

DREXEL UNIVERSITY AND SUBSIDIARIES

FINANCIAL REPORT

June 30, 2009



INDEPENDENT AUDITORS' REPORT

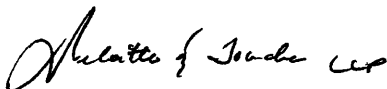
Board of Trustees
Drexel University
Philadelphia, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Drexel University and Subsidiaries (the "University") as of June 30, 2009 and 2008, 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. 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, 2009 and 2008, 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.

Our audits were conducted for the purposes of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating schedules on pages 23-26 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and change in net assets of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the University's management. Such schedules have been subject to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly presented in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.



September 22, 2009

DREXEL UNIVERSITY and SUBSIDIARIES
CONSOLIDATED STATEMENTS of FINANCIAL POSITION
as of June 30, 2009 and 2008 (in thousands)

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents:		
Operating cash	\$ 36,935	\$ 41,214
Risk Retention Group cash	4,398	3,354
Accounts receivable, net:		
Tuition	44,004	39,081
Patients	6,081	6,194
Grants, contracts and other	31,324	29,070
Tenet HealthSystem	1,530	801
Total accounts receivable, net	<u>82,939</u>	<u>75,146</u>
Contributions receivable, net	69,404	42,483
Other assets	40,903	37,608
Deposits with bond trustees	82,204	145,028
Student loans receivable, net	34,523	32,786
Beneficial interests in trusts	19,818	26,658
Investments	426,931	576,846
Land, buildings and equipment, net	546,900	446,612
Total assets	<u>\$ 1,344,955</u>	<u>\$ 1,427,735</u>
LIABILITIES		
Accounts payable	\$ 41,932	\$ 44,696
Accrued expenses	76,112	72,779
Line of credit		195
Deposits	20,625	22,745
Deferred revenue	72,560	58,292
Capital lease	3,150	
Government advances for student loans	26,199	26,151
Postretirement benefits	27,977	25,331
Bonds and notes payable	402,948	389,311
Total liabilities	<u>671,503</u>	<u>639,500</u>
NET ASSETS		
Unrestricted	326,748	401,487
Temporarily restricted	148,194	192,644
Permanently restricted	198,510	194,104
Total net assets	<u>673,452</u>	<u>788,235</u>
Total liabilities and net assets	<u>\$ 1,344,955</u>	<u>\$ 1,427,735</u>

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES

for the year ended June 30, 2009 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE				
Tuition and fees	\$ 519,548			\$ 519,548
Less: institutional financial aid	(120,228)			(120,228)
Net student revenue	<u>399,320</u>			<u>399,320</u>
Patient care activities	86,543			86,543
State appropriations	18,274			18,274
Government grants and contracts	91,909			91,909
Private grants and contracts	13,706			13,706
Private gifts	2,534	\$ 42,644		45,178
Endowment payout under spending formula	11,940	14,768	\$ 228	26,936
Investment income	2,726	274		3,000
Sales and services of auxiliary enterprises	65,672			65,672
Other sources	20,873			20,873
Net assets released from restrictions	34,684	(34,467)	(217)	
Total operating revenue	<u>748,181</u>	<u>23,219</u>	<u>11</u>	<u>771,411</u>
OPERATING EXPENSE				
College programs	239,431			239,431
Research and public service	85,676			85,676
Academic support	21,858			21,858
Student services	35,640			35,640
Institutional support	98,474			98,474
Scholarships and fellowships	17,234			17,234
Auxiliary enterprises	34,019			34,019
Total education and general	<u>532,332</u>			<u>532,332</u>
Patient care activities	104,499			104,499
Operation and maintenance	47,218			47,218
Interest	15,781			15,781
Depreciation	26,702			26,702
Total operating expense	<u>726,532</u>			<u>726,532</u>
Change in net assets from operating activities	<u>21,649</u>	<u>23,219</u>	<u>11</u>	<u>44,879</u>
NON-OPERATING ACTIVITY				
Endowment and other gifts			9,430	9,430
Realized/unrealized loss on investments, net of endowment payout of \$21,353	(82,747)	(67,669)	(5,035)	(155,451)
Other non-operating expense	(13,641)	-		(13,641)
Change in net assets from non-operating activities	<u>(96,388)</u>	<u>(67,669)</u>	<u>4,395</u>	<u>(159,662)</u>
Change in net assets	<u>(74,739)</u>	<u>(44,450)</u>	<u>4,406</u>	<u>(114,783)</u>
Net assets at beginning of year	<u>401,487</u>	<u>192,644</u>	<u>194,104</u>	<u>788,235</u>
Net assets at end of year	<u>\$ 326,748</u>	<u>\$ 148,194</u>	<u>\$ 198,510</u>	<u>\$ 673,452</u>

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES

for the year ended June 30, 2008 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE				
Tuition and fees	\$ 472,010			\$ 472,010
Less: institutional financial aid	(111,137)			(111,137)
Net student revenue	<u>360,873</u>			<u>360,873</u>
Patient care activities	83,415			83,415
State appropriations	18,806			18,806
Government grants and contracts	89,894			89,894
Private grants and contracts	14,367			14,367
Private gifts	4,174	\$ 35,222		39,396
Endowment payout under spending formula	10,365	14,453	\$ 216	25,034
Investment income	6,359	5,082		11,441
Sales and services of auxiliary enterprises	59,516			59,516
Other sources	19,320			19,320
Net assets released from restrictions	30,135	(30,135)		
Total operating revenue	<u>697,224</u>	<u>24,622</u>	<u>216</u>	<u>722,062</u>
OPERATING EXPENSE				
College programs	228,330			228,330
Research and public service	85,495			85,495
Academic support	19,425			19,425
Student services	33,261			33,261
Institutional support	84,181			84,181
Scholarships and fellowships	16,396			16,396
Auxiliary enterprises	32,347			32,347
Total education and general	<u>499,435</u>			<u>499,435</u>
Patient care activities	97,141			97,141
Operation and maintenance	41,967			41,967
Interest	15,846			15,846
Depreciation	25,132			25,132
Total operating expense	<u>679,521</u>			<u>679,521</u>
Change in net assets from operating activities	<u>17,703</u>	<u>24,622</u>	<u>216</u>	<u>42,541</u>
NON-OPERATING ACTIVITY				
Endowment and other gifts			4,746	4,746
Realized/unrealized loss on investments, including endowment payout of \$18,322	(37,257)	(54,836)	(2,239)	(94,332)
Other non-operating expense	(7,627)			(7,627)
Change in net assets from non-operating activities	<u>(44,884)</u>	<u>(54,836)</u>	<u>2,507</u>	<u>(97,213)</u>
Change in net assets	<u>(27,181)</u>	<u>(30,214)</u>	<u>2,723</u>	<u>(54,672)</u>
Net assets at beginning of year	<u>428,668</u>	<u>222,858</u>	<u>191,381</u>	<u>842,907</u>
Net assets at end of year	<u><u>\$ 401,487</u></u>	<u><u>\$ 192,644</u></u>	<u><u>\$ 194,104</u></u>	<u><u>\$ 788,235</u></u>

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of CASH FLOWS

for the years ended June 30, 2009 and 2008 (in thousands)

	<u>2009</u>	<u>2008</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (114,783)	\$ (54,672)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,702	25,132
Disposals of property and equipment	336	218
Decrease in beneficial interests in trusts	6,840	2,651
Contributions for long-term investment	(9,430)	(4,746)
Actuarial change on annuity liabilities	1,165	(511)
Realized/unrealized loss on investments	155,451	94,332
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,793)	(8,951)
Contributions receivable, net	(26,921)	(11,132)
Accounts payable and accrued expenses	(270)	10,818
Postretirement benefits	2,646	212
Other assets	(3,295)	(4,845)
Deposits and deferred revenue	12,148	6,157
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Net cash provided by operating activities	42,796	54,663
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CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(348,628)	(242,053)
Proceeds from sale of investments	343,092	217,383
Proceeds from student loan collections	3,982	10,080
Student loans issued	(5,719)	(10,769)
Purchase of land, buildings and equipment	(123,840)	(40,000)
Deposits placed with bond trustees		(144,320)
Use of deposits with bond trustees	62,824	14,367
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Net cash used in investing activities	(68,289)	(195,312)
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CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	9,430	4,746
Payments on annuity obligations	(662)	(764)
Government advances for student loans	48	451
Proceeds from long-term borrowings	20,000	149,206
Repayment of short-term debt	(195)	(4,679)
Repayment of long-term debt	(6,363)	(12,519)
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Net cash provided by financing activities	22,258	136,441
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Net decrease in cash and cash equivalents	(3,235)	(4,208)
Cash and cash equivalents at beginning of year	44,568	48,776
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Cash and cash equivalents at end of year	\$ 41,333	\$ 44,568
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SUPPLEMENTAL INFORMATION		
Gifts in kind	\$ 163	\$ 533
Cash paid for interest	\$ 16,015	\$ 14,830

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the Years Ended June 30, 2009 and 2008

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. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

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 University owns 100% of the Philadelphia Health & Education Corporation, doing business as Drexel University College of Medicine ("PHEC"). 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 through June 30, 2022 (see Note 12).

In addition, PHEC has agreed to provide teaching and administrative services for the education of the University's medical students in accordance with an agreement, which renews annually, that is effective until June 30, 2010. PHEC has also engaged the University to provide service and personnel for its administrative and academic operations.

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.

Beneficial Interests in Trusts: Gifts held by outside trustees for whom the University has a beneficial interest are recorded at the present value of expected future cash flows as unrestricted, temporarily and permanently restricted net assets and related beneficial interests in trusts in the consolidated financial statements.

Accounting for Derivative Instruments and Hedging Activities: The University entered into a fixed-to-variable interest rate swap agreement with Bank of America, N.A. ("Bank") that converts \$18,000,000 of the University's fixed rate term bonds (4.80%) to a USD floating rate obligation based on the BMA Municipal Swap Index. For fiscal year 2008, the agreement resulted in a gain on investments of \$5,000 reported in the consolidated statement of activities. During 2008, the Bank exercised its right to terminate the agreement.

The University has entered into a variable-to-fixed swap agreement with Wachovia Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The agreement resulted in losses of \$1,915,000 and \$1,984,000 in 2009 and 2008, respectively, reported as an unrealized loss on investments in the consolidated statement of activities. The estimated fair value of the agreement was (\$2,196,000) and (\$281,000), respectively, at June 30, 2009 and 2008.

