

Drexel University and Subsidiaries

*Consolidated Financial Statements as of and for the
Years Ended June 30, 2007 and 2006, Schedule of
Expenditures of Federal Awards for the Year Ended
June 30, 2007, and Independent Auditors' Reports in
Accordance with Government Auditing Standards and
Office of Management and Budget Circular A 133*

DREXEL UNIVERSITY AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Drexel University
Philadelphia, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Drexel University and subsidiaries (the "University") as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University'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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 University'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 consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the University changed its method of accounting in 2007 for post retirement obligations and in 2006 for asset retirement obligations.

Our audits were conducted for the purposes of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2007 is presented for purpose of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. This schedule is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 24, 2007

DREXEL UNIVERSITY and SUBSIDIARIES

Consolidated Statements of Financial Position as of June 30, 2007 and 2006

(in thousands)

	2007	2006
ASSETS		
Cash and cash equivalents:		
Operating cash	\$ 45,637	\$ 50,625
Risk Retention Group cash	3,139	3,463
Accounts receivable, net:		
Tuition	27,995	32,974
Patients	5,377	6,474
Grants, contracts and other	31,580	31,145
Tenet HealthSystem	1,243	3,801
Total accounts receivable	66,195	74,394
Contributions receivable, net	31,351	26,966
Other assets	32,763	20,608
Deposits with bond trustees	15,075	32,527
Student loans receivable, net	32,097	32,325
Beneficial interests in trusts	29,309	27,462
Investments	646,508	544,094
Land, buildings and equipment, net	428,009	389,624
Total assets	\$ 1,330,083	\$ 1,202,088
LIABILITIES		
Accounts payable	\$ 41,360	\$ 42,567
Accrued expenses	62,619	54,144
Lines of credit	4,874	6,071
Deposits	20,548	21,742
Deferred revenue	54,332	46,932
Government advances for student loans	25,700	25,636
Postretirement benefits	25,119	15,992
Bonds and notes payable	252,624	258,666
Total liabilities	487,176	471,750
NET ASSETS		
Unrestricted	428,668	375,192
Temporarily restricted	222,858	170,469
Permanently restricted	191,381	184,677
Total net assets	842,907	730,338
Total liabilities and net assets	\$ 1,330,083	\$ 1,202,088

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

Consolidated Statement of Activities for the year ended June 30, 2007
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees	\$ 424,313			\$ 424,313
Less: institutional financial aid	(91,302)			(91,302)
Net student revenue	<u>333,011</u>			<u>333,011</u>
Patient care activities	79,508			79,508
State appropriations	18,711			18,711
Government grants, contracts and contributions	90,357			90,357
Private grants and contracts	12,349			12,349
Private gifts	6,545	\$ 13,775		20,320
Endowment payout under spending formula	9,398	13,138	\$ 198	22,734
Investment income	5,509	4,605		10,114
Sales and services of auxiliary enterprises	52,594			52,594
Other sources	16,670			16,670
Net assets released from restrictions	25,668	(26,107)	439	
Total operating revenue	<u>650,320</u>	<u>5,411</u>	<u>637</u>	<u>656,368</u>
OPERATING EXPENSE				
College programs	211,090			211,090
Research and public service	80,788			80,788
Academic support	17,732			17,732
Student services	30,508			30,508
Institutional support	79,015			79,015
Scholarships and fellowships	12,470			12,470
Auxiliary enterprises	30,245			30,245
Total education and general	<u>461,848</u>			<u>461,848</u>
Patient care activities	87,517			87,517
Operation and maintenance	41,719			41,719
Interest	11,840			11,840
Depreciation	21,832			21,832
Total operating expense	<u>624,756</u>			<u>624,756</u>
Change in net assets from operating activities	<u>25,564</u>	<u>5,411</u>	<u>637</u>	<u>31,612</u>
NON-OPERATING ACTIVITY				
Endowment and other gifts			2,995	2,995
Settlements			256	256
Realized/unrealized gain on investments, net of endowment payout of \$13,507 in 2007 and \$9,266 in 2006	45,424	46,978	2,816	95,218
Other non-operating expense	(9,229)			(9,229)
Change in net assets from non-operating activities	<u>36,195</u>	<u>46,978</u>	<u>6,067</u>	<u>89,240</u>
Cumulative effect of accounting change	<u>(8,283)</u>			<u>(8,283)</u>
Change in net assets	<u>53,476</u>	<u>52,389</u>	<u>6,704</u>	<u>112,569</u>
Net assets at beginning of year	<u>375,192</u>	<u>170,469</u>	<u>184,677</u>	<u>730,338</u>
Net assets at end of year	<u>\$ 428,668</u>	<u>\$ 222,858</u>	<u>\$ 191,381</u>	<u>\$ 842,907</u>

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

Consolidated Statement of Activities for the year ended June 30, 2006 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees	\$ 379,033			\$ 379,033
Less: institutional financial aid	(81,866)			(81,866)
Net student revenue	297,167			297,167
Patient care activities	72,585			72,585
State appropriations	18,167			18,167
Government grants, contracts and contributions	91,695			91,695
Private grants and contracts	11,268			11,268
Private gifts	6,733	\$ 12,940		19,673
Endowment payout under spending formula	8,915	11,572	\$ 146	20,633
Investment income	5,114	261		5,375
Sales and services of auxiliary enterprises	50,254			50,254
Other sources	21,723			21,723
Net assets released from restrictions	26,900	(23,550)	(3,350)	
Total operating revenue	610,521	1,223	(3,204)	608,540
OPERATING EXPENSE				
College programs	193,412			193,412
Research and public service	81,444			81,444
Academic support	18,623			18,623
Student services	28,730			28,730
Institutional support	72,282			72,282
Scholarships and fellowships	9,459			9,459
Auxiliary enterprises	30,709			30,709
Total education and general	434,659			434,659
Patient care activities	84,996			84,996
Operation and maintenance	32,315			32,315
Interest	10,569			10,569
Depreciation	19,455			19,455
Total operating expense	581,994			581,994
Change in net assets from operating activities	28,527	1,223	(3,204)	26,546
NON-OPERATING ACTIVITY				
Endowment and other gifts			1,757	1,757
Settlements		319	(5,709)	(5,390)
Realized/unrealized gain on investments, net of endowment payout of \$9,266 in 2006 and \$6,687 in 2005	30,502	14,842	739	46,083
Other non-operating expense	(2,137)			(2,137)
Change in net assets from non-operating activities	28,365	15,161	(3,213)	40,313
Cumulative effect of accounting change	(2,021)			(2,021)
Change in net assets	54,871	16,384	(6,417)	64,838
Net assets at beginning of year	320,321	154,085	191,094	665,500
Net assets at end of year	\$ 375,192	\$ 170,469	\$ 184,677	\$ 730,338

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES
Consolidated Statements of Cash Flows for the
years ended June 30, 2007 and 2006
(in thousands)

	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 112,569	\$ 64,838
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,832	19,455
Other changes and disposals of property and equipment	2,719	232
(Increase) decrease in beneficial interests in trusts	(1,847)	8,108
Contributions for long-term investment	(2,985)	(2,690)
Settlements	(256)	5,390
Actuarial change on annuity liabilities	1,463	393
Realized/unrealized gains on investments	(95,218)	(46,083)
Changes in operating assets and liabilities:		
Accounts receivable	8,199	(2,489)
Contributions receivable	(4,385)	3,039
Accounts payable and accrued expenses	10,024	18,477
Postretirement benefits	9,127	1,075
Other changes	(5,949)	(1,826)
	<hr/>	<hr/>
Net cash provided by operating activities	55,293	67,919
	<hr/>	<hr/>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(370,839)	(314,846)
Proceeds from sale of investments	363,899	290,780
Proceeds from student loan collections	12,874	18,354
Student loans issued	(12,646)	(21,313)
Purchase of land, buildings and equipment	(66,187)	(54,701)
Use of deposits with bond trustees	17,452	8,330
	<hr/>	<hr/>
Net cash used in investing activities	(55,447)	(73,396)
	<hr/>	<hr/>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	2,985	2,690
Payments on annuity obligations	(968)	(997)
Government advances for student loans	64	134
Proceeds from short and long-term borrowings		1,965
Repayment of debt	(7,239)	(10,404)
	<hr/>	<hr/>
Net cash used in financing activities	(5,158)	(6,612)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(5,312)	(12,089)
Cash and cash equivalents at beginning of year	54,088	66,177
Cash and cash equivalents at end of year	\$ 48,776	\$ 54,088
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SUPPLEMENTAL INFORMATION

Gifts in kind	\$ 236	\$ 123
Cash paid for interest	\$ 11,923	\$ 10,349

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended June 30, 2007 and 2006

Note 1: Summary of Significant Accounting Policies

Basis of Financial Statements: Drexel University (the "University") is a private research university located in Philadelphia, Pennsylvania. The University is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Under these principles, contributions or unconditional promises to give are recognized as revenues in the period received at their net present value, less an allowance for uncollectible pledges. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as shown below.

Permanently restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets. Such assets are included in the University's permanent endowment funds.

Temporarily restricted: Net assets whose use by the University is subject to donor-imposed restriction that can be fulfilled by actions of the University in accordance with those stipulations or by the passage of time, including the following:

Endowment income and contributions with donor-imposed restrictions are reported as temporarily restricted and are reclassified to unrestricted net assets when the donor-imposed restrictions have been met.

The University utilizes endowment gains under a spending formula, subject to certain limitations. Since endowment net realized and unrealized gains may eventually be spent by the University, these gains are recorded in the financial statements as temporarily restricted net assets until transferred to unrestricted net assets.

Unrestricted: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations are reported as net assets released from restrictions.

All revenues received and expenditures paid prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected as deferred revenues and deferred charges, respectively.

Note 1: Summary of Significant Accounting Policies, continued...

Philadelphia Health & Education Corporation: The Philadelphia Health & Education Corporation ("PHEC"), doing business as the Drexel University College of Medicine, is a research university concentrating in medical and related education located in Philadelphia, Pennsylvania. On July 1, 2002, PHEC became a non-profit affiliate of the University and is consolidated in the accompanying financial statements. PHEC is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code.

PHEC is party to an Academic Affiliation Agreement with Tenet HealthSystem Philadelphia, Inc. ("Tenet") intended to establish a relationship to foster continued coordination and integration between PHEC and the Tenet hospitals. This agreement, dated November 10, 1998 and subsequently amended on April 25, 2002, is effective until June 30, 2022 and may be renewed thereafter for separate and successive five-year terms. Under the terms of the agreement, PHEC commits to furnish administrative, supervisory, and teaching services to Tenet at budgeted levels for the period from November 10, 1998 through June 30, 2022 (see Note 11).

PHEC is party to an agreement with the University to provide teaching and administrative services for the education of the University's medical students. The agreement, which automatically renews annually, is effective until June 30, 2008. PHEC's tuition accounts receivable are billed and collected by the University, and the University pays PHEC the tuition collected.

During 2005, PHEC was notified that an action had been filed with a local court and a judgment issued to reverse a settlement of approximately \$6,066,000 awarded to PHEC during 2004. In November 2005, on appeal by PHEC, the Superior Court vacated that decision and remanded the case for new proceedings to determine the most appropriate beneficiary. The date for the new proceedings has not been set. At June 30, 2006, the assets were removed from beneficial interests in trusts and permanently restricted net assets on the consolidated statements of financial position and are reflected as a negative settlement on the consolidated statement of activities.

Under an agreement with Tenet, PHEC was reimbursed for certain personnel, termination and substitute program costs, as defined, through December 17, 2005 that were associated with the sale of the Medical College of Pennsylvania Hospital ("MCP"), in which PHEC had operations (see Note 11). During 2006, Tenet paid PHEC \$2,482,000 in accordance with a Mutual Release agreement whereby both parties agreed to waive and release all claims relating to the MCP closure.

Academic Properties, Inc.: The University owns 100% of Academic Properties, Inc. ("API"), a tax-exempt organization. API manages properties utilized by the University as well as other strategically located properties contiguous to the campus. The balances and activities of API are consolidated in the University's financial statements.

Drexel e-Learning, Inc.: The University owns 100% of the issued and outstanding stock of Drexel e-Learning, Inc. ("DeL"). DeL was created to provide educational products and services through distance learning. The balances and activities of DeL are consolidated in the University's financial statements.

Cash and Cash Equivalents: Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days.

