Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

University of the Sciences in Philadelphia

June 30, 2010 and 2009

Contents

Audit – Tax – Advisory

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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, 2010 and 2009, and the related 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 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, 2010 and 2009, 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.

Grant Thornton LLP

Philadelphia, PA

November 10, 2010

University of the Sciences in Philadelphia

STATEMENTS OF FINANCIAL POSITION

June 30,

	2010	2009
ASSETS		
Cash and cash equivalents	$ 17,109,444	$ 16,297,520
Prepaid expenses and other current assets	1,817,371	1,069,409
Deposits with trustees	5,956,367	7,480,083
Receivables, net		
Student accounts	3,013,066	2,332,197
Student loans	6,442,540	6,413,561
Government	1,318,960	469,801
Contributions	901,631	267,578
Other	281,517	1,430,082
Investments	151,844,853	137,340,554
Bond issuance costs, net	3,058,306	3,175,839
Land, buildings, and equipment, net	100,865,520	101,572,896
Beneficial interest in trusts	434,337	409,606
TOTAL ASSETS	$ 293,043,912	$ 278,259,126
LIABILITIES		
Accounts payable and accrued liabilities	$ 9,395,623	$ 11,267,558
Refundable government grants and loans	5,128,443	5,085,334
Tuition deposits and deferred revenue	10,883,247	10,372,990
Annuity liabilities	267,026	345,065
Other liabilities	180,883	206,767
Bonds payable, net	106,586,408	107,333,135
TOTAL LIABILITIES	132,441,630	134,610,849
NET ASSETS		
Unrestricted	109,833,682	97,124,035
Temporarily restricted	9,878,865	7,825,351
Permanently restricted	40,889,735	38,698,891
TOTAL NET ASSETS	160,602,282	143,648,277
TOTAL LIABILITIES AND NET ASSETS	$ 293,043,912	$ 278,259,126

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

University of the Sciences in Philadelphia

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees-gross	$ 91,804,166	$ -	$ -	$ 91,804,166
Less direct grants and allowances	(24,312,552)	-	-	(24,312,552)
Tuition and fees, net	67,491,614	-	-	67,491,614
Government grants	3,406,353	-	-	3,406,353
Private gifts and grants	2,112,282	-	-	2,112,282
Investment income	7,240,363	-	-	7,240,363
Educational departments	617,689	-	-	617,689
Auxiliary services	8,560,669	-	-	8,560,669
Other	356,500	-	-	356,500
Total operating revenue	89,785,470	-	-	89,785,470
OPERATING EXPENSES				
Instruction	33,196,655	-	-	33,196,655
Research	4,204,884	-	-	4,204,884
Academic support	8,212,555	-	-	8,212,555
Student services	12,342,626	-	-	12,342,626
Institutional support	17,243,068	-	-	17,243,068
Scholarships	1,009,776	-	-	1,009,776
Auxiliary enterprises	6,854,158	-	-	6,854,158
Total operating expenses	83,063,722	-	-	83,063,722
Change in net assets from operating activities	6,721,748	-	-	6,721,748
NON-OPERATING				
Contributions for long-term investments	-	217,919	2,102,182	2,320,101
Net gain on long-term investments after endowment payout of $2,322,615	5,159,985	2,554,311	-	7,714,296
Investment loss	-	-	(166)	(166)
Annuity adjustment	-	(9,472)	88,828	79,356
Pension related changes other than net periodic pension cost	118,670	-	-	118,670
Recovery of deficiencies in historical values	449,400	(449,400)	-	-
Net assets released from restrictions	259,844	(259,844)	-	-
Total non-operating	5,987,899	2,053,514	2,190,844	10,232,257
CHANGE IN NET ASSETS	12,709,647	2,053,514	2,190,844	16,954,005
NET ASSETS - beginning of year	97,124,035	7,825,351	38,698,891	143,648,277
NET ASSETS - end of year	$ 109,833,682	$ 9,878,865	$ 40,889,735	$ 160,602,282

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

University of the Sciences in Philadelphia

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees-gross	$ 88,009,039	$ -	$ -	$ 88,009,039
Less direct grants	(22,386,145)	-	-	(22,386,145)
Tuition and fees, net	65,622,894	-	-	65,622,894
Government grants	2,773,194	-	-	2,773,194
Private gifts and grants	1,895,354	-	-	1,895,354
Investment income	6,625,102	-	-	6,625,102
Educational departments	1,313,261	-	-	1,313,261
Auxiliary services	9,108,738	-	-	9,108,738
Other	293,727	-	-	293,727
Total operating revenue	87,632,270	-	-	87,632,270
OPERATING EXPENSES				
Instruction	34,025,819	-	-	34,025,819
Research	3,771,582	-	-	3,771,582
Academic support	8,087,662	-	-	8,087,662
Student services	11,267,281	-	-	11,267,281
Institutional support	17,192,260	-	-	17,192,260
Scholarships	679,037	-	-	679,037
Auxiliary enterprises	7,199,367	-	-	7,199,367
Total operating expenses	82,223,008	-	-	82,223,008
Change in net assets from operating activities	5,409,262	-	-	5,409,262
NON-OPERATING				
Contributions for long-term investments	-	117,336	103,185	220,521
Net loss on long-term investments after endowment payout of $3,750,250	(23,660,565)	(10,411,876)	-	(34,072,441)
Investment income	-	439,301	3,853	443,154
Annuity adjustment	(28,960)	(15,006)	9,110	(34,856)
Pension related changes other than net periodic pension cost	86,021	-	-	86,021
Deficiencies in historical values	(5,447,247)	5,447,247	-	-
Net assets released from restrictions	6,020	(6,020)	-	-
Total non-operating	(29,044,731)	(4,429,018)	116,148	(33,357,601)
CHANGE IN NET ASSETS	(23,635,469)	(4,429,018)	116,148	(27,948,339)
NET ASSETS - beginning of year	120,759,504	12,254,369	38,582,743	171,596,616
NET ASSETS - end of year	$ 97,124,035	$ 7,825,351	$ 38,698,891	$ 143,648,277

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

University of the Sciences in Philadelphia

STATEMENTS OF CASH FLOWS

For the years ended June 30,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 16,954,005	$ (27,948,339)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,138,238	4,878,310
Loss on disposal of property and equipment	-	11,077
Contributions restricted for long-term investments	(2,320,101)	(220,521)
Net (gain)/loss on long-term investments	(7,689,565)	33,975,510
Change in fair value of beneficial interest in trust	(24,731)	96,931
Cancellations and allowance for student loans	404,288	206,570
Changes in operating assets and liabilities		
Student accounts receivable	(680,869)	249,374
Government receivables	(849,159)	(236,974)
Contributions receivable	(634,053)	275,140
Other receivables	1,148,566	(1,024,846)
Prepaid expenses and other current assets	(747,962)	(198,608)
Accounts payable and accrued liabilities	(2,234,419)	587,483
Refundable government grants and loans	43,109	68,969
Tuition deposits and deferred revenue	510,257	653,093
Annuity liabilities	(78,039)	(18,455)
Other liabilities	(25,884)	81,194
Net cash provided by operating activities	8,913,681	11,435,908
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	44,499,335	37,542,797
Purchase of investments	(44,421,582)	(40,600,197)
Increase in investment cash	(6,892,488)	(3,193,582)
Decrease in deposits with trustees	1,523,716	1,964,454
Disbursements for loans to students	(1,098,831)	(882,105)
Accrued interest from loans to students	(29,948)	(13,481)
Repayment of loans by students	695,512	605,174
Purchase of property and equipment	(4,077,572)	(3,892,925)
Net cash used in investing activities	(9,801,858)	(8,469,865)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	2,320,101	220,521
Payment of debt issuance costs	-	(64,107)
Repayment of bonds	(620,000)	(580,000)
Net cash provided by (used in) financing activities	1,700,101	(423,586)
NET INCREASE IN CASH AND CASH EQUIVALENTS	811,924	2,542,457
CASH AND CASH EQUIVALENTS - beginning of year	16,297,520	13,755,063
CASH AND CASH EQUIVALENTS - end of year	$ 17,109,444	$ 16,297,520
Supplemental disclosure of cash flow information - non cash investing activities		
Accrued purchases of property and equipment	$ 362,484	$ 1,014,351
Cash paid for interest	$ 4,857,754	$ 4,770,980

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of the Sciences in Philadelphia (the University) is a nonprofit independent institution of higher education with a commitment to excellence in teaching, research and service. As the University of the Sciences in Philadelphia, the institution consists of the following five colleges:

Philadelphia College of Pharmacy
Misher College of Arts and Science
Samson College of Health Sciences
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 year ended June 30, 2010, the University enrolled 2,984 students, which is equivalent to 2,836 full-time students, or 2,620 undergraduate and first-degree students plus 364 graduates and other program majors. The undergraduate classes' primary areas of study are doctor of pharmacy at 58%, and physical therapy at 10%.

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.

- *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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Cash and 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. The estimated fair value of certain alternative investments, such as hedge fund, private equity, real estate and other investments, are based on the reported net asset value per share as a practical expedient as of June 30, 2010 and 2009. Because certain alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. These instruments may contain elements of both credit risk and market risk. Such risks include, but are not limited to: limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition. The University generally classifies investments within either Level 2 if its investment in the entity can be redeemed at the reporting date or within the near term, or Level 3 if its investment is not redeemable.

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.

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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, student loans, government, contribution and other 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, 2010 and 2009, the allowance for doubtful accounts was approximately $2,972,000 and $2,296,000, respectively.

9. Land, Buildings, and Equipment

Plant assets are stated at cost. Contributed assets, which are used for operations, are stated at fair 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) and equipment (5-25 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 direct grants.

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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, student and other accounts receivable, prepaid expenses and other assets, accounts payable and accrued expenses and other liabilities approximate their respective carrying amounts. The fair value of long-term debt is estimated based primarily on quoted market prices of similar bonds.

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. The most significant estimates and assumptions relate to the determination of the allowance for receivables; alternative investment values; annuity liabilities; useful lives of fixed assets; assumptions related to postretirement benefits; conditional asset retirement obligations and the reported fair values of certain of the University's assets and liabilities.

14. Non-Operating Activities

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, annuity adjustments and pension related changes other than net periodic pension cost. Realized and unrealized gains and losses in excess of the University's spending policy for operations are recorded as non-operating revenue or expense.

15. 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.

The University recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The University does not believe its financial statements include any material uncertain tax positions.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. Conditional Asset Retirement Obligation

The University considers a conditional asset retirement obligation 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. The University records the fair value of a liability for a legal obligation associated with an asset retirement 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, 2010 and 2009, the conditional asset retirement obligation was $644,767 and $636,538, respectively. The liability is recorded as a component of accounts payable and accrued liabilities in the statement of financial position.

17. New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting pronouncement establishing the FASB Accounting Standards Codification as a source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities. This guidance was effective for financial statements issued for periods ending after September 15, 2009. On the effective date, all accounting and reporting standards were superseded. The University adopted the presentation for the annual period ended June 30, 2010, as required, and adoption did not have a material impact on the University's financial statements taken as a whole.

In September 2009, the FASB issued guidance which permits an entity, as a practical expedient, to estimate the fair value of an investment using the net asset value per share (or its equivalent) if the net asset value per share of the investment is calculated in a manner consistent with the measurement principles of the FASB guidance for investment companies as of the reporting date. This guidance also requires expanded disclosures about redemption restrictions, unfunded commitments and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types in U.S. GAAP on investments in debt and equity securities. The guidance was effective for financial statements issued for periods ending after December 15, 2009. As permitted, the University early adopted the measurement provisions of this guidance for the year ended June 30, 2009. The University adopted the disclosure requirements of this guidance for the year ended June 30, 2010. Adoption did not have a material impact on the fair value determination of applicable investments; however it did require additional disclosures. See Note F for the additional disclosures related to the amended guidance.

18. Reclassifications

Certain reclassifications have been made to the fiscal 2009 financial statements to conform to the fiscal 2010 presentation. A total of $3,014,768 has been reclassified from cash and cash equivalents to investments on the statements of financial position and cash flows for the year ended June 30, 2009 because the maturity date of certain certificates of deposit were greater than 90 days at the date of purchase.

NOTE B - INVESTMENTS

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

	2010		2009	
	Fair value	Cost	Fair value	Cost
Money market accounts	$ 7,482,406	$ 7,482,406	$ 589,918	$ 589,918
Asset class				
Fixed income	42,975,127	42,288,048	42,787,199	44,841,838
Asset allocation	33,573,085	34,978,990	28,526,457	34,592,053
Domestic	27,654,204	30,665,174	30,833,231	43,177,827
International	17,697,054	15,107,771	13,847,751	13,431,048
Alternative, hedge and limited partnerships	22,462,977	26,240,816	20,755,998	20,089,473
	$ 151,844,853	$ 156,763,205	$ 137,340,554	$ 156,722,157

For the years ended June 30, 2010 and 2009, the University incurred $744,661 and $596,363, respectively, in advisory and custodial fees for these investments. These fees have been netted against investment income in the statement of activities.

NOTE C - CONTRIBUTIONS RECEIVABLES

Contributions receivable consisted of the following at June 30:

	2010	2009
Contributions receivable in		
Less than one year	$ 199,163	$ 141,663
One to five years	730,000	135,000
	929,163	276,663
Less discount to present value	(27,532)	(9,085)
	$ 901,631	$ 267,578

NOTE D - LAND, BUILDINGS, AND EQUIPMENT

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

	2010	2009
Land and improvements	$ 8,509,467	$ 8,509,467
Buildings and improvements	139,246,764	135,125,963
Equipment	14,453,094	13,679,614
Library books	4,062,740	4,062,740
Construction in progress	1,510,163	2,697,715
	167,782,228	164,075,499
Less accumulated depreciation	(66,916,708)	(62,502,603)
	$ 100,865,520	$ 101,572,896

The University recorded depreciation expense of $5,147,432 and $4,886,891 for the years ended June 30, 2010 and 2009, 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 recognizes the funded status of their postretirement benefit plans in the statement of financial position.

The University also sponsors a post retirement life and medical plan for some of its employees. The funded status of the plan, reconciled to the amounts reported in the statements of financial position, is as follows:

1. Reconciliation of Benefit Obligation and Plan Assets

	2010	2009
Change in benefit obligation		
Benefit obligation at beginning of year	$ 637,258	$ 723,279
Service cost	6,743	6,886
Interest cost	27,785	38,081
Actuarial gain	(136,213)	(102,672)
Benefit paid	(16,985)	(28,316)
Benefit obligation at end of year	$ 518,588	$ 637,258

(Continued)

NOTE E - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

	2010	2009
Change in plan assets		
Total contribution	$ 16,985	$ 28,316
Benefits paid	(16,985)	(28,316)
Fair value of plan assets at end of year	$ -	$ -
Funded status - amount recognized in financial statements	$ 518,588	$ 637,258
Liability recognized in net assets	$ 850,309	$ 935,029
Other charges	(331,721)	(477,683)
	$ 518,588	$ 457,346

2. Funded Status Reconciliation and Key Assumptions

	2010	2009
Weighted-average assumptions as of end of year		
Discount rate	5.50%	6.25%
Assumed healthcare trend rate	8.00%	8.50%
Ultimate trend rate	5.00%	5.00%
Years of ultimate trend rate	2016	2016
Weighted-average assumptions for year ending		
Discount rate	6.25%	6.25%
Initial trend rate	8.50%	9.00%

3. Net periodic pension benefit

	2010	2009
Service cost	$ 6,743	$ 6,886
Interest cost	27,785	38,081
Amortization of prior-service cost and of transition obligation	(106,323)	(106,323)
Amortization of net actuarial loss	4,060	15,825
Net periodic benefit	(67,735)	(45,531)
Other changes in benefit	118,670	86,021
	$ 50,935	$ 40,490

(Continued)

NOTE E - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

4. Estimated Amortization for the Next Fiscal Year

Net actuarial loss	$ 6,167
Prior service credit	(106,323)
	$ (100,156)

5. 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.

6. Cash Flows

Contributions - The University expects to contribute $26,513 to its postretirement benefit plan in fiscal 2011.

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:

2011	$ 26,513
2012	27,422
2013	28,227
2014	28,841
2015	29,488
2016-2020	154,499

During the year ended June 30, 2010, the University funded $160,226 to the Emeriti Program. The Emeriti Program is a retirement benefits program designed for universities and colleges to offer employees a tax advantaged way to accumulate assets during their 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.

NOTE F - FAIR VALUE MEASUREMENTS

The University has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 2 Financial assets and liabilities whose values are based on one or more of the following:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in non-active markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that the University has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur. The University generally classifies alternative investments within either Level 2 if its investment in the entity can be redeemed at the reporting date or within the near term, or Level 3 if its investment is not redeemable.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following table presents information about the University's assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the University to determine such fair value.

June 30, 2010

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and cash equivalents	$ 17,109,444	$ -	$ -	$ 17,109,444
Deposits with trustees	5,956,367	-	-	5,956,367
Beneficial interest in trusts	-	-	434,337	434,337
Investments				
Money market accounts	7,482,406	-	-	7,482,406
Asset class				
Fixed income	42,975,127	-	-	42,975,127
Asset allocation	13,360,901	-	20,212,184	33,573,085
Domestic	27,654,204	-	-	27,654,204
International	8,615,776	9,081,278	-	17,697,054
Alternative, hedge and limited partnerships	-	4,545,616	17,917,361	22,462,977
Total investments	100,088,414	13,626,894	38,129,545	151,844,853
Total assets	$ 123,154,225	$ 13,626,894	$ 38,563,882	$ 175,345,001

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

June 30, 2009

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and cash equivalents	$ 16,297,520	$ -	$ -	$ 16,297,520
Deposits with trustees	7,480,083	-	-	7,480,083
Beneficial interest in trusts	-	-	409,606	409,606
Investments				
Money market accounts	589,918	-	-	589,918
Asset class				
Fixed income	38,106,738	4,680,461	-	42,787,199
Asset allocation	24,107,332	4,419,125	-	28,526,457
Domestic	27,798,056	3,035,175	-	30,833,231
International	-	13,847,751	-	13,847,751
Alternative, hedge and limited partnerships	-	4,510,217	16,245,781	20,755,998
Total investments	$ 90,602,044	$ 30,492,729	$ 16,245,781	$ 137,340,554
Total assets	$ 114,379,647	$ 30,492,729	$ 16,655,387	$ 161,527,763

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the University has utilized Level 3 inputs to determine fair value for the years ended June 30, 2010 and 2009:

	(Level 3)	
	2010	2009
Balance, beginning of year	$ 16,655,387	$ 20,406,799
Net purchases (sales)	20,677,764	(1,535,072)
Net investment gain (loss)	1,230,731	(2,216,340)
Balance, end of year	$ 38,563,882	$ 16,655,387

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010 and the University's ability to redeem out of these investment funds are as follows:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Asset allocation funds (a)	$ 14,810,255	$ -	(a)	(a)
International equity funds (b)	9,081,278	-	monthly	1 day
Alternative, hedge and limited partnerships				
Hedge funds (c)	11,572,513	-	monthly/quarterly	7-90 days
Private equity funds (d)	3,909,821	2,987,500	(d)	(d)
Absolute pooled funds (e)	6,603,499	-	annually	100 days
	$ 45,977,366	$ 2,987,500		

(a) Invests in a diversified global asset class and active security selection. Their policies focus on long-term preservation of purchasing power rather than a focus on short-term returns. The fair values have been estimated using the net asset value (NAV) per share of the investments. These assets provide distributions only upon liquidation of the underlying assets.

(b) Invests in a wide variety of international equity securities issued throughout the world, normally excluding the U.S. The fair values have been estimated using the NAV per share of the investments.

(c) Primarily invests in markets that perform the strongest in inflationary environments, and in U.S. equity and diversifying global equity, fixed income. The funds provide distributions upon liquidation of the underlying assets as noted. The fair values of all other investments in this fund have been estimated using the NAV per share of the investments.

(d) Comprised of various private equity funds that invest primarily in U.S. media and communications industry and/or life science and health care industries. The fair values of the underlying investments were estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investment. These assets provide distributions only upon liquidation of the underlying assets.

(e) Pooled fund that invests primarily in limited partnerships, limited liability companies, or non U.S. corporations. Valuation of interests in underlying investment funds is based on an amount equal to the Pool's pro-rata interest in net assets, which are calculated at the close of business on each offering date (last business day of the month) by dividing the assets off each series less its liabilities by the number of outstanding shares of each series. Redemption is permitted on December 31st with an initial lock up period of 3 years. If fund is not redeemed, a new lock up period will begin.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following provides a brief description of the types of financial instruments the University holds, the methodology for estimating fair value, and the level within the hierarchy of the estimate for recurring financial instruments.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

1. Cash and 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. These funds are considered Level 1 inputs.

2. Deposits with Trustees

Deposits with trustees are funds held by a third party to ensure the provisions of the indenture are met, and protect the interests of the bondholders. These funds are invested in cash equivalents and are considered Level 1 inputs.

3. Beneficial interest in trusts

Donors have established and funded trusts that are controlled by outside organizations. These funds are considered Level 3 inputs based on the underlying investments and redemption period.

4. Investments

Money Market Accounts: Funds designed to earn competitive yields on short term investments. These are Level 1 inputs.

Fixed Income: Funds designed to add value above the return of the broad U.S. bond market over a full market cycle and reduce the risk in comparison to that of investing in the index. Valued at closing prices reported on the active market; these items are considered Level 1 inputs based on evaluation of the underlying investments.

Asset Allocation: Funds designed to improve the net investment returns by making available a series of investment vehicles, each with its own investment objective and thus attaining a growth stream of current income and appreciation of principal to at least offset inflation. These items are valued at the NAV of the shares and are considered Level 1, 2, or 3 inputs depending on the underlying investments of the fund.

Domestic: Funds designed to provide net investment returns that correspond to the total return of publicly traded common stocks in the aggregate, as represented by the S&P 500 Composite Stock Price index. Valued at the closing price reported on the active market, these are Level 1 inputs depending on the underlying investments of the funds.

(Continued)

NOTE F - FAIR VALUE MEASUREMENTS - Continued

International: Funds designed to provide long-term returns by investing primarily in a diversified portfolio that corresponds to the performance of securities held in the Morgan Stanley Country Index - Europe, Asia, Far East (MSCI EAFE) and Morgan Stanley Country Index - All Country World Index (MSCI - ACWI). Valued at NAV, these are Level 1 and Level 2 inputs.

Alternative, Hedge and Limited Partnerships: Alternative and hedge funds are funds designed to outperform the S&P index over a full market cycle, while also providing some protection during down markets. Limited partnerships are funds used to protect against inflation and have a primary objective of creating income and capital preservation over the long term. Valued at NAV, these funds are Level 2 or 3 inputs depending on the underlying investments of the funds.

NOTE G - BONDS PAYABLE

On January 15, 2005, the Pennsylvania Higher Education Financing Authority (PHEFA) issued 2005A tax-exempt bonds totaling $40,545,000. 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 and are secured by a mortgage on the McNeil Science and Technology Center. The 2005A PHEFA bonds are fixed rate instruments.

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 insured fixed rate instruments insured by Assured Guarantee.

Bonds payable is comprised of the following at June 30:

	2010	2009
Series 2005A - 3.0% to 5.0%; maturing 11/1/2033, and 11/1/2036	$ 36,985,000	$ 37,605,000
Series of 2005A net premium	607,886	638,863
Series of 2008 - 3.5% to 5.0%; maturing 11/1/2032 and 11/1/2037	67,400,000	67,400,000
Series of 2008 net premium	1,593,522	1,689,272
Total bonds payable, net	$ 106,586,408	$ 107,333,135

The estimated fair value of long-term debt is based on quoted market prices for the same or similar issues and was approximately $108,925,000 at June 30, 2010, $4,540,000 more than its carrying value of $104,385,000.

(Continued)

NOTE G - BONDS PAYABLE - Continued

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

	Maturing
2011	$ 960,000
2012	1,000,000
2013	1,040,000
2014	2,255,000
2015	2,255,000
Thereafter	96,875,000
Total	$ 104,385,000

NOTE H - LINE OF CREDIT

The University has an available line of credit in the amount of $2.0 million with interest charged at the bank's June 30, 2010 prime rate of 3.25% expiring on March 31, 2011. There is no specific amount required for compensating balance and no outstanding liability as of June 30, 2010.

NOTE I - NET ASSETS

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

	2010	2009
Unrestricted net assets		
Unallocated	$ 1,919,825	$ 1,919,825
Designated for		
Specific purposes, University's and department's	2,276,867	1,825,395
Student loans	3,314,950	3,550,840
Funds functioning as endowment	87,931,435	77,640,321
Future investment in facilities	11,989,491	6,000,810
Net investment in plant	2,401,114	6,186,844
	$ 109,833,682	$ 97,124,035
Temporarily restricted net assets		
Unexpended income for instruction, scholarships and capital expenditures	$ 3,332,941	$ 3,377,317
Endowment earnings in excess of spending policy	6,509,425	4,437,891
Annuities and unitrust (endowment)	36,499	10,143
	$ 9,878,865	$ 7,825,351

(Continued)

NOTE I - NET ASSETS - Continued

	2010	2009
Permanently restricted net assets		
Student loans	$ 188,404	$ 187,771
Endowment	40,682,267	38,501,164
Annuities (endowment)	19,064	9,956
	$ 40,889,735	$ 38,698,891

NOTE J - ENDOWMENTS

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi-endowments.

1. Interpretation of Relevant Law

The Board of Trustees of the University has interpreted Commonwealth of Pennsylvania Act 141 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the University's spending policy.

2. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the "historic dollar value". Deficiencies of this nature are reported by a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets. These charges totaled approximately $5,447,000 for the year ended June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. In the year ended June 30, 2010, $449,400 of the charges were recovered.

(Continued)

NOTE J - ENDOWMENTS - Continued

3. Endowment Investment Policy

The Endowment's assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. Under this approach, as approved by the Investment Committee of the Board of Trustees, the endowment assets are invested in a manner that is intended to achieve a positive rate of return over the long-term that would contribute to the cash flow needs of the organization for on-going operations, special initiatives and capital projects in support of the University; plus the endowment assets are to provide for asset growth at a rate in excess of the rate of inflation using the Higher Education Price Index (HEPI index) net of expenses to achieve investment results over the long-term that compare favorably with those of other similar sized endowments and foundations, professionally managed portfolios and of appropriate market indexes.

4. Endowment Spending Policy

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.

In order to balance the current needs with preserving the spending power of the endowment, the Board of Trustees set a spending rate of the fair value of the endowment to be available for operations. This rate was 4.0% and 5.5%, respectively, for the years ending June 30, 2010 and 2009. The University applies the spending rate to an average of the pooled endowment fair value for the 12 trailing quarterly periods ending as of December 31st of the prior fiscal year. The Board expects a 4.9% draw for the upcoming June 30, 2011 fiscal year.

5. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Previously, the University determined that best governance practice was not to internally manage the investment portfolio and that outsourcing of the management was clearly the best course. A consultant was hired to assist the Investment Sub-Committee of the Board of Trustees in this process. Different managers have been employed over the years and have included a wide range of investments, including alternative strategies. The rationale for including alternative strategy managers for the University's portfolio is to reduce overall volatility while providing equity like returns. Alternative asset classes have historically demonstrated lower volatility on a stand-alone basis compared to traditional asset classes. Additionally they have had low correlations thus providing diversification benefits at the total fund level. See Note F for more detail on how these are valued.

(Continued)

NOTE J - ENDOWMENTS - Continued

6. Endowment and Similar Fund Activity

June 30, 2010	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 77,640,321	$ 4,448,034	$ 38,511,120	$ 120,599,475
Investment return				
Net realized losses	(1,436,058)	(704,408)	-	(2,140,466)
Net unrealized gains	8,154,307	4,023,070	-	12,177,377
Net investment return	6,718,249	3,318,662	-	10,036,911
Appropriation of endowment assets for operations (draw)	(1,558,264)	(764,351)	-	(2,322,615)
Contributions	-	2,451	2,102,182	2,104,633
Other changes				
Other adjustments	-	(9,472)	88,029	78,557
Recovery of deficiencies in historical values	449,400	(449,400)	-	-
Additional designated by board	4,681,729	-	-	4,681,729
Total other changes	5,131,129	(458,872)	88,029	4,760,286
Net assets, end of year	$ 87,931,435	$ 6,545,924	$ 40,701,331	$ 135,178,690
As of June 30, 2010				
Donor restricted endowment funds	$ -	$ 6,545,924	$ 40,701,331	$ 47,247,255
Board-designated funds	87,931,435	-	-	87,931,435
	$ 87,931,435	$ 6,545,924	$ 40,701,331	$ 135,178,690

(Continued)

NOTE J - ENDOWMENTS - Continued

June 30, 2009	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 97,882,094	$ 9,433,690	$ 38,396,856	$ 145,712,640
Investment return				
Net realized losses	(1,848,466)	(807,309)	-	(2,655,775)
Net unrealized losses	(19,201,857)	(8,464,559)	-	(27,666,416)
Net investment return	(21,050,323)	(9,271,868)	-	(30,322,191)
Appropriation of endowment assets for operations (draw)	(2,610,242)	(1,140,008)	-	(3,750,250)
Contributions	-	-	103,185	103,185
Other changes				
Other adjustments	(28,961)	(21,027)	11,079	(38,909)
Deficiencies in historical values	(5,447,247)	5,447,247	-	-
Additional designated by board	8,895,000	-	-	8,895,000
Total other changes	3,418,792	5,426,220	11,079	8,856,091
Net assets, end of year	$ 77,640,321	$ 4,448,034	$ 38,511,120	$ 120,599,475
As of June 30, 2009				
Donor restricted endowment funds	$ -	$ 4,448,034	$ 38,511,120	$ 42,959,154
Board-designated funds	77,640,321	-	-	77,640,321
	$ 77,640,321	$ 4,448,034	$ 38,511,120	$ 120,599,475

NOTE K - OPERATING EXPENSES

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

	2010	2009
Compensation		
Salaries	$ 38,653,202	$ 37,411,320
Employee benefits	10,814,161	10,914,868
Total compensation	$ 49,467,363	48,326,188
Other expenses		
Advertising and consulting	2,959,967	3,150,850
Clinical fees	1,080,796	1,128,400
Computer equipment and software	435,280	565,613
Depreciation of buildings and equipment	5,147,432	4,886,891
Food	20,486	1,022,348
Interest on indebtedness	4,861,385	4,777,051
Management contracts	318,050	365,635
Printing	320,509	539,985
Reference materials	730,755	739,970
Rental	1,830,511	2,025,198
Scholarships	1,009,776	679,037
Service contracts	3,414,471	2,631,818
Utilities	2,583,268	2,751,432
Other supplies and expenses	8,883,673	8,632,592
Total other expenses	33,596,359	33,896,820
Total expenses	$ 83,063,722	$ 82,223,008

NOTE L - DEFINED CONTRIBUTION 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 $3,080,261 and $2,779,131 in 2010 and 2009, respectively.

NOTE M - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2010, the University paid $8,613 to a related party for lease expenses. A member of the Board of Trustees is an officer at the related party. Gifts from various members of the University's Board of Trustees totaled $1,641,703 and $570,862 for the years ended June 30, 2010 and 2009, respectively.

NOTE N - COMMITMENTS AND CONTINGENCIES

The University has non-cancelable operating leases ending in 2011 through 2029 for certain facilities and equipment. Rental expense under these agreements equaled $1,781,534 in 2010 and $1,962,367 in 2009. Future minimum lease payments are as follows:

2011	$ 1,800,507
2012	1,692,268
2013	979,763
2014	865,897
2015	850,698
Thereafter	4,542,603

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, 2010.

NOTE O - SUBSEQUENT EVENTS

The University evaluated its June 30, 2010 financial statements for subsequent events through November 10, 2010, the date the financial statements were available to be issued. The University is not aware of any subsequent event which would require recognition or disclosure in the financial statements.