Financial Statements and Report of Independent Certified Public Accountants in Accordance

University of the Sciences in Philadelphia

June 30, 2008 and 2007

Contents

GrantThornton

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Report of Independent Certified Public Accountants

Board of Trustees
University of the Sciences in Philadelphia

We have audited the accompanying statements of financial position of the University of the Sciences in Philadelphia (the University) as of June 30, 2008 and 2007 and the related statements of activities and changes in net assets 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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits 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, the financial statements referred to above present fairly, in all material respects, the financial position of the University of the Sciences in Philadelphia as of June 30, 2008 and 2007, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

November 19, 2008

University of the Sciences in Philadelphia

STATEMENTS OF FINANCIAL POSITION

For the years ended June 30, 2008 and June 30, 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 13,755,063	$ 5,484,905
Deposits with trustees	9,444,537	7,456,919
Investments	165,065,082	178,758,514
Beneficial interest in trusts	506,537	562,529
Receivables, net		
Student accounts	2,581,571	2,181,309
Student loans	6,329,719	6,134,824
Government	232,827	385,341
Contributions	542,718	975,638
Other	405,236	454,825
Interest rate swap contract	-	1,351,435
Prepaid expenses and other current assets	870,801	876,143
Other non-current assets	3,227,005	2,299,751
Land, buildings, and equipment, net	101,563,588	100,540,655
TOTAL ASSETS	$ 304,524,684	$ 307,462,788
LIABILITIES		
Accounts payable and accrued liabilities	$ 9,665,724	$ 11,495,460
Refundable government grants and loans	5,016,365	4,953,072
Tuition deposits and deferred revenue	9,719,897	8,772,780
Annuity liabilities	363,520	388,993
Other liabilities	125,573	137,281
Bonds payable	108,036,989	100,996,841
TOTAL LIABILITIES	132,928,068	126,744,427
NET ASSETS		
Unrestricted	120,759,504	127,761,543
Temporarily restricted	12,254,369	15,225,203
Permanently restricted	38,582,743	37,731,615
TOTAL NET ASSETS	171,596,616	180,718,361
TOTAL LIABILITIES AND NET ASSETS	$ 304,524,684	$ 307,462,788

The accompanying notes are an integral part of these statements.

University of the Sciences in Philadelphia

STATEMENT OF ACTIVITIES

For the year ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees-gross	$ 81,812,437	$ -	$ -	$ 81,812,437
Less direct grants	(21,061,099)	-	-	(21,061,099)
Tuition and fees, net	60,751,338	-	-	60,751,338
Government grants	3,370,210	-	-	3,370,210
Private gifts and grants	2,580,030	-	-	2,580,030
Investment income	6,518,156	-	-	6,518,156
Educational departments	1,855,200	-	-	1,855,200
Auxiliary services	8,906,225	-	-	8,906,225
Other	254,150	-	-	254,150
Total operating revenue	84,235,309	-	-	84,235,309
OPERATING EXPENSES				
Instruction	33,228,247	-	-	33,228,247
Research	3,605,945	-	-	3,605,945
Academic support	7,481,416	-	-	7,481,416
Student services	11,176,519	-	-	11,176,519
Institutional support	17,553,533	-	-	17,553,533
Scholarships	681,845	-	-	681,845
Auxiliary enterprises	7,600,295	-	-	7,600,295
Total operating expenses	81,327,800	-	-	81,327,800
Change in net assets from operating activities	2,907,509	-	-	2,907,509
NON-OPERATING				
Gifts for long-term investments	-	19,217	443,741	462,958
Reclassification of capital campaign gift	-	(532,425)	532,425	-
Net loss on long-term investments after endowment payout of $2,046,866	(6,115,430)	(2,785,597)	-	(8,901,027)
Investment income (expense)	-	443,646	(97,186)	346,460
Fair value of interest rate swap contract	(2,670,146)	-	-	(2,670,146)
Annuity adjustment	-	(12,885)	(27,852)	(40,737)
Loss on bond refinancing	(1,311,886)	-	-	(1,311,886)
Pension related changes other than net periodic pension cost	85,124	-	-	85,124
Net assets released from restrictions	102,790	(102,790)	-	-
Total non-operating expenses	(9,909,548)	(2,970,834)	851,128	(12,029,254)
CHANGE IN NET ASSETS	(7,002,039)	(2,970,834)	851,128	(9,121,745)
NET ASSETS - beginning of year	127,761,543	15,225,203	37,731,615	180,718,361
NET ASSETS - end of year	$ 120,759,504	$ 12,254,369	$ 38,582,743	$ 171,596,616

The accompanying notes are an integral part of this statement.

University of the Sciences in Philadelphia

STATEMENT OF ACTIVITIES - CONTINUED

For the year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees-gross	$ 74,187,648	$ -	$ -	$ 74,187,648
Less direct grants	(18,075,872)	-	-	(18,075,872)
Tuition and fees, net	56,111,776	-	-	56,111,776
Government grants	2,980,235	-	-	2,980,235
Private gifts and grants	3,839,234	-	-	3,839,234
Investment income	7,683,266	-	-	7,683,266
Educational departments	3,067,411	-	-	3,067,411
Auxiliary services	7,387,872	-	-	7,387,872
Other	169,751	-	-	169,751
Total operating revenue	81,239,545	-	-	81,239,545
OPERATING EXPENSES				
Instruction	31,550,318	-	-	31,550,318
Research	3,340,910	-	-	3,340,910
Academic support	6,931,886	-	-	6,931,886
Student services	10,526,675	-	-	10,526,675
Institutional support	17,598,165	-	-	17,598,165
Scholarships	1,161,429	-	-	1,161,429
Auxiliary enterprises	6,559,128	-	-	6,559,128
Total operating expenses	77,668,511	-	-	77,668,511
Change in net assets from operating activities	3,571,034	-	-	3,571,034
NON-OPERATING				
Gifts for long-term investments	-	13,752	2,557,810	2,571,562
Reclassification of capital campaign gift	(423,473)	(176,527)	600,000	-
Net return on long-term investments after endowment payout of $1,754,757	11,309,793	5,467,038	-	16,776,831
Investment income	-	415,204	3,116	418,320
Fair value of interest rate swap contract	(39,337)	-	-	(39,337)
Annuity adjustment	-	(14,318)	(26,185)	(40,503)
Net assets released from restrictions	239,599	(239,599)	-	-
Total non-operating expenses	11,086,582	5,465,550	3,134,741	19,686,873
Change in net assets before cumulative effect of change in accounting principle	14,657,616	5,465,550	3,134,741	23,257,907
Cumulative effect of change in accounting principle	(251,604)	-	-	(251,604)
CHANGE IN NET ASSETS	14,406,012	5,465,550	3,134,741	23,006,303
NET ASSETS - beginning of year	113,355,531	9,759,653	34,596,874	157,712,058
NET ASSETS - end of year	$ 127,761,543	$ 15,225,203	$ 37,731,615	$ 180,718,361

The accompanying notes are an integral part of this statement.

University of the Sciences in Philadelphia

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2008 and June 30, 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (9,121,745)	$ 23,006,303
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,743,171	4,098,913
Loss on bond refinancing	1,311,886	-
Contributions restricted for long-term investments	(462,958)	(2,571,562)
Net loss (return) on long-term investments	10,889,214	(18,466,390)
Change in fair value of beneficial interest in trust	55,992	(65,198)
Change in fair value of interest rate swap contract	1,351,435	39,337
Loss on interest rate swap contract	1,318,711	-
Cancellations and allowance for student loans	147,907	92,645
Changes in operating assets and liabilities		
Student accounts receivable	(400,262)	(2,355,518)
Government receivables	152,514	42,378
Contributions receivable	432,920	720,509
Other receivables	49,589	(137,616)
Prepaid expenses and other current assets	5,342	(70,407)
Accounts payable and accrued liabilities	(2,424,657)	(2,242,987)
Refundable government grants and loans	63,293	5,109
Tuition deposits and deferred revenue	947,117	2,718,432
Annuity liabilities	(25,473)	(19,547)
Other liabilities	(11,708)	14,772
Accrued interest from loans to students	(4,314)	-
Net cash provided by operating activities	9,017,974	4,809,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	25,240,061	46,663,039
Purchase of investments	(22,387,099)	(74,608,991)
Decrease in investment cash	(48,744)	511,168
Decrease in deposits with trustees	(1,987,618)	10,254,629
Disbursements for loans to students	(1,094,621)	(1,181,005)
Repayment of loans by students	756,133	844,546
Purchase of property and equipment	(5,097,629)	(4,915,122)
Net cash used in investing activities	(4,619,517)	(22,431,736)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	462,958	2,571,562
Proceeds from bond issuance	67,863,120	-
Payment of debt issuance costs	(2,344,377)	(12,455)
Repayment of bonds	(62,110,000)	(2,210,000)
Net cash provided by financing activities	3,871,701	349,107
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,270,158	(17,273,456)
CASH AND CASH EQUIVALENTS - beginning of year	5,484,905	22,758,361
CASH AND CASH EQUIVALENTS - end of year	$ 13,755,063	$ 5,484,905
Supplemental disclosure of cash flow information - non cash investing activities		
Accrued purchases of property and equipment	$ 594,921	$ 1,037,863
Cash paid for interest	$ 4,751,724	$ 4,042,675

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of the Sciences in Philadelphia (the University), formerly known as Philadelphia College of Pharmacy & Science, is a nonprofit independent institution of higher education with a commitment to excellence in teaching, research and service. In 1997, the Commonwealth of Pennsylvania granted university status. In recognition of this event, the name was changed to the University of the Sciences in Philadelphia on July 1, 1998. As the University of the Sciences in Philadelphia, the institution consists of the following five colleges:

Philadelphia College of Pharmacy
College of Health Sciences
Misher College of Arts and Science
College of Graduate Studies
Mayes College of Healthcare Business and Policy

The mission of the University is to provide undergraduate, professional, and graduate education in the health professions and natural sciences. The University is committed to the principles of equal employment and equal access to education for all persons, regardless of gender, age, disability, race, creed, color, sexual orientation, or national origin.

During the fiscal year ended June 30, 2008, the University enrolled 2,969 students, which is equivalent to 2,798 full-time students, or 2,570 undergraduate and first-degree students plus 228 graduates and other program majors. The undergraduate classes' primary areas of study are doctor of pharmacy at 59%, and physical therapy at 8%.

1. **Basis of Presentation**

The financial statements of the University, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions in three separate classes of net assets.

The three net asset categories reflected in the accompanying financial statements are as follows:

- *Unrestricted* - Net assets which are free of donor-imposed restrictions. This includes all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains on quasi-endowment investments.

- *Temporarily Restricted* - Net assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. This category includes realized and unrealized gains on permanently restricted endowment and other long-term investments that are in excess of the Board of Trustee's approved spending rule. Temporarily restricted net assets, which are received and used within the same year, are reported as unrestricted.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- *Permanently Restricted* - Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University.

Non-operating activities reflect transactions of a long-term investment or capital nature including contributions to be invested by the University to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment, unrealized investment gains or losses, changes in the fair value of the interest rate swap contract, loss on bond refinancing, and impairment of capitalized assets. Realized gains and losses in excess of the University's spending policy for operations are recorded as non-operating revenue or expense.

2. **Cash Equivalents**

Cash and cash equivalents represent demand deposits and other investments with a maturity date not exceeding 90 days at the date of purchase.

3. **Concentration of Credit Risk**

The University's financial instruments, which are exposed to concentrations of credit risk, consist primarily of cash and cash equivalents, investments and deposits with bond trustees. These funds are held in various high-quality financial institutions managed by the University's personnel and outside advisors. The University maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits. The University believes that the concentrations of credit risk are limited to its cash and cash equivalents, investments, and deposits with bond trustees.

4. **Deposits with Trustees**

Deposits with trustees represent funds held in trust in accordance with the University's outstanding debt agreements.

5. **Investments**

The fair value of investments in debt and equity securities is based upon quoted market values provided by external investment custodians (see Note B). For alternative investments, fair value of each investment is determined based on a review of the audited financial statements of the underlying funds, and other information from independent third parties including information provided by the fund managers, the general partners and research performed by the investment manager. Investments in such funds do carry certain risks including lack of regulatory oversight, interest rate risk and market risk. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in risk factors in the near term might materially affect the amounts reported in the statements of financial position. Investment sales and purchases are recorded on a trade date basis.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. **Beneficial Interest in Trusts**

These funds represent resources neither in the possession of nor under the control of the University, but are paid and administered by outside trustees, with the University deriving income or a residual interest from the assets of such funds. They are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence.

7. **Contributions**

Contributions received, including unconditional promises, are recognized as revenues when the donor's commitment has been received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. Conditional promises are recorded when donor stipulations are substantially met. Conditional promises whose restrictions are met in the same year as the contributions have been recorded as unconditional promises. Promises of non-cash assets are recorded at their fair value.

8. **Allowance for Doubtful Accounts**

The allowance for doubtful accounts on student accounts and student loans receivables is provided based upon management's judgment including such factors as prior collection history and type of receivable. The University writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At June 30, 2008 and 2007, the allowance for doubtful accounts was approximately $2,089,000 and $1,870,000, respectively.

9. **Land, Buildings, and Equipment**

Plant assets are stated at cost. Contributed assets, which are used for operations, are stated at fair market value as of the date donated. The University also maintains a museum dedicated to pharmacy and health sciences. The value of the items contributed to the museum collection has not been capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the buildings (40-60 years), equipment (5-25 years), and library books and periodicals (5 years).

Maintenance repairs and minor replacements are charged to expense as incurred.

10. **Tuition and Fees**

The University maintains a policy of offering qualified applicants admission without regard to financial circumstances. This policy provides for financial aid to those admitted in the form of direct grants, loans, and employment during the academic year. Tuition and fees have been reduced by these and other merit-based direct grants.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. **Allocation of Certain Expenses**

The statement of activities presents expenses by functional classification. Operation and maintenance of plant and depreciation are allocated based on square footage. Interest expense is allocated to the functional classifications that benefited from the use of the proceeds of the debt and on an allocation based on square footage.

12. **Fair Value of Financial Instruments**

The fair value of cash and cash equivalents in the aggregate approximate their respective carrying amounts. The fair value of long-term debt is estimated based primarily on quoted market prices of similar bonds and currently offered mortgage interest rates.

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with the U.S. government mandated interest rates and repayment terms and subject to significant transfer of disposition restrictions, could not be made without incurring excessive costs.

13. **Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

14. **Internal Revenue Code Status**

The University has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, files federal tax Form 990 (Return of Organization Exempt from Income Tax) annually.

On July 1, 2007, the University adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of FIN 48 had no impact on the University's statement of financial position or statement of activities. The University does not believe its financial statements include any uncertain tax positions.

15. **Accounting for Derivative Instruments and Hedging Activities**

The University accounts for derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivative instruments as either assets or liabilities and measure them at fair value.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. **Conditional Asset Retirement Obligation**

The University follows Financial Accounting Standards Board (FASB) Financial Interpretation No. 47, (FIN 47), *Accounting for Conditional Asset Retirement Obligations.* FIN 47 clarifies that the term conditional asset retirement obligation as used in SFAS No. 143 includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and/or method of settling the obligation is conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. SFAS No. 143 requires the fair value of a liability for a legal obligation associated with an asset retirement to be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized. At June 30, 2008 and 2007, the conditional asset retirement obligation was $631,744 and $623,871, respectively. The liability is recorded as a component of accounts payable and accrued liabilities in the statement of financial position.

17. **New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement.* This new standard provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the organization's mark-to-market value. SFAS No. 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data.

Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The University intends to adopt SFAS No. 157 as it applies to its fiscal year ending June 30, 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement 115.* SFAS No. 159 permits entities to choose to measure certain financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The University is currently evaluating whether to adopt SFAS No. 159 as it applies to its fiscal year ending June 30, 2009.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

18. **Reclassifications**

Certain reclassifications have been made to the fiscal 2007 financial statements to conform to the fiscal 2008 presentation. $17,583,178 have been reclassified from cash and cash equivalents to short-term investment on the statements of financial position and cash flows for the year ended June 30, 2007, because the average maturity of portfolio where these funds are held can extend beyond 90 days. $26,852,027 have been reclassified from student receivables and from deferred revenue on the statements of financial position and cash flows for the year ended June 30, 2007, because they represent amounts not yet due or earned as of June 30, 2008.

NOTE B - INVESTMENTS

The fair and cost values of the University's investments in marketable securities by type of investment were as follows at June 30:

	2008		2007	
	Fair value	Cost	Fair value	Cost
Money market accounts	$ 411,624	$ 411,624	$ 362,361	$ 362,361
Mutual funds				
Fixed income	34,610,716	34,989,350	44,825,110	44,644,494
Asset Allocation	29,366,563	27,449,812	29,274,251	25,172,831
Domestic	48,551,080	46,489,087	54,992,777	45,347,889
International	24,423,453	17,689,794	25,866,875	15,998,748
Alternative and hedge	27,180,417	21,212,599	22,870,901	17,817,907
Real estate limited partnership	521,229	583,050	566,239	648,258
	$ 165,065,082	$ 148,825,316	$ 178,758,514	$ 149,992,488

For the fiscal years ended June 30, 2008 and 2007, the University incurred $792,349 and $286,150, respectively, in advisory and custodial fees for these investments. These fees have been netted against investment income in the statement of activities.

The University has a spending rule policy for the majority of the endowment fund's asset pool whereby each participating fund earns investment income on the basis of subscribed units. These units are acquired and disposed at fair market value as determined on a quarterly basis. For fiscal years ending June 30, 2008 and 2007, the income was based on a spending rate of 5.5% of the three-year trailing average market value of the related assets.

NOTE C - CONTRIBUTIONS RECEIVABLES

Contributions receivable consisted of the following at June 30:

	2008	2007
Contributions receivable in		
Less than one year	$ 441,664	$ 419,162
One to five years	118,500	603,500
	560,164	1,022,662
Less discount to present value at 3% for 2008 and 2007	(17,446)	(47,024)
	$ 542,718	$ 975,638

NOTE D - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30 consist of the following:

	2008	2007
Land and improvements	$ 7,639,908	$ 7,639,908
Buildings and improvements	134,213,328	129,898,405
Construction in progress	1,230,931	1,251,782
Equipment	12,639,244	11,925,328
Library books	4,062,740	4,062,740
	159,786,151	154,778,163
Less accumulated depreciation	(58,222,563)	(54,237,508)
	$ 101,563,588	$ 100,540,655

The University recorded depreciation expense of $4,669,618 and $4,026,755 for the years ended June 30, 2008 and 2007, respectively.

NOTE E - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The University provides certain health care and life insurance benefits for retired employees who reach retirement age while working for the University. The University accrues for expected medical and other postretirement benefits over the years that the employees render the necessary service. The University has adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*, which requires the University to record recognize the funded status of their postretirement benefit plans in the statement of financial position. During the year ended June 30, 2008, the University funded $139,875 to the Emeriti Program. The Emeriti Program is a retirement benefits program designed for colleges and universities to offer employees a tax advantaged way to accumulate assets during their

NOTE E - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

working years to help defray medical costs in retirement years. The University voluntarily contributes for eligible employees into a tax-free trust called a Voluntary Employee's Beneficiary Association (VEBA). Employees also have the option to contribute on an after tax-basis to separate accounts, and direct the investment funds in both accounts into a set of mutual funds offered by Fidelity. The University also has the option to make contributions in special circumstances to a Grantor Trust.

1. Reconciliation of Benefit Obligation and Plan Assets

	2008	2007
Change in benefit obligation		
Benefit obligation at June 30 of the prior year	$ 875,504	$ 1,749,502
Service cost	6,857	7,571
Interest cost	44,045	53,125
Plan participants' contributions	-	-
Amendment	-	(906,934)
Actuarial loss (gain)	(119,117)	64,529
Benefit paid	(84,010)	(92,289)
Benefit obligation at end of year	$ 723,279	$ 875,504
Change in plan assets		
Total contribution	$ 84,010	$ 92,289
Benefits paid	(84,010)	(92,289)
Fair value of plan assets at end of year	$ -	$ -

2. Funded Status Reconciliation and Key Assumptions

	2008	2007
Weighted-average assumptions as of end of year		
Discount rate	6.25 %	6.25%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Assumed healthcare trend rate	9.00%	9.50%
Ultimate trend rate	5.00%	5.00%
Years of Ultimate Trend Rate	2016	2016

(Continued)

NOTE E - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

3. Cumulative Effect of Accounting Change

	2008	2007
Net actuarial loss	$ N/A	$ 549,007
Prior service credit	N/A	(800,611)
Cumulative effect of accounting change	$ N/A	$ (251,604)

4. Net periodic pension (benefit) cost

	2008	2007
Service cost	$ 6,857	$ 7,571
Interest cost	44,045	53,125
Amortization of prior-service cost and of transition obligation	(106,323)	(106,323)
Amortization of net actuarial loss	21,199	28,647
Net periodic (benefit) cost	$ (34,222)	$ (16,980)

5. Estimated Amortization for the Next Fiscal Year

Net actuarial loss	$ 21,168
Prior service credit	(106,323)
Cumulative effect of accounting change	$ (85,155)

6. Sensitivity Analysis, Postretirement Benefits

The sensitivity to +1 % and -1 % of the health care trend rate is minimal because the medical plan includes a cap limit set by the University on post-65 benefits.

7. Cash Flows

Contributions - The University expects to contribute $44,999 to its postretirement benefit plan in fiscal 2009.

(Continued)

NOTE E - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

Estimated Future Benefit Payments - The following benefit payments, which reflect expected future service, as appropriate, expected to be paid for the years ending June 30 are as follows:

2009	$	44,999
2010		46,040
2011		47,022
2012		47,881
2013		48,681
2014-2018		251,682

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) became law. This Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that meets creditable coverage/financing definitions defined by the Centers of Medicare and Medicaid Services. There is no Medicare Part D impact on the University's plan given the limited nature of the post-65 obligation.

NOTE F - BONDS PAYABLE

On January 15, 2005, the Pennsylvania Higher Education Financing Authority (PHEFA) issued 2005A tax-exempt bonds totaling $40,545,000 and on February 1, 2005, the PHEFA issued 2005B tax-exempt bonds totaling $54,475,000 and 2005C taxable bonds totaling $9,375,000 on behalf of the University. Proceeds were used to establish refunding escrows for the 1995 and 1998 PHEFA bonds, to redeem the 2002 PHEFA bonds, for the construction and equipping of a new science and technology center, the expansion of the central utility plant, and other capital projects plus the payment of capital interest expense and certain debt issuance expenses. These bonds are insured by XL Capital Insurance and are secured by a mortgage on the science and technology center. The 2005A PHEFA bonds are fixed rate instruments while the 2005B PHEFA bonds are auction rate certificates (ARC).

On May 15, 2006, the PHEFA issued 2006 tax-exempt bonds totaling $8,100,000 on behalf of the University. Proceeds were used to redeem the 2005C PHEFA taxable bonds and certain debt issuance costs. The 2006 PHEFA bonds are auction rate certificates.

On May 17, 2008, the PHEFA issued 2008 tax-exempt bonds totaling $67,400,000 on behalf of the University. Proceeds were used to redeem the 2005B and the 2006 PHEFA bonds and certain debt issuance costs as well as establish a debt service reserve fund. The 2008 PHEFA bonds are fixed rate instruments.

(Continued)

NOTE F - BONDS PAYABLE - Continued

Bonds Payable is comprised of the following at June 30:

	2008	2007
Series 2005A--3% to 5%; maturing 11/1/2033, and 11/1/2036	$ 38,185,000	$ 39,070,000
Series of 2005A net premium	670,158	701,841
Series of 2005B--variable and synthetically fixed; maturing 11/1/2031	-	54,475,000
Series of 2006--variable, maturing 11/1/2015	-	6,750,000
Series of 2008	67,400,000	-
Series of 2008 net premium	1,781,831	-
Total bonds payable	$ 108,036,989	$ 100,996,841
Unamortized issuance cost	$ 3,227,006	$ 2,299,751
Interest paid	$ 4,751,724	$ 4,042,675
Principal paid	$ 62,110,000	$ 2,210,000

The total market value of the $105,585,000 PHEFA Revenue Bonds was $103,675,069 at June 30, 2008, based on a comparison to current interest rates.

The maturities of all bonds and term loan for the next five years ending June 30 are:

	Maturing
2009	$ 580,000
2010	620,000
2011	960,000
2012	1,000,000
2013	1,040,000
Thereafter	101,385,000
Total	$ 105,585,000

SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, permits the extinguishment of liabilities only through payment of the creditor and relief of the obligation for the liability or if the debtor is legally released from the obligation. The 2005B and 2006 PHEFA bonds were legally defeased with the issuance of the 2008 PHEFA bonds. There were no defeasances of debt by the University during the 2007 fiscal year. The University's outstanding debt that had been refunded prior to 1998 and was not required to be disclosed on the statement of financial position totaled $6,745,000 and $6,980,000 at June 30, 2008 and 2007, respectively. Funds held by a trustee to repay these obligations totaled $6,794,086 and $7,166,218 at June 30, 2008 and 2007, respectively.

NOTE G - LINE OF CREDIT

The University has an available line of credit in the amount of $1.5 million with interest charged at the bank's prime rate. There is no specific amount required for compensating balance and no outstanding liability as of June 30, 2008 or 2007.

NOTE H - NET ASSETS

The components of the major classifications of net assets at June 30 are as follows:

	2008	2007
Unrestricted net assets		
Unallocated	$ 1,919,825	$ 1,919,825
Designated for		
Specific purposes, University's and department's	1,592,027	1,299,137
Student loans	2,158,851	2,113,420
Funds functioning as endowment	97,882,094	99,678,789
Future investment in facilities	7,757,618	11,565,249
Net investment in plant	9,449,089	11,185,123
	$ 120,759,504	$ 127,761,543
Temporarily restricted net assets		
Unexpended income for instruction, scholarships and capital expenditures	$ 2,820,679	$ 2,890,242
Endowment earnings in excess of spending policy	9,265,767	12,117,372
Annuities and unitrust	167,923	217,589
	$ 12,254,369	$ 15,225,203
Permanently restricted net assets		
Student loans	$ 185,887	$ 285,773
Endowment	38,369,117	37,389,998
Annuities	27,739	55,844
	$ 38,582,743	$ 37,731,615

NOTE I - OPERATING EXPENSES

Expenses by natural classifications for the years ended June 30 were:

	2008	2007
Compensation		
Salaries	$ 34,870,694	$ 34,865,864
Employee benefits	10,999,274	10,217,553
Total compensation	45,869,968	45,083,417
Other expenses		
Advertising and consulting	3,280,757	3,646,394
Clinical fees	1,190,851	1,079,854
Computer equipment and software	779,204	1,043,115
Depreciation of buildings and equipment	4,669,618	4,026,755
Food	920,757	1,301,437
Interest on indebtedness	4,957,749	4,054,889
Management contracts	517,507	845,226
Printing	587,082	1,084,264
Reference materials	721,289	687,817
Rental	2,009,319	1,188,176
Scholarships	728,137	1,161,429
Service contracts	2,820,950	576,064
Utilities	3,043,605	2,651,543
Other supplies and expenses	9,231,007	9,238,131
Total other expenses	35,457,832	32,585,094
Total expenses	$ 81,327,800	$ 77,668,511

NOTE J - PENSION PLAN

The University of the Sciences in Philadelphia Basic Retirement Plan is a defined contribution pension plan covering substantially all employees. The plan is designed to provide for investments in annuities and in shares of regulated investment companies (mutual funds). The University contributes 10% of each participant's annual compensation. Pension expense was $2,859,391 and $2,420,487 in 2008 and 2007, respectively.

NOTE K - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2007, a partner of the University's outside legal counsel was a member of the University's Board of Trustees. The University paid $345,065 to this legal firm for its services for the year ended June 30, 2007. Gifts from various members of the University's Board of Trustees totaled $404,100 and $337,727 for the years ended June 30, 2008 and 2007, respectively.

NOTE L - COMMITMENTS AND CONTINGENCIES

The University has noncancelable operating leases ending in 2008 through 2029 for certain facilities and equipment. Rental expense under these agreements equaled $1,919,940 in 2008 and $1,057,357 in 2007. Future minimum lease payments are as follows:

2009	$ 1,903,080
2010	1,635,996
2011	925,476
2012	911,817
2013	934,496
Thereafter	6,261,448

In the ordinary course of the University's educational activities, various lawsuits, claims and other contingencies arise. While the ultimate disposition of the aforementioned contingencies is not determinable at this time, management believes that any liability resulting there from will not materially affect the financial position of the University as of June 30, 2008.

NOTE M - SUBSEQUENT EVENT (UNAUDITED)

At June 30, 2008, approximately $7,513,361 of the University's cash balance was held in The Common Fund for Short-Term Investments (the Short-Term Fund). This fund is a daily liquidity short-term fund. On September 29, 2008, the University was advised by The Common Fund that the September 26, 2008 Short-Term Fund balance of approximately $7,787,135 was subject to distribution limitations placed on the Short-Term Fund by the Short-Term Fund's trustee. Approximately 10% or $778,714 would be immediately available for withdrawal by the University while the remaining 90% or $7,008,421 would become available for withdrawal as the underlying investments of the Short-Term Fund either mature or are sold.

Based on estimates presented by the Common Fund, the University expects that approximately 52% or $4,049,310 of the Short-Term Fund's September 26, 2008 balance may be available for withdrawal by the University by December 31, 2008 with an additional portion becoming available at various dates during calendar year 2009 and additional redemptions occurring thereafter. The Common Fund stated that a substantial portion of the underlying assets in the fund are highly-rated securities, and although no assurances can be provided, it does not anticipate that its Short-Term Fund investments will incur a loss when distributed. The University does not believe these distribution limitations or delays will interrupt its operations.