modified prospective transition method in its financial statements and the relevant footnotes.

Recently Issued Accounting Pronouncements

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. DUO is currently evaluating the standard to determine the impact it will have on its financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808) – Clarifying the Interaction between Topic 808 and Topic 606*, which seeks to clarify that certain transaction between collaborative arrangement participants should be accounted for as revenue and apply all relevant guidance under Topic 606 to these revenues. In addition this ASU provides more comparability in the presentation of revenue for certain transaction between collaborative arrangement participants. DUO is currently evaluating the standard to determine the impact it will have on its financial statements.

DUO has determined that there are no other recently issued accounting standards that will have a material impact on its financial statements.

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3. Land, Buildings and Equipment

Land, buildings, 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.

Construction in progress related to the website redesign project totaled \$0 and \$302,478 for the years ended June 30, 2020 and 2019 respectively. All costs associated with the project have been expensed and removed from CIP for the year ending June 30, 2020. It has been determined in the current year that the website redesign project will not be implemented and as a result has been written off.

	2020	2019
Buildings and improvements	\$ 1,053,346	\$ 1,053,346
Equipment, software and library books	2,285,585	2,285,585
Construction in progress	-	302,478
	<u>3,338,931</u>	<u>3,641,409</u>
Less: Accumulated depreciation	(3,143,740)	(3,028,944)
Total land, buildings and equipment	\$ 195,190	\$ 612,465

Depreciation and amortization expense associated with property and equipment totaled \$114,795 and \$70,544 for the years ended June 30, 2020 and 2019 respectively.

4. Leases

In February 2016, the FASB issued ASU 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification Topic 840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases can be classified as either finance or operating.

DUO has adopted and applied Topic 842 to all leases effective July 1, 2019 with comparative periods continuing to be reported under Topic 840. DUO has elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. Also, DUO has also elected the policy exemption that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. DUO determines if an arrangement is or contains a lease at inception of the contract. The right-of-use assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. DUO uses the implicit

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rate noted within the contract. If not readily available, DUO uses the estimated incremental borrowing rate, which is derived using a collateralized borrowing rate and term as the associated lease. A right-of-use asset and lease liability is not recognized for leases with an initial term of 12 months or less and a lease expense is recognized for these leases on a straight-line basis over the lease term within lease and rental expense.

The components of lease expense for the fiscal year ended June 30, 2020 are as follows:

	Fiscal Year Ending 06/30/2020
Lease Expense	
Operating lease expense	145,713
Total	145,713

Other Information

Cash paid for amounts included in the measurement of lease liabilities for finance leases

Operating - Operating cash flows	111,938
Weighted-average remaining lease terms (in years)	
Operating leases	4.0
Weighted-average discount rate	
Operating leases	1.62%

Maturity Analysis

	Operating
07/01/2020 - 06/30/2021	134,353
07/01/2021 - 06/30/2022	149,392
07/01/2022 - 06/30/2023	160,755
07/01/2023 - 06/30/2024	172,127
07/01/2024 - 06/30/2025	-
Thereafter	-
Total	616,627
Less: Present value discount	(20,068)
Lease liability	596,559

5. Retirement Plans

On January 1, 2002, DUO'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 DUO. 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. DUO matches 117% of the first 6% of such employee contributions. DUO's contributions amounted to \$257,644 and \$313,662 for the years ended June 30, 2020, and 2019.

Drexel University Online, LLC
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6. Revenue Recognition

DUO adopted *Revenue from Contracts with Customers (Topic 606)* effective July 1, 2018 using the retrospective transition method. The University assessed the various contractual arrangements for material revenue streams, the impact to internal processes, the control environment, and disclosures, and determined that the adoption would not result in a material change to the timing of revenue recognition. The impact of the adoption was immaterial and the impact of applying the standard retrospectively had no impact on total revenues, total changes in net assets or the presentation of financial statements. Therefore, no comparative table has been presented.

DUO earns fee revenue for the recruitment, re-enrollment, and support of students for Drexel University 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 performance obligation within the contract is to provide the above noted services. Through day-to-day operations, to support Drexel University online, the performance obligations are met, and revenue is recognized ratably throughout the fiscal year.

The agreement was amended, with the most recent amendment executed for the period effective July 1, 2019. This revenue is presented as 'Fees from Drexel University' in the statement of activities and totaled \$20,186,670 for 2020 and \$23,177,697 for 2019.

7. Functional and Natural Classification of Expenses

Expenses are presented by functional classification in accordance with the overall service mission of DUO. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation is allocated based on the square footage occupancy. Plant operations and maintenance represent space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy. Expenses reported as academic support and student services are incurred in support of program services.

Expenses by functional classification for the year ended June 30, 2020 consist of the following:

	2020		
	Program Services	Management and General	Total
Salaries and wages	\$ 4,207,006	\$ 1,126,651	\$ 5,333,657
Employee benefits	1,104,903	295,897	1,400,800
Depreciation and amortization	107,391	7,404	114,795
Interest	-	-	-
Other operating expenses	8,483,108	3,663,967	12,147,075
Total operating expenses	\$ 13,902,408	\$ 5,093,919	\$ 18,996,327

Other operating expenses for 2020 consist primarily of advertising, professional fees, non-capital equipment & software, affiliate support and rent & building maintenance.

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Notes to the Financial Statements
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In 2020, severance expense of \$359,173 was recorded within the salaries and wages, and employee benefits within the statement of activities.

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

	Program Services	2019 Management and General	Total
Salaries and wages	\$ 4,988,425	\$ 1,772,058	\$ 6,760,483
Employee benefits	1,396,984	421,067	1,818,051
Depreciation and amortization	65,994	4,550	70,544
Interest	-	-	-
Other operating expenses	10,905,790	3,894,589	14,800,379
Total operating expenses	\$ 17,357,193	\$ 6,092,264	\$ 23,449,457

Other operating expenses for 2019 consist primarily of advertising, professional fees, non-capital equipment & software, affiliate support and rent & building maintenance.

8. Related Party Transactions

DUO is a wholly owned, nonprofit subsidiary of Drexel and provides recruitment, re-enrollment, marketing, and support services for an agreed upon fixed fee each fiscal year. These fees amounted to \$20,186,670 and \$23,177,697 for the years ending June 30, 2020 and 2019. Certain nominal operating expenses are cross charged between Drexel and DUO, which are settled net along with the fixed fee arrangement. As of June 30, 2020, and 2019, a net receivable due from the Drexel amounted to \$13,046,292 and \$10,750,353, respectively. Drexel provided in-kind services valued at \$762,718 and \$529,098 for the years ending June 30, 2020 and 2019, respectively.

On June 13, 2005, DUO 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 eight times, most recently as of July 1, 2019, and covers three specific spaces within the property. Annual base rent payments under the amended lease agreement were \$111,938 and \$84,504 for the years ended June 30, 2020, and 2019. The lease expires on June 30, 2024. Currently there are contractual minimum rent payments due over the next 4 years totaling \$616,627. Outside of this amendment there are three other spaces that are currently being sub-leased from Drexel who is leasing from Brandywine Realty and Trust. There are currently no contractual minimum rent payments due over the next 5 years.

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9. COVID-19

The outbreak of the COVID-19 pandemic has caused domestic disruptions in the operations for DUO. The long-term effect to DUO of the COVID-19 pandemic depends on various factors, which cannot be fully quantified at this time. As of June 30, 2020, and through the date of these financial statements, DUO evaluated its accounting estimates for any potential future impacts of the pandemic. While this evaluation did not result in a material effect to DUO's financial statements as of June 30, 2020, future evaluations could result in a material effect depending on the eventual impact and duration of the pandemic.

10. Subsequent Events

DUO has evaluated subsequent events from June 30, 2020 through October 30, 2020, the date at which the financial statements were issued. On June 30, 2020 the Drexel University Online 401(k) Plan will freeze, at which time no additional contributions can be made into the plan. Effective July 1, 2020 employees of Drexel University Online are eligible to participate in the Drexel University Defined Contribution Retirement Plan, a 403(b)-retirement plan.