DREXEL UNIVERSITY
AND SUBSIDIARIES

FINANCIAL REPORT
June 30, 2008

Drexel
UNIVERSITY

Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

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, 2008 and 2007, 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, 2008 and 2007, 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 postretirement obligations.

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 21-24 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.

Deloitte & Touche LLP

September 23, 2008

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION

as of June 30, 2008 and 2007 (in thousands)

ASSETS	**2008**	**2007**
Cash and cash equivalents:		
Operating cash	$ 41,214	$ 45,637
Risk Retention Group cash	3,354	3,139
Accounts receivable, net:		
Tuition	39,081	27,995
Patients	6,194	5,377
Grants, contracts and other	29,070	31,580
Tenet HealthSystem	801	1,243
Total accounts receivable	75,146	66,195
Contributions receivable, net	42,483	31,351
Other assets	37,608	32,763
Deposits with bond trustees	145,028	15,075
Student loans receivable, net	32,786	32,097
Beneficial interests in trusts	26,658	29,309
Investments	576,846	646,508
Land, buildings and equipment, net	446,612	428,009
Total assets	**$ 1,427,735**	**$ 1,330,083**
LIABILITIES		
Accounts payable	$ 44,696	$ 41,360
Accrued expenses	72,779	62,619
Lines of credit	195	4,874
Deposits	22,745	20,548
Deferred revenue	58,292	54,332
Government advances for student loans	26,151	25,700
Postretirement benefits	25,331	25,119
Bonds and notes payable	389,311	252,624
Total liabilities	**639,500**	**487,176**
NET ASSETS		
Unrestricted	401,487	428,668
Temporarily restricted	192,644	222,858
Permanently restricted	194,104	191,381
Total net assets	**788,235**	**842,907**
Total liabilities and net assets	**$ 1,427,735**	**$ 1,330,083**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES
CONSOLIDATED STATEMENT of ACTIVITIES
for the year ended June 30, 2008 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees	$ 472,010			$ 472,010
Less: institutional financial aid	(111,137)			(111,137)
Net student revenue	360,873			360,873
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	**697,224**	**24,622**	**216**	**722,062**
OPERATING EXPENSE				
College programs	230,179			230,179
Research and public service	85,495			85,495
Academic support	19,425			19,425
Student services	33,261			33,261
Institutional support	88,131			88,131
Scholarships and fellowships	14,547			14,547
Auxiliary enterprises	32,347			32,347
Total education and general	**503,385**			**503,385**
Patient care activities	93,191			93,191
Operation and maintenance	41,967			41,967
Interest	15,846			15,846
Depreciation	25,132			25,132
Total operating expense	**679,521**			**679,521**
Change in net assets from operating activities	**17,703**	**24,622**	**216**	**42,541**
NON-OPERATING ACTIVITY				
Endowment and other gifts			4,746	4,746
Realized/unrealized loss on investments, including endowment payout of $18,322	(37,257)	(54,836)	(2,239)	(94,332)
Other non-operating expense	(7,627)			(7,627)
Change in net assets from non-operating activities	**(44,884)**	**(54,836)**	**2,507**	**(97,213)**
Change in net assets	**(27,181)**	**(30,214)**	**2,723**	**(54,672)**
Net assets at beginning of year	**428,668**	**222,858**	**191,381**	**842,907**
Net assets at end of year	**$ 401,487**	**$ 192,644**	**$ 194,104**	**$ 788,235**

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	333,011			333,011
Patient care activities	79,508			79,508
State appropriations	18,711			18,711
Government grants and contracts	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	**650,320**	**5,411**	**637**	**656,368**
OPERATING EXPENSE				
College programs	204,129			204,129
Research and public service	81,928			81,928
Academic support	17,732			17,732
Student services	30,508			30,508
Institutional support	84,836			84,836
Scholarships and fellowships	12,470			12,470
Auxiliary enterprises	30,245			30,245
Total education and general	**461,848**			**461,848**
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	**624,756**			**624,756**
Change in net assets from operating activities	**25,564**	**5,411**	**637**	**31,612**
NON-OPERATING ACTIVITY				
Endowment and other gifts			2,995	2,995
Settlements			256	256
Realized/unrealized gain on investments, net of endowment payout of $13,507	45,424	46,978	2,816	95,218
Other non-operating expense	(9,229)			(9,229)
Change in net assets from non-operating activities	**36,195**	**46,978**	**6,067**	**89,240**
Cumulative effect of accounting change	**(8,283)**			**(8,283)**
Change in net assets	**53,476**	**52,389**	**6,704**	**112,569**
Net assets at beginning of year	**375,192**	**170,469**	**184,677**	**730,338**
Net assets at end of year	**$ 428,668**	**$ 222,858**	**$ 191,381**	**$ 842,907**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES
CONSOLIDATED STATEMENTS of CASH FLOWS
for the years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	$ (54,672)	$ 112,569
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	25,132	21,832
Other changes and disposals of property and equipment	218	2,719
Decrease (increase) in beneficial interests in trusts	2,651	(1,847)
Contributions for long-term investment	(4,746)	(2,985)
Settlements		(256)
Actuarial change on annuity liabilities	(511)	1,463
Realized/unrealized loss (gain) on investments	94,332	(95,218)
Changes in operating assets and liabilities:		
Accounts receivable	(8,951)	8,199
Contributions receivable	(11,132)	(4,385)
Accounts payable and accrued expenses	10,818	10,024
Postretirement benefits	212	9,127
Other changes	1,312	(5,949)
Net cash provided by operating activities	**54,663**	**55,293**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(242,053)	(370,839)
Proceeds from sale of investments	217,383	363,899
Proceeds from student loan collections	10,080	12,874
Student loans issued	(10,769)	(12,646)
Purchase of land, buildings and equipment	(40,000)	(66,187)
Deposits placed with bond trustees	(144,320)	
Use of deposits with bond trustees	14,367	17,452
Net cash used in investing activities	**(195,312)**	**(55,447)**
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	4,746	2,985
Payments on annuity obligations	(764)	(968)
Government advances for student loans	451	64
Proceeds from long-term borrowings	149,206	
Repayment of short-term debt	(4,679)	(1,197)
Repayment of long-term debt	(12,519)	(6,042)
Net cash provided by (used in) financing activities	**136,441**	**(5,158)**
Net decrease in cash and cash equivalents	**(4,208)**	**(5,312)**
Cash and cash equivalents at beginning of year	**48,776**	**54,088**
Cash and cash equivalents at end of year	**$ 44,568**	**$ 48,776**
SUPPLEMENTAL INFORMATION		
Gifts in kind	$ 533	$ 236
Cash paid for interest	$ 14,830	$ 11,923

See notes to consolidated financial statements.

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 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 11).

PHEC is also 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, 2009. In addition, PHEC has 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.

Fair Value of Financial Instruments: Investments including real estate and property investments are recorded at fair market value. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The fair value of investments in publicly-traded debt and equity securities is based upon quoted market prices. The fair values for certain other investments including real estate and private equity held in limited partnerships or commingled funds is estimated by the respective external investment managers based on an assessment of the current market conditions or activities underlying each asset class as appropriate, if market values are not readily ascertainable. A reasonable estimate of the fair value of loans receivable from students under government loan programs and refundable federal student loans could not be made because the loans are not readily saleable. These loans are recorded at cost, less an allowance for doubtful accounts. The carrying amount of all other financial instruments approximates fair value (see Note 7).

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

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 2008 and 2007, the agreement resulted in a gain on investments of $5,000 and $36,000, respectively, reported in the consolidated statement of activities. The estimated fair value of the agreement was $176,000 at June 30, 2007. During 2008, the Bank exercised its right to terminate the agreement.

The University also 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 $1,984,000 and $108,000 in 2008 and 2007, respectively, reported as an unrealized loss on investments in the consolidated statement of activities. The estimated fair value of the agreement was ($281,000) and $1,703,000, respectively, at June 30, 2008 and 2007.

Patient Care Activities: PHEC faculty physicians participate in several physician practice plans that are managed by PHEC. Revenue and expenses related to these practice plans are recorded as patient care activities.

Patient care activities represent amounts received and the estimated net realizable amounts due from patients and third-party payers for services rendered. PHEC provides care to patients under various reimbursement arrangements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement. In both 2008 and 2007, revenue from Medicare and Medicaid programs combined and from managed care payers accounted for 18% and 53%, respectively, of gross patient service revenue.

Schuylkill Crossing Reciprocal Risk Retention Group: The Schuylkill Crossing Reciprocal Risk Retention Group (the "RRRG") operates to provide primary coverage for claims-made medical professional liability insurance for health care professionals employed by PHEC. The RRRG is owned 87% by PHEC and 13% by the University.

At June 30, 2008, the assets and ownership equity of the RRRG amounted to $31,205,000 and $2,747,000, respectively, and revenues and expenses for the year then ended were $1,053,000 and $1,038,000, respectively. At June 30, 2007, the assets and ownership equity of the RRRG were $27,155,000 and $2,482,000, respectively, and revenues and expenses were $878,000 and $1,254,000, respectively. The balances and activities of the RRRG are included in the accompanying consolidated financial statements.

Non-operating Activities: Non-operating activities include contributions restricted for endowment, gains/losses on investments in excess of payouts under the endowment spending policies, settlements of claims related to PHEC, loss on the disposal of equipment, postretirement benefit adjustment, start-up costs for the Drexel College of Law and for the University's Sacramento campus.

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

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 amount 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 those estimates.

Reclassifications: Certain research, finance operations, information technology and public relations expenses in the 2007 consolidated statement of activities have been reclassified from instruction to research and institutional support to conform to the 2008 classifications and to comply with regulatory filing requirements.

Adoption of New Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (" SFAS") No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, that requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in the statement of financial position and the recognition of changes in that funded status in the year in which the changes occur in unrestricted net assets. For the year ended June 30, 2007, the University's cumulative effect to recognize the accounting change amounted to $8,283,000. For the year ended June 30, 2008, the adjustment to the funded status amounted to ($483,000). The adjustments are reflected in the consolidated statement of activities and included in postretirement benefits in the consolidated statements of financial position (see Note 8).

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines the term fair value, establishes a framework for measuring it within generally accepted accounting principles and expands disclosures about its measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. University management is currently evaluating the impact of SFAS No. 157 on the financial statements for fiscal year 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to measure certain financial instruments and certain other items at fair value and is effective for fiscal years beginning after November 15, 2007. University management is currently evaluating the impact of SFAS No. 159 on the financial statements for fiscal year 2009.

In August 2008, the FASB issued Staff Position ("FSP") No. 117-1, *Endowments of Non-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA act of 2006. This FSP is also expected to improve disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. University management is currently evaluating the impact of FSP 117-1 on the financial statements for fiscal year 2009.

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

For the year ended June 30,2008, the University 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 University has evaluated the application of FIN 48 and has determined that the adoption of FIN 48 does not have a material impact on the University's financial statements. The University files U.S. federal information returns, and no returns are currently under examination. The statute of limitations on the University's U.S. federal information returns remains open for three years following the year they are filed.

Note 2: Net Assets

Net assets consist of the following:

	(in thousands)	
	2008	**2007**
Unrestricted:		
Undesignated	$ (124,458)	$ (110,752)
Designated for:		
Colleges, departments and student loans	66,355	57,152
Physical plant	235,514	217,587
Quasi-endowment funds	224,076	264,681
Total unrestricted	**401,487**	**428,668**
Temporarily restricted:		
Unexpended funds for instruction, scholarships and capital expenditures	93,756	69,559
Life income and term endowment funds	7,472	7,050
Endowment realized and unrealized gain	91,416	146,249
Total temporarily restricted	**192,644**	**222,858**
Permanently restricted:		
Endowment principal	188,144	185,664
Student loans and others	5,960	5,717
Total permanently restricted	**194,104**	**191,381**
Total net assets	**$ 788,235**	**$ 842,907**

Note 3: Receivables

Accounts and loans receivable, net of allowances, are follows:

	(in thousands) 2008	2007
Patients, net of contractual allowances	$ 12,544	$ 10,716
Tuition	44,803	33,535
Grants, contracts and other	30,148	33,345
Tenet HealthSystem	801	1,243
	88,296	78,839
Less: allowance for doubtful accounts	(13,150)	(12,644)
Net accounts receivable	**$ 75,146**	**$ 66,195**
Student loans receivable	$ 35,589	$ 34,817
Less: allowance for doubtful accounts	(2,803)	(2,720)
Net student loans receivable	**$ 32,786**	**$ 32,097**

Contributions receivable consist of the following:

	2008	2007
Contributions receivable in:		
Less than one year	$ 5,516	$ 8,611
One to five years	26,546	12,388
More than five years	26,153	23,481
	58,215	44,480
Less: allowance for doubtful contributions	(2,278)	(2,395)
discount to present value	(13,454)	(10,734)
Total contributions receivable	**$ 42,483**	**$ 31,351**

Contributions were discounted at average rates of 3.375% and 4.75% for 2008 and 2007, respectively. Conditional pledges amounted to $11,597,000 and $19,758,000 in fiscal years 2008 and 2007, respectively. Conditional pledges are recognized as revenue when the conditions are met.

Note 4: Investments

Investments consist of the following: (in thousands)

2008	Market	Cost	Annual Unrealized Gain(Loss)	Annual Realized Gain(Loss)
Equity securities	$ 347,422	$ 324,400	$ (68,629)	$ (11,389)
Fixed income securities	132,927	131,791	(4,040)	176
Real estate	78,959	32,146	9,868	42
Money market funds	17,538	17,548		
Total investments	**$ 576,846**	**$ 505,885**	**$ (62,801)**	**$ (11,171)**
Endowment fund:				
Pooled	$ 504,606	$ 438,358	$ (61,583)	$ (11,538)
Non-pooled	11,825	9,809	(1,241)	372
Cash: pooled	15,598	15,598		
Non-pooled	2	2		
Total endowment	532,031	463,767	(62,824)	(11,166)
Other:				
Current fund	1,161	6	(3,276)	(5)
Plant fund	22,334	22,334	4,024	
Self-insurance trust funds	8,996	7,454	(725)	
RRRG guaranteed investment contract	14,000	14,000		
Total other	46,491	43,794	23	(5)
Total investments and endowment cash	**$ 578,522**	**$ 507,561**	**$ (62,801)**	**$ (11,171)**

2007	Market	Cost	Annual Unrealized Gain(Loss)	Annual Realized Gain(Loss)
Equity securities	$ 444,935	$ 347,944	$ 67,832	$ 27,337
Fixed income securities	124,542	122,088	(806)	4,320
Real estate	64,985	26,679	6,552	1,004
Money market funds	12,046	12,046		
Total investments	**$ 646,508**	**$ 508,757**	**$ 73,578**	**$ 32,661**
Endowment fund:				
Pooled	$ 595,268	$ 464,024	$ 68,473	$ 31,858
Non-pooled	12,215	9,202	1,003	524
Cash: pooled	1,752	1,752		
Non-pooled	2	2		
Total endowment	609,237	474,980	69,476	32,382
Other:				
Current fund	1,959	6	977	279
Plant fund	16,113	16,113	2,258	
Self-insurance trust funds	8,953	7,412	867	
RRRG guaranteed investment contract	12,000	12,000		
Total other	39,025	35,531	4,102	279
Total investments and endowment cash	**$ 648,262**	**$ 510,511**	**$ 73,578**	**$ 32,661**

Note 4: Investments, continued...

The endowment spending rule, under the total return concept, limits the funds available from endowment resources which may be spent for operations to a percentage of the average market value of the pooled endowment portfolio for the prior three fiscal years. For the years ending June 30, 2008 and 2007, this percentage was 5%. The amount available for use based upon this formula was $25,034,000 and $22,734,000 for 2008 and 2007, respectively. To the extent that ordinary yield (i.e. interest and dividends) is inadequate to meet this amount, a portion of cumulative realized net gains is available for current use. Investment expense amounted to $2,701,000 and $3,108,000 in 2008 and 2007, respectively.

The following schedules summarize investment returns and their classification in the statement of activities:

(in thousands)

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 10,365	$ 1,429		$ 11,794
Net realized and unrealized loss	(37,257)	(36,730)	$ (2,023)	(76,010)
Loss on endowment investments	(26,892)	(35,301)	(2,023)	(64,216)
Interest on other investments	6,359			6,359
Total loss on investments	(20,533)	(35,301)	(2,023)	(57,857)
Investment return designated for current operations	(16,724)	(19,535)	(216)	(36,475)
Investment loss in excess of amounts designated for current operations	**$ (37,257)**	**$ (54,836)**	**$ (2,239)**	**$ (94,332)**

2007	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 9,398	$ 4,434		$ 13,832
Net realized and unrealized gain	45,424	60,287	$ 3,014	108,725
Return on endowment investments	54,822	64,721	3,014	122,557
Interest on other investments	5,509			5,509
Total return on investments	60,331	64,721	3,014	128,066
Investment return designated for current operations	(14,907)	(17,743)	(198)	(32,848)
Investment return in excess of amounts designated for current operations	**$ 45,424**	**$ 46,978**	**$ 2,816**	**$ 95,218**

Note 5: Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or, if acquired by gift, at the appraised value on the date of acquisition. Depreciation is computed on a straight-line basis over the lesser of the estimated useful lives of the assets, term of the lease or: for equipment, between 3 and 30 years; software, between 3 and 7 years; land and building improvements, between 5 and 25 years; and buildings, between 30 and 60 years. In 2006, the University began capitalizing library books. The books are depreciated on a straight-line basis over twenty years.

Note 5: Land, Buildings and Equipment, continued...

The University, PHEC and API determined that there were legal obligations to retire certain facilities and equipment. In 2008, depreciation and accretion expense amounted to $58,000 and $133,000, respectively, and $18,000 and $104,000 in 2007, respectively. The total asset retirement cost and obligation was $1,065,000 and $3,395,000 at June 30, 2008 and $528,000 and $2,683,000 at June 30, 2007, respectively, and is included in buildings and improvements and accrued expenses, respectively.

Land, buildings, and equipment consist of the following:

	(in thousands) 2008	2007
Art collection	$ 8,643	$ 8,643
Land and improvements	43,177	42,385
Buildings and improvements	453,878	434,384
Equipment, software and library books	131,428	119,929
Construction in progess	17,329	7,888
	654,455	613,229
Less: accumulated depreciation	(207,843)	(185,220)
Total land, buildings and equipment	**$ 446,612**	**$ 428,009**

Note 6: Leases

Future minimum payments by year and in the aggregate under non-cancelable operating leases, with initial or remaining terms of one year or more are as follows:

	(in thousands)
2009	$ 11,816
2010	11,398
2011	11,228
2012	11,052
2013	10,836
Thereafter	88,350
Total minimum lease payments	**$ 144,680**

Total rent expense for operating leases amounted to $11,817,000 and $10,709,000 for the years ended June 30, 2008 and 2007, respectively.

Under the terms of a twenty-year operating lease with Tenet ending June 30, 2022, payments until November 11, 2008 shall equal $22.38 per rentable square foot per annum for all space located within such premises except for special use space, defined as certain research space, which shall equal $27.38 per rentable square foot per annum. Payments for the remaining period of the lease shall be at fair market rental determined in accordance with the lease. Although management has not indicated its intent to do so, PHEC has the right to terminate the lease on November 11, 2008. The future minimum payments are included in the table above.

Note 7: Bonds and Notes Payable

Description	Project	Maturity	Interest Rate	(in thousands) 2008	2007
Dormitory Bonds of 1965	Kelly Hall	2009-2015	3.00 - 3.50%	$ 700	$ 790
Dormitory Bonds of 1969	Calhoun Hall	2009-2019	3.00%	725	780
Philadelphia Industrial Development Corp.	Abbotts demolition/ parking lot	2009-2015	3.00%	700	793
Pennsylvania Higher Educational Facilities Authority Revenue Bonds:					
First Series of 1993 Convertible Series	Athletic field acquisition	2009-2012	8.55%	235	285
1997 Bonds	Van Rensselaer renovation & advance refunding (1987 & 1990)	2009-2022	5.20 - 5.75%	12,395	13,895
First Series of 1998	North Hall	2009-2028	4.30 - 4.80%	33,400	34,605
Second Series of 1998	Advance refunding (1993 & 1996)	2009-2017	4.65 - 5.375%	7,130	8,080
Second Series of 2000	Capital improvements & equipment	2018-2025	variable	22,500	22,500
Series A of 2002	Matheson Hall improvements, new research center, advance refunding (2000-1)	2009-2032	3.60 - 5.20%	12,380	12,495
Series B of 2002	Matheson Hall improvements, new research center, other improvements	2015-2032	variable	42,140	42,140
Series A of 2003	Advance refunding (1993 tax-exempt bonds)	2011-2018	5.50%	26,902	28,312
Series B of 2003	Stiles Hall renovations, Queen Lane campus acquisition & renovations, capital improvements & equipment	2009-2033	variable	20,560	21,185
Series A of 2005	Capital improvements & equipment	2011-2034	3.00-5.00%	29,497	29,526
Series B of 2005	Advance refunding (1997 & 1999)	2009-2030	variable	30,525	30,525
Series A of 2007	New laboratory, dormitory & Wellness Center; capital improvements & equipment	2030-2037	4.50-5.00%	96,359	
Series B of 2007		2010-2037	variable	30,000	
PHEC					
Pennsylvania Higher Educational Facilities Authority Revenue Bonds Series of 2007	Refund mortgage, capital improvements & equipment	2010-2037	3.75-5.00%	22,847	
Mortgage	219 N. Broad Street acquisition and renovation	refunded	variable		6,341
Academic Properties, Inc.					
Philadelphia Industrial Development Corp.	ODP Evening College renovations	2009-2013	3.00%	316	372
Total bonds and notes payable				**$ 389,311**	**$ 252,624**

Note 7: Bonds and Notes Payable, continued...

The variable rates of interest on the bonds are based on the weekly rate determined by the remarketing or auction agent, not to exceed 16% per annum. Interest on the mortgage accrued at a variable rate based on Libor plus 2.5% and was 7.82% at June 30, 2007. The mortgage was paid in full during 2008.

The total market value of the $386,870,000 Pennsylvania Higher Educational Facilities Authority Revenue Bonds was $378,902,000 at June 30, 2008, based on a comparison to current interest rates. It was not practicable to determine the market value for certain bonds and notes which represent approximately 1% of the total debt outstanding at June 30, 2008.

The Dormitory bonds of 1965 – Kelly Hall and Dormitory bonds of 1969 – Calhoun Hall are collateralized by first mortgages on the associated buildings and first lien on, and pledges of, the net revenues derived from the building operations.

The 1993, 1997, 1998, 2000, 2002, 2003, 2005 and 2007 bonds are secured by a security interest in unrestricted gross revenues. The Philadelphia Industrial Development Corporation loans are secured by a mortgage lien on One Drexel Plaza.

Debt maturities for the fiscal years ending June 30 are as follows:

	(in thousands)		
	Maturities	Remarketed Debt	Total Debt
2009	$ 5,827	$ 645	$ 6,472
2010	6,492	1,155	7,647
2011	7,276	665	7,941
2012	7,627	680	8,307
2013	8,002	690	8,692
Thereafter	238,562	111,690	350,252
			$ 389,311

The Second Series of 2000 and Series B of 2002, Series B of 2003 and Series B of 2005 bonds have remarketing terms and related standby letters of credit which could change the maturity dates to the years 2009, 2011 and 2010, respectively, based on the current expiration date of the letter of credit. These issues have been included in the above table based on the stated maturity date. The University is in compliance with the covenants contained in the various loan agreements.

Lines of Credit: PHEC maintained a revolving line of credit of $6,352,000 to fund renovations and improvements to the 219 North Broad Street property. Interest, payable monthly, accrued at a variable rate based on Libor plus 2.5% and was 7.82% at June 30, 2007, with principal due at maturity on December 1, 2008. The revolving line of credit was secured by a second insured mortgage on the property and a negative pledge on all assets of PHEC. At June 30, 2007, the amount outstanding was $2,500,000. The line of credit was paid in full during 2008.

Note 7: Bonds and Notes Payable, continued...

In addition, PHEC maintained a line of credit of $3,500,000 to support equipment purchases for the clinical practices. The line was secured by a first lien on the equipment purchased and was subject to interest rate options of Libor plus 2.5% or the variable rate based on prime minus .25%. The option is selected by PHEC at the time of the first draw. There was no amount outstanding at June 30, 2008 and 2007. During 2008, the line of credit was replaced with the term note - line of credit described below.

The president of the University and PHEC served on the Board of Directors of the commercial lender that provided the PHEC mortgage loan and lines of credit. Accordingly, the president recused himself from the vote on the board resolution approving such financing. The president resigned from the lender's Board in May, 2007.

Effective in 2008, PHEC entered into a term note - line of credit of $3,500,000 for equipment purchases that accrues interest based on Libor plus 1.25%. Advances are available through July 5, 2009, with equal payments of principal and interest due sixty months thereafter. The line of credit is secured by a lien and security interest in deposits or other sums held by the lender or its affiliates. There was no amount outstanding at June 30, 2008.

Total unsecured Revolving Credit Facilities ("Facilities") of $40,000,000 accrue interest based on Libor for the University and Libor plus .25% for PHEC and mature on January 1, 2009. They can be extended annually based upon the mutual agreement of the University and PHEC and the bank maintaining the Facilities. At June 30, 2008, the facilities accrued interest at 2.47% for the University and 2.72% for PHEC, and there was no amount outstanding. At June 30, 2007, the facilities accrued interest at 5.32% for the University and 5.57% for PHEC, and there was no amount outstanding.

The University has entered into a Revolving Line of Credit and Security Agreement and a Forward Purchase Commitment Agreement which enables it to grant Title IV qualified loans under the KeystoneBEST Loan Program to its students and sell the loans to the lending facility without recourse. The loans serve as collateral on the line of credit. Interest accrues at a variable rate based on the commercial paper rate plus 44 basis points. At June 30, 2008 and 2007, the amount outstanding was $195,000 and $2,374,000 with interest rates of 3.23% and 5.82%, respectively. During 2008, the University stopped issuing new loans under the program.

The University has also entered into a Loan and Security Agreement and Sale and Purchase Agreement ("Agreements") with a lending facility. These Agreements enable the University to grant Title IV qualified loans to its students through a revolving line of credit and to sell the loans to the lending facility. The loans serve as collateral for the Loan and Security Agreement. Interest accrues at a variable rate based on the commercial paper rate plus 40 basis points. At June 30, 2007, the interest rate was 5.65%, and there was no amount outstanding. The Agreements were terminated during 2008.

Note 8: Retirement Plans

The University and PHEC maintain contributory retirement plans administered by Teachers Insurance Annuity Association, the Vanguard Group and Fidelity Investments which provide for the purchase of annuity contracts and mutual funds for the majority of full-time faculty and certain non-academic employees. The University also participates in a contributory retirement plan which provides benefits for certain union employees. The policy is to fund pension costs accrued for these plans. Total retirement plan expense for all plans was $21,617,000 and $19,810,000 in 2008 and 2007, respectively.

Note 8: Retirement Plans, continued...

In addition to retirement plan benefits, the University also provides postretirement benefits to retirees in the form of group life insurance, major medical insurance and tuition remission. Substantially all employees could become eligible when they reach retirement age while working for the University. The postretirement health care plan is contributory, and the life insurance plan is noncontributory.

The net periodic postretirement benefit costs and related funded status as of June 30 are as follows (see Note 1):

	(in thousands) 2008	2007
Benefit obligation	$ 25,176	$ 24,962
Fair value of plan assets	-	-
Funded status	$ 25,176	$ 24,962
Accrued benefit cost recognized in the consolidated statements of financial position	$ 25,176	$ 24,962
Discount rate	6.85%	6.35%

For measurement purposes, a 10.15% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008. The rate was assumed to decrease gradually to 4.75% for 2011 and remain at that level thereafter.

	(in thousands) 2008	2007
Benefit cost	$ 2,397	$ 2,315
Employer contribution	1,700	1,447
Plan participant contributions	240	159
Benefits paid	1,940	1,605

Estimated future benefit payments:

2009	$ 1,716
2010	1,759
2011	1,792
2012	1,849
2013	1,899
2014 to 2018	10,274

A one-percentage-point change in the assumed health care cost trend rates would have no significant impact on the net periodic postretirement benefit service and interest costs or the benefit obligation at June 30, 2008.

Note 9: Professional Liability Insurance

PHEC maintained commercial, occurrence-based insurance coverage for professional liability claims that occurred from November 10, 1998 through November 10, 2003. Beginning on November 11, 2003, PHEC purchased primary and excess insurance coverage from the RRRG on a claims-made basis. In addition, PHEC participates in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("Mcare"), self insuring a layer of excess of up to $2,000,000 above the Mcare Fund, and provides an additional $9,000,000 for excess layer coverage from reinsurance.

Total reserves, utilizing a discount rate of 7% and 6% in 2008 and 2007, respectively, amounted to $25,107,000 and $21,452,000, which is net of an estimated $8,978,000 and $8,242,000 that is expected to be recoverable from purchased reinsurance, for self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2008 and 2007, respectively. Such reserves are included in accrued expenses on the accompanying consolidated statements of financial position. Subsequent to June 30, 2008, based on updated claims information, PHEC increased its reserve for liability insurance which was offset by a comparable increase in reinsurance recoverable. Trust funds amounting to $8,996,000 and $8,953,000 at June 30, 2008 and 2007, respectively, have been established to fund these liabilities when they become due and are in addition to the RRRG's guaranteed investment contract of $14,000,000 and $12,000,000 in 2008 and 2007, respectively (see Note 4).

Note 10: Commitments and Contingencies

Healthcare Legislation and Regulation: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements and reimbursement for patient services. Federal government activity has continued with respect to investigations and allegations concerning possible violation of billing regulations by healthcare providers. Violations of these regulations could result in the imposition of significant fines and penalties and have a significant effect on reported net income or cash flow.

Management believes that PHEC is in compliance with applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Litigation: The nature of the educational and healthcare industries is such that, from time to time, claims will be presented on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and healthcare services at a large institution. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters will not have a materially adverse effect on the financial condition or results of operations.

Other Commitments and Contingencies: PHEC maintains two letters of credit in the amounts of $50,000 and $260,000 for the benefit of Liberty Mutual Insurance Company and Pennsylvania Manufacturer's Association, respectively, associated with workers' compensation insurance. The letters of credit expire on February 1, 2009 and March 15, 2009, respectively, and are renewed annually. As of June 30, 2008 and 2007, there was no amount outstanding under these letters of credit.

Note 10: Commitments and Contingencies, continued...

PHEC also maintains a letter of credit in the amount of $1,125,000, as required by the U.S. Nuclear Regulatory Commission, in connection with the disposal of nuclear medical waste. It expires on May 15, 2009 and is renewed annually. As of June 30, 2008 and 2007, there was no amount outstanding under the letter of credit.

Note: 11: Related Party Transactions

PHEC has various operating agreements with Tenet. Under these agreements, PHEC acts both as a purchaser and provider of services. Total services purchased from Tenet for the years ended June 30, 2008 and 2007 were $15,271,000 and $15,759,000, respectively. These services include charges for rent and various personnel, administrative and support services related to operating PHEC.

PHEC provided various administrative, supervisory and teaching services to Tenet in connection with faculty physician and residency programs. Total charges to Tenet for these services were $20,815,000 and $22,940,000 for the years ended June 30, 2008 and 2007, respectively.

Note 12: Operating Expenses

Operation and maintenance, interest and depreciation expenses are allocated based on the space assigned to each expense classification.

	(in thousands)	
	2008	2007
College programs	$ 26,097	$ 24,066
Research and public service	18,291	17,224
Academic support	6,006	5,555
Student services	9,415	8,730
Institutional support	5,347	5,251
Auxiliary enterprises	15,350	12,453
Patient care activities	2,439	2,112
Total	**$ 82,945**	**$ 75,391**

Note 13: Subsequent Event

In fiscal year 2009, due to downgrades in the credit rating of the bond issuer, the University plans to cancel the bond insurance policy and liquidity facility on the Pennsylvania Higher Educational Facilities Authority Series B Bonds of 2005 and replace them with a letter of credit issued by TD Bank, N.A.

*****

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION as of June 30, 2008 (in thousands)

Supplemental Consolidating Schedule of Financial Position

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
ASSETS				
Cash and cash equivalents:				
Operating cash	$ 30,803	$ 10,411		$ 41,214
Risk Retention Group cash		3,354		3,354
Accounts receivable, net:				
Tuition	39,081	647	$ (647)	39,081
Patients		6,194		6,194
Other	19,480	11,858	(2,268)	29,070
Tenet HealthSystem		801		801
Total accounts receivable	58,561	19,500	(2,915)	75,146
Contributions receivable, net	41,376	1,107		42,483
Other assets	31,253	6,355		37,608
Deposits with bond trustees	132,056	12,972		145,028
Student loans receivable, net	16,140	16,646		32,786
Beneficial interests in trusts	6,268	20,390		26,658
Investments	403,014	173,832		576,846
Land, buildings and equipment, net	399,850	49,919	(3,157)	446,612
Total assets	**$ 1,119,321**	**$ 314,486**	**$ (6,072)**	**$ 1,427,735**
LIABILITIES				
Accounts payable	$ 34,131	$ 10,565		$ 44,696
Accrued expenses	36,017	36,762		72,779
Line of credit	195			195
Payable to affiliate	1,665	1,250	$ (2,915)	
Deposits	17,729	5,016		22,745
Deferred revenue	54,418	3,874		58,292
Capital leases, affiliate		3,157	(3,157)	
Government advances for student loans	13,386	12,765		26,151
Postretirement benefits	25,331			25,331
Bonds and notes payable	366,464	22,847		389,311
Total liabilities	**549,336**	**96,236**	**(6,072)**	**639,500**
NET ASSETS				
Unrestricted	369,254	32,233		401,487
Temporarily restricted	113,638	79,006		192,644
Permanently restricted	87,093	107,011		194,104
Total net assets	**569,985**	**218,250**		**788,235**
Total liabilities and net assets	**$ 1,119,321**	**$ 314,486**	**$ (6,072)**	**$ 1,427,735**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES for the year ended JUNE 30, 2008 (in thousands)

Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
OPERATING REVENUE				
Tuition and fees	$ 416,511	$ 57,752	$ (2,253)	$ 472,010
Less: institutional financial aid	(107,013)	(4,124)		(111,137)
Net student revenue	309,498	53,628	(2,253)	360,873
Patient care activities		83,415		83,415
State appropriations	8,729	10,077		18,806
Government grants and contracts	64,992	24,902		89,894
Private grants and contracts	10,394	3,973		14,367
Private gifts	27,665	16,843	(5,112)	39,396
Endowment payout under spending formula	18,119	6,915		25,034
Investment income	7,080	4,361		11,441
Sales and services of auxiliary enterprises	59,516			59,516
Other sources	13,885	7,975	(2,540)	19,320
Total operating revenue	**519,878**	**212,089**	**(9,905)**	**722,062**
OPERATING EXPENSE				
College programs	208,903	21,276		230,179
Research and public service	61,505	23,990		85,495
Academic support	9,636	9,789		19,425
Student services	31,325	1,936		33,261
Institutional support	68,328	29,550	(9,747)	88,131
Scholarships and fellowships	11,420	3,127		14,547
Auxiliary enterprises	32,347			32,347
Total education and general	**423,464**	**89,668**	**(9,747)**	**503,385**
Patient care activities		93,191		93,191
Operation and maintenance	29,020	12,947		41,967
Interest	14,669	1,177		15,846
Depreciation	18,938	6,352	(158)	25,132
Total operating expense	**486,091**	**203,335**	**(9,905)**	**679,521**
Change in net assets from operating activities	**33,787**	**8,754**		**42,541**
NON-OPERATING ACTIVITY				
Endowment and other gifts	3,302	1,444		4,746
Realized/unrealized loss on investments, including endowment payout of $18,322	(61,113)	(33,219)		(94,332)
Other non-operating expense	(7,581)	(46)		(7,627)
Change in net assets from non-operating activities	**(65,392)**	**(31,821)**		**(97,213)**
Change in net assets	**(31,605)**	**(23,067)**		**(54,672)**
Net assets at beginning of year	**601,590**	**241,317**		**842,907**
Net assets at end of year	**$ 569,985**	**$ 218,250**	**$ -**	**$ 788,235**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION as of June 30, 2007 (in thousands)

Supplemental Consolidating Schedule of Financial Position

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
ASSETS				
Cash and cash equivalents:				
Operating cash	$ 40,717	$ 4,920		$ 45,637
Risk Retention Group cash		3,139		3,139
Accounts receivable, net:				
Tuition	27,995	2,711	$ (2,711)	27,995
Patients		5,377		5,377
Grants, contracts and other	24,672	11,333	(4,425)	31,580
Tenet HealthSystem		1,243		1,243
Total accounts receivable	52,667	20,664	(7,136)	66,195
Contributions receivable, net	31,052	299		31,351
Other assets	27,086	5,677		32,763
Deposits with bond trustees	15,075			15,075
Student loans receivable, net	17,030	15,067		32,097
Beneficial interests in trusts	6,842	22,467		29,309
Investments	445,149	201,359		646,508
Land, buildings and equipment, net	383,480	47,844	(3,315)	428,009
Total assets	**$ 1,019,098**	**$ 321,436**	**$ (10,451)**	**$ 1,330,083**
LIABILITIES				
Accounts payable	$ 30,505	$ 10,855		$ 41,360
Accrued expenses	32,692	29,927		62,619
Lines of credit	2,374	2,500		4,874
Payable to affiliates	4,636	2,500	$ (7,136)	
Deposits	15,799	4,749		20,548
Deferred revenue	47,242	7,090		54,332
Capital lease, affiliate		3,315	(3,315)	
Government advances for student loans	12,858	12,842		25,700
Postretirement benefits	25,119			25,119
Bonds and notes payable	246,283	6,341		252,624
Total liabilities	**417,508**	**80,119**	**(10,451)**	**487,176**
NET ASSETS				
Unrestricted	394,577	34,091		428,668
Temporarily restricted	123,382	99,476		222,858
Permanently restricted	83,631	107,750		191,381
Total net assets	**601,590**	**241,317**		**842,907**
Total liabilities and net assets	**$ 1,019,098**	**$ 321,436**	**$ (10,451)**	**$ 1,330,083**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES for the year ended June 30, 2007 (in thousands)

Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
OPERATING REVENUE				
Tuition and fees	$ 373,730	$ 52,427	$ (1,844)	$ 424,313
Less: institutional financial aid	(87,986)	(3,316)		(91,302)
Net student revenue	285,744	49,111	(1,844)	333,011
Patient care activities		79,508		79,508
State appropriations	8,685	10,026		18,711
Government grants and contracts	66,386	23,971		90,357
Private grants and contracts	8,090	4,259		12,349
Private gifts	16,643	5,820	(2,143)	20,320
Endowment payout under spending formula	16,245	6,489		22,734
Investment income	6,425	3,689		10,114
Sales and services of auxiliary enterprises	52,594			52,594
Other sources	10,494	8,504	(2,328)	16,670
Total operating revenue	**471,306**	**191,377**	**(6,315)**	**656,368**
OPERATING EXPENSE				
College programs	187,261	16,868		204,129
Research and public service	58,090	23,838		81,928
Academic support	8,346	9,386		17,732
Student services	28,733	1,775		30,508
Institutional support	63,048	27,945	(6,157)	84,836
Scholarships and fellowships	10,291	2,179		12,470
Auxiliary enterprises	30,245			30,245
Total education and general	**386,014**	**81,991**	**(6,157)**	**461,848**
Patient care activities		87,517		87,517
Operation and maintenance	28,995	12,724		41,719
Interest	10,878	962		11,840
Depreciation	16,457	5,533	(158)	21,832
Total operating expense	**442,344**	**188,727**	**(6,315)**	**624,756**
Change in net assets from operating activities	**28,962**	**2,650**		**31,612**
NON-OPERATING ACTIVITY				
Endowment and other gifts	1,898	1,097		2,995
Settlements		256		256
Realized/unrealized gain on investments, net of endowment payout of $13,507	64,581	30,637		95,218
Other non-operating expense	(6,445)	(2,784)		(9,229)
Change in net assets from non-operating activities	**60,034**	**29,206**		**89,240**
Cumulative effect of accounting change	**(8,283)**			**(8,283)**
Change in net assets	**80,713**	**31,856**		**112,569**
Net assets at beginning of year	**520,877**	**209,461**		**730,338**
Net assets at end of year	**$ 601,590**	**$ 241,317**	**$ -**	**$ 842,907**

See notes to consolidated financial statements.