

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

Financial Statements
For the Years Ended June 30, 2021 and 2020

Drexel University Online, LLC
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June 30, 2021 and 2020

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Review Report of Independent Accountants

To the Board of Trustees of 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, 2021 and 2020, 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 28, 2021

Drexel University Online, LLC
Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets:		
Cash and cash equivalents		
Operating	\$ 323,758	\$ 607,269
Prepaid expenses and other assets	125,778	102,067
Land, buildings and equipment, net	120,408	195,190
Operating lease right-of-use (ROU) asset	224,482	562,784
Due from Drexel University	15,742,386	13,040,763
Total assets	\$ 16,536,812	\$ 14,508,073
Liabilities:		
Accounts Payable	\$ 414,712	\$ 447,382
Accrued liabilities	1,021,677	1,042,100
Operating lease liability	249,718	596,559
Total liabilities	\$ 1,686,107	\$ 2,086,041
Net Assets:		
Without donor restrictions	\$ 14,850,705	\$ 12,422,032
Total net assets	\$ 14,850,705	\$ 12,422,032
Total liabilities and net assets	\$ 16,536,812	\$ 14,508,073

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

Drexel University Online, LLC
Statement of Activities
For the Years Ended June 30, 2021 and 2020

	2021	2020
Revenues:		
Fees from Drexel University	\$ 18,320,930	\$ 20,186,670
Other income	420	563
Support from Drexel	918,668	762,718
Total revenues	19,240,018	20,949,951
Expenses:		
Salaries and wages	4,512,628	5,333,657
Employee benefits	681,674	1,400,800
Depreciation and amortization	74,782	114,795
Other operating expenses	11,542,261	12,147,075
Total expenses	16,811,345	18,996,327
Increase in net assets	2,428,673	1,953,624
Net assets, beginning of year	12,422,032	10,468,408
Net assets, end of year	\$ 14,850,705	\$ 12,422,032

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

Drexel University Online, LLC
Statements of Cash Flows
June 30, 2021 and 2020

	2021	2020
Operating activities:		
Increase in net assets	\$ 2,428,673	\$ 1,953,624
Adjustments to reconcile change in net assets to net cash (used in)/provided by operating activities:		
Depreciation and amortization	66,243	114,795
Changes in assets and liabilities that provide / (use) cash:		
Prepaid and other assets	(23,711)	217,556
Due from Drexel University	(2,701,623)	(2,290,410)
Accounts payable and accrued liabilities	(53,093)	(287,588)
Operating leases right-of-use assets and liabilities	-	33,775
Net cash used in operating activities	(283,511)	(258,248)
Investing activities:		
Purchases of land, buildings and equipment	-	302,480
Net cash provided by investment activities	-	302,480
Net (decrease) / increase in cash and cash equivalents	(283,511)	44,232
Cash and cash equivalents, beginning of year	607,269	563,037
Cash and cash equivalents, end of year	\$ 323,758	\$ 607,269

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

Drexel University Online, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020.

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, 2021 and 2020

Liquidity and Availability

DUO's financial assets available within one year of the balance sheet date for general expenditure as of June 30, 2021 and 2020 are as follows:

<i>(in thousands)</i>	2021	2020
Total assets at year-end	\$ 16,536,812	\$ 14,508,073
Less non-financial and financial assets not available within one year:		
Prepaid expenses and other assets	(125,778)	(102,067)
Land, buildings and equipment, net	(120,408)	(195,190)
Operating lease right-of-use (ROU) asset	(224,482)	-
Financial assets available at year-end for current use	\$ 16,066,144	\$ 14,210,816

DUO has \$16,066,144 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, 2021 and 2020, 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.

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.

Drexel University Online, LLC
Notes to the Financial Statements
June 30, 2021 and 2020

Recently Adopted Accounting Pronouncements

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 early adopted the standard on a modified retrospective basis effective July 1, 2019. As a result, DUO recorded the operating lease right-of-use (ROU) assets and liabilities related to real estate and equipment leases. The impact is reflected in the Consolidated Statements of Financial Position and Note 4 for the period ending June 30, 2021 and 2020.

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 has early adopted the standard on a prospective basis effective July 1, 2020. The adoption of this guidance did not have a material impact on its financial statements.

Recently Issued Accounting Pronouncements

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.

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.

Drexel University Online, LLC
Notes to the Financial Statements
June 30, 2021 and 2020

<i>(in thousands)</i>	2021	2020
Buildings and improvements	\$ 1,053,346	\$ 1,053,346
Equipment, software and library books	2,285,585	2,285,585
	<u>3,338,931</u>	<u>3,338,931</u>
Less: Accumulated depreciation	(3,218,523)	(3,143,740)
Total land, buildings and equipment	<u>\$ 120,408</u>	<u>\$ 195,190</u>

Depreciation expense associated with property and equipment totaled \$74,782 and \$114,795 for the years ended June 30, 2021 and 2020 respectively.

4. Leases

In February 2016, the FASB issued ASU 2016-02 (Topic 842) "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 adopted and applied Topic 842 to all leases effective July 1, 2019. DUO 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 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 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.

Drexel University Online, LLC
Notes to the Financial Statements
June 30, 2021 and 2020

The components of lease expense for the fiscal year ended June 30, 2021 and 2020 are as follows:

	Fiscal Year Ending 06/30/2020	Fiscal Year Ending 06/30/2021
Lease Expense:		
Operating lease expense	145,713	105,564
Total	145,713	105,564

Other Information

Cash paid for amounts included in the measurement of lease liabilities for finance leases		
Operating - Operating cash flows	111,938	96,783
ROU assets obtained in the exchange for lease liabilities		
Operating leases	-	(239,045)
Weighted-average remaining lease terms (in years)		
Operating leases	4.00	3.00
Weighted-average discount rate		
Operating leases	1.62%	1.62%

Maturities of lease liabilities were as follows:

	Operating
07/01/2021 - 06/30/2022	77,617
07/01/2022 - 06/30/2023	85,294
07/01/2023 - 06/30/2024	92,981
Total	255,892
Less: Present value discount	(6,174)
Lease liability	249,718

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 was changed to "Drexel University Online 401(k) Plan".

Upon date of hire, the Plan provided 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 were eligible to participate and could contribute up to 25% of pre-tax earnings, subject to Internal Revenue Service limitations. DUO matched 117% of the first 6% of such employee contributions.

Drexel University Online, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

Effective after June 30, 2020, the Drexel University Online (“DUO”) 401(k) Plan was frozen to new contributions and participation. The Plan was amended to provide that DUO employees are eligible to participate in the Plan, effective July 1, 2020. No balances have been transferred from the DUO 401(k) Plan to the Plan at this time. It is management’s intent to terminate the DUO 401(k) Plan upon the receipt of a favorable determination of the plan’s qualified status from the Internal Revenue Service. At such time, the DUO 401(k) Plan participants may elect to roll over their account balances into the Plan. DUO’s contributions amounted to \$2,293 and \$257,644 for the years ended June 30, 2021, and 2020.

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, 2020. This revenue is presented as ‘Fees from Drexel University’ in the statement of activities and totaled \$18,320,930 for 2021 and \$20,186,670 for 2020.

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.

Drexel University Online, LLC
Notes to the Financial Statements
June 30, 2021 and 2020

Expenses by functional classification for the year ended June 30, 2021 consist of the following:

	2021		
	Program Services	Management and General	Total
Salaries and wages	\$ 3,848,791	\$ 663,837	\$ 4,512,628
Employee benefits	581,396	100,278	681,674
Depreciation and amortization	69,959	4,823	74,782
Other operating expenses	8,047,444	3,494,817	11,542,261
Total operating expenses	\$ 12,547,590	\$ 4,263,755	\$ 16,811,345

Other operating expenses for 2021 consist primarily of advertising, professional fees, supplies and equipment, software and licenses, affiliate support, and rent and building maintenance.

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
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.

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

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 \$18,320,930 and \$20,186,670 for the years ending June 30, 2021 and 2020. 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, 2021, and 2020, a net receivable due from the Drexel amounted to \$15,742,386 and \$13,040,763, respectively. Drexel provided in-kind services valued at \$918,668 and \$762,718 for the years ending June 30, 2021 and 2020, respectively.

Drexel University Online, LLC
Notes to the Financial Statements
June 30, 2021 and 2020

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 \$96,783 and \$111,938 for the years ended June 30, 2021, and 2020. The lease expires on June 30, 2024. Currently there are contractual minimum rent payments due over the next 3 years totaling \$255,892. 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.

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, 2021, 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, 2021, 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, 2021 through October 28, 2021, the date at which the financial statements were issued.