Ai MIAMI INTERNATIONAL UNIVERSITY OF ART & DESIGN

FLORIDA SINGLE AUDIT REPORTS

Year Ended June 30, 2013

FOGLE & ASSOCIATES, LLC
Certified Public Accountants

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Fiogle & Associates, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

To the Board of Directors
Ai Miami International University of Art & Design

Report on Compliance for Each Major State Project

We have audited Ai Miami International University of Art & Design's compliance with the types of compliance requirements described in the Department of Financial Services' *State Projects Compliance Supplement* that could have a direct and material effect on each of Ai Miami International University of Art & Design's major State projects for the year ended June 30, 2013. Ai Miami International University of Art & Design's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Ai Miami International University of Art & Design's major State projects based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project occurred. An audit includes examining, on a test basis, evidence about Ai Miami International University of Art & Design's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State project. However, our audit does not provide a legal determination of Ai Miami International University of Art & Design's compliance.

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Opinion on Each Major State Project

In our opinion, Ai Miami International University of Art & Design complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major State projects for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Ai Miami International University of Art & Design is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ai Miami International University of Art & Design's internal control over compliance with the types of requirements that could have a direct and material effect on each major State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State project and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General* but not for the purpose of expressing an opinion on the effectiveness of Ai Miami International University of Art & Design's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ai Miami International University of Art & Design's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

Fogle & Associates, LLC

March 5, 2014

Ai MIAMI INTERNATIONAL UNIVERSITY OF ART & DESIGN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - STATE PROJECTS

Year Ended June 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

1. The combined financial statements of Ai Miami International University of Art & Design were audited by another independent registered public accounting firm whose report dated December 16, 2013 expressed an unmodified opinion.

2. The combined financial statements of Ai Miami International University of Art & Design were audited by another independent registered public accounting firm whose report dated December 16, 2013 identified no instances of noncompliance material to the financial statements and no findings related to the financial statements required to be reported in accordance with *Government Auditing Standards*.

3. The independent auditor's report on compliance for each major State project for Ai Miami International University of Art & Design expresses an unmodified opinion.

4. The audit of the major state projects of Ai Miami International University of Art & Design disclosed no findings or questioned costs required to be reported under Chapter 10.650, *Rules of the Auditor General*.

5. The programs tested as major state projects included:

   Florida Department of Education Student Financial Assistance Programs:

   a. Florida Access to Better Learning and Education Grant - CSFA #48.017
   b. Florida Student Assistance Grant - CSFA #48.054
   c. Florida Bright Futures Scholarship - CSFA #48.059

6. The dollar threshold for distinguishing between Type A and Type B projects was $300,000 for major State projects.

7. No management letter is required because there were no findings required to be reported in the management letter.

8. No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to major State projects.

9. No Corrective Action Plan is required because there were no findings required to be reported under Chapter 10.650, *Rules of the Auditor General*.

COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Miami International University of Art & Design
(Combined)
Fiscal Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Miami International University of Art & Design (Combined)

Combined Financial Statements and Supplemental Information

Fiscal Years Ended June 30, 2013 and 2012

Contents

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Report of Independent Auditors

The Shareholder and Board of Trustees
Miami International University of Art & Design (Combined)

Report on the Financial Statements

We have audited the accompanying combined financial statements of Miami International University of Art & Design, The Art Institute of Tampa, and The Art Institute of Jacksonville (collectively, "Miami International University of Art & Design (Combined)"), which comprise the combined balance sheets as of June 30, 2013 and 2012, and the related combined statements of operations, shareholder's equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Miami International University of Art & Design (Combined) at June 30, 2013 and 2012, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combining balance sheets, combining statements of operations, 90/10 ratios and composite scores, and supplemental schedule of expenditures of state financial assistance are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 on our consideration of Miami International University of Art & Design (Combined)'s internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Miami International University of Art & Design (Combined)'s internal control over financial reporting and compliance.

Ernst & Young LLP

December 16, 2013

Miami International University of Art & Design (Combined)

Combined Balance Sheets
(In thousands)

	June 30, 2013	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 8,263	$ 7,068
Restricted cash	2,714	4,725
Student accounts receivable, net of allowance of $2,936 and $4,439	2,960	2,754
Notes, advances, and other receivables	200	203
Inventory	238	392
Deferred income taxes	1,424	2,026
Other current assets	—	30
Total current assets	15,799	17,198
Property and equipment, net	14,310	18,083
Other long-term assets	679	495
Intangible assets, net	345	594
Goodwill	21,748	21,748
Total assets	$ 52,881	$ 58,118
Liabilities and shareholder's equity		
Current liabilities:		
Accounts payable	$ 92	$ 288
Accrued liabilities	1,166	1,287
Advance payments	2,887	2,973
Total current liabilities	4,145	4,548
Deferred income taxes	3,227	3,590
Deferred rent	3,008	3,583
Shareholder's equity:		
Additional paid-in capital	50,681	50,681
Receivable from EDMC	(91,646)	(78,282)
Retained earnings	83,466	73,998
Total shareholder's equity	42,501	46,397
Total liabilities and shareholder's equity	$ 52,881	$ 58,118

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

Miami International University of Art & Design (Combined)

Combined Statements of Operations
(In thousands)

	For the Fiscal Year Ended June 30, 2013	For the Fiscal Year Ended June 30, 2012
Net revenues	$ 80,056	$ 92,477
Costs and expenses:		
Educational services	39,682	43,648
General and administrative	20,768	20,966
Depreciation and amortization	4,812	4,748
Total costs and expenses	65,262	69,362
Income before income taxes	14,794	23,115
Income tax expense	5,326	8,236
Net income	$ 9,468	$ 14,879

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

Miami International University of Art & Design (Combined)

Combined Statements of Shareholder’s Equity
(In thousands)

	Additional Paid-in Capital	**Receivable from EDMC**	**Retained Earnings**	**Total Shareholder’s Equity**
Balance, June 30, 2011	$50,681	$(63,887)	$59,119	$45,913
Increase in receivable from EDMC	—	(14,395)	—	(14,395)
Net income	—	—	14,879	14,879
Balance, June 30, 2012	50,681	(78,282)	73,998	46,397
Increase in receivable from EDMC	—	(13,364)	—	(13,364)
Net income	—	—	9,468	9,468
Balance, June 30, 2013	$50,681	$(91,646)	$83,466	$42,501

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

Miami International University of Art & Design (Combined)

Combined Statements of Cash Flows

(In thousands)

	For the Fiscal Year Ended June 30,	
	2013	**2012**
Cash flows from operating activities:		
Net income	$ 9,468	$ 14,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,812	4,748
Bad debt expense	2,783	2,831
Non-cash adjustments related to deferred rent	(575)	(519)
Deferred income taxes	239	(110)
Changes in assets and liabilities:		
Restricted cash	2,011	(2,506)
Receivables	(3,210)	(3,014)
Inventory	154	54
Other assets	70	94
Accounts payable	(5)	(55)
Accrued liabilities	12	(43)
Advance payments	(86)	(721)
Total adjustments	6,205	759
Net cash flows provided by operating activities	15,673	15,638
Cash flows from investing activities:		
Expenditures for long-lived assets	(1,114)	(1,806)
Net cash flows used in investing activities	(1,114)	(1,806)
Cash flows from financing activities:		
Payments to EDMC	(13,364)	(14,395)
Net cash flows used in financing activities	(13,364)	(14,395)
Net increase (decrease) in cash and cash equivalents	1,195	(563)
Cash and cash equivalents, beginning of year	7,068	7,631
Cash and cash equivalents, end of year	$ 8,263	$ 7,068

	As of June 30,	
	2013	**2012**
Supplemental disclosure of cash flow information		
Capital expenditures in current liabilities	$ 11	$ 336

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

1. OWNERSHIP, OPERATIONS, AND GOVERNANCE

Miami International University of Art & Design, The Art Institute of Tampa, and The Art Institute of Jacksonville (collectively, "Miami International University of Art & Design (Combined)" or the "School") is wholly-owned by Education Management Corporation ("EDMC"). The School focuses on applied arts in creative professions. The principal degree programs offered by the School include Fashion Merchandising, Graphic Design, Fashion Design, Interior Design, Media Arts & Animation, Culinary Arts, Digital Film-making & Video Production, Audio Production, Culinary Management, Photography and Advertising. The School offers Associate's, Bachelor's and Master's degree programs, as well as selective non-degree diploma programs. Students pursue their degrees through a local campus and blended formats, which combine campus-based and online education. These programs typically are completed in 18 to 48 months.

Change in Ownership of EDMC and Initial Public Offering

On June 1, 2006, EDMC was acquired by a consortium of private equity investment funds led by Providence Equity Partners, Goldman Sachs Capital Partners and Leeds Equity Partners (collectively, the "Sponsors"). The acquisition was accomplished through the merger of an acquisition company into EDMC, with EDMC surviving the merger (the "Transaction"). The Transaction was accounted for as a purchase; however, the impact of the purchase accounting related to the Transaction was not allocated to the School's financial statements. The School's assets and liabilities, where applicable, continue to be recognized on a historical basis. EDMC completed an initial public offering of its common stock in October 2009 in which 23.0 million shares of common stock were sold for $18.00 per share.

Reclassifications

Certain amounts in the prior fiscal year have been reclassified to conform to the fiscal 2013 presentation, with no effect on previously reported net income or shareholder's equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Combination and Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States. All significant intercompany transactions and balances have been eliminated in combination. Unless otherwise specified, any reference to a "year" is to a fiscal year ended June 30.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Management bases these estimates on assumptions that it believes to be reasonable under the circumstances, the results of which form a basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes that its estimates are reasonable.

Cash and Cash Equivalents and Restricted Cash

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. These investments are stated at cost, which, based upon the scheduled maturities, approximates fair value.

The School holds funds from the United States government under various student aid grants and loan programs in separate bank accounts. The School also serves as trustee for the U.S. Department of Education or respective lender, guaranty agency or student borrower, as applicable. The funds held in these bank accounts are not shown as cash or restricted cash on the combined balance sheets until the authorization and disbursement process has occurred. Once the authorization and disbursement process to the student has been completed, the funds are transferred to unrestricted cash accounts and become available for use in current operations. This transfer generally occurs for the period of the academic term for which such funds were authorized with no term being more than 16 weeks in length.

Restricted cash was as follows at June 30 (in thousands):

	2013	2012
Cash secured letters of credit (1)	$ 1,500	$ 3,000
Escrowed in connection with operating lease (2)	745	1,464
Title IV funds in excess of charges applied (3)	469	261
Total restricted cash	$ 2,714	$ 4,725

(1) Includes amounts related to two cash secured letter of credit facilities entered into by EDMC pursuant to which the lenders agreed to issue letters of credit to the U.S. Department of Education. Refer to Note 3, "Governmental Regulations," for more details.

(2) Includes amounts related to an account required to be maintained in connection with an operating lease at one of the School's institutions.

(3) U.S. Department of Education regulations require Title IV Program funds received by the School in excess of the charges applied to the relevant students at that time to be, with these students' permission, maintained and classified as restricted cash. In addition, some states have similar requirements. Such funds received for courses that have not yet begun are recorded as restricted cash due to legal restrictions on the use of the funds and as advance payments on the School's combined balance sheets. Funds transferred through electronic funds transfer programs are held in a separate cash account and released when certain conditions are satisfied. These restrictions have not significantly affected the School's ability to fund daily operations.

Revenue Recognition

The School's revenues are recorded net of student refunds and scholarships and consist primarily of tuition and fees, student housing fees, bookstore sales, restaurant sales in connection with culinary programs, workshop fees and sales of related study materials. The School derived approximately 94% and 93% of its net revenues from tuition and fees in fiscal 2013 and 2012, respectively. The School bills tuition and housing revenues at the beginning of an academic term and recognizes the revenue on a pro rata basis over the term of instruction or occupancy. Advance payments represent that portion of payments received but not earned and are recorded as a current liability in the accompanying combined balance sheet. These payments are typically related to future academic periods and generally are refundable.

If a student withdraws from the School, a student's obligation for tuition and fees is limited depending on when a student withdraws during an academic term. Student refunds are regulated by the standards of the U.S. Department of Education, the state of Florida, the Commission on Colleges of the Southern Association of Colleges and Schools ("SACS") and the School's institutional policies (collectively, "Refund Policies"). The limitations imposed by the Refund Policies are generally based on the portion of the academic term that has elapsed at the time the student withdraws. The greater the portion of the academic term that has elapsed at the time the student withdraws, the greater the student's obligation is to the school for the tuition and fees related to that academic term. The School records revenue net of any refunds that result from any applicable Refund Policy.

Student Receivables

The School records student receivables at cost less an estimated allowance for doubtful accounts, which is determined on a monthly basis based on the likelihood of collection considering students' historical payment experience based on their enrollment status. For example, receivables from students who are out-of-school are reserved for at a higher rate than the receivables from students that are in-school. When certain criteria are met, which is generally when receivables age past the due date by more than four months, and internal collection measures have been taken without success, the accounts of former students are placed with a collection agency. Student accounts that have been placed with a collection agency are reserved for at a high rate and are written off after collection attempts have been unsuccessful.

Student receivables include amounts related to the extension of credit to students for amounts due beyond one year, which helps students fund the difference between total tuition and fees and the amount covered by various sources of financial aid, including amounts awarded under Title IV programs, private loans and cash payments, which are recorded as other long-term assets in the accompanying combined balance sheets. During fiscal 2013, the School extended the repayment period for financing made available to students from a maximum of 36 months beyond graduation to a maximum of 42 months beyond graduation.

During fiscal 2013, the School reduced the number of days since last payment after which accounts placed with a collection agency are written off. This change had no impact on the statement of operations or net student receivables as the applicable accounts were already fully reserved.

Inventory

Inventory consists mainly of textbooks and supplies held for sale to students enrolled in the School's educational programs. Cost is determined using the average cost method, and inventory is valued at the lower of cost or market.

Leases

The School leases certain classroom, dormitory, and office space as well as equipment under operating leases. Before entering into a lease, an analysis is performed to determine whether a lease should be classified as a capital or an operating lease.

Certain of the School's lease agreements include tenant improvement allowances. Once the lease agreement is signed, these tenant improvement allowances are recorded as other current assets with the offset to deferred rent liabilities on the combined balance sheets. As spending occurs, the School records increases to leasehold improvement assets in property and equipment. Other current assets are reduced once the landlord reimburses the School. The deferred rent liabilities related to tenant improvements are amortized over the term of the lease as a reduction to rent expense upon possession of the lease space.

Many of the School's lease agreements include rent escalation clauses, which if fixed and determinable are recognized on a straight-line basis over the life of the lease. Lease terms range from ten to 15 years with one or more renewal options. For leases with renewal options, the School records rent expense and amortizes the leasehold improvements on a straight-line basis over the original lease term, exclusive of the renewal period. When a renewal occurs, the School records rent expense over the new term.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term, exclusive of any renewal periods, or their estimated useful lives. The remainder of the School's property and equipment is depreciated over estimated useful lives ranging from three to ten years using the straight-line method, depending on the asset. Accelerated depreciation methods are generally used for income tax purposes. The School evaluates the recoverability of property and equipment whenever events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable. No impairments were recorded in fiscal 2013 or 2012.

Goodwill

The School was acquired by EDMC in fiscal 2002. As part of this business combination, goodwill was recorded, which consists of the cost in excess of the fair value of the identifiable net assets acquired. The School is required to perform a goodwill impairment test based upon anticipated cash flows on a stand-alone basis. Absent impairment indicators, this test is performed on an annual basis. No impairments were recognized in fiscal year 2013 or 2012 as a result of this testing.

Income Taxes

The School accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities result from (i) temporary differences in the recognition of income and expense for financial and income tax reporting requirements, and (ii) differences between the recorded value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income tax assets are reduced by a valuation allowance if it is more-likely-than-not that some portion of the deferred income tax asset will not be realized.

The School is included in the consolidated tax return filed by EDMC. The School and EDMC do not have a formal tax-sharing agreement. The provision for income taxes in the accompanying combined statements of operations is calculated on a separate-entity basis, giving recognition to the impact of filing in a consolidated group. The effective tax rate differs from the combined federal and state statutory rates primarily due to valuation allowances and expenses that are non-deductible for tax purposes. State taxes are accrued and reported to the states where the School provides services.

Contingencies

The School accrues for contingent obligations when it is probable that a liability has been incurred and the amount is reasonably estimable. As facts concerning contingencies become known, management reassesses its position and makes appropriate adjustments to its combined financial statements.

Costs and Expenses

Educational services expense consists primarily of costs related to the delivery and administration of the School's educational programs. Major cost components are faculty compensation, administrative salaries, facility occupancy costs, bad debt expense, costs of educational materials and information systems costs.

General and administrative expense primarily consists of marketing and student admissions expenses and departmental costs such as executive management, finance and accounting, legal, corporate development and other departments that do not provide direct services to the School's students.

Marketing costs, which are expensed as incurred and classified as general and administrative expense in the combined statements of operations, were $7.6 million and $8.1 million in the fiscal years ended June 30, 2013 and 2012, respectively.

Subsequent Events

The School has evaluated subsequent events through December 16, 2013, the date through which these financial statements were available to be issued.

3. GOVERNMENTAL REGULATIONS

Most of the students at the School's campuses rely, at least in part, on financial assistance to pay for the cost of their education. In the United States, the largest sources of such support are the federal student aid programs under Title IV of the Higher Education Act of 1965, as amended ("HEA"). Additional sources of funds include other federal grant programs, state grant and loan programs, private loan programs and institutional grants and scholarships. To provide students access to financial assistance resources available through Title IV programs, a school must be (i) authorized to offer its programs of instruction by the relevant agency of the states in which it is physically located and comply with applicable state requirements regarding fully-online programs, (ii) institutionally accredited by an agency recognized by the U.S. Department of Education, and (iii) certified as an eligible institution by the U.S. Department of Education. In addition, the school must ensure that Title IV program funds are properly accounted for and disbursed in the correct amounts to eligible students and remain in compliance generally with the Title IV program regulations. Most of the U.S. Department of Education's requirements, such as the financial responsibility standards and the 90/10 Rule, which are described in greater detail below, are applied on an institutional basis, with an institution defined as a main campus and its additional locations, if any.

Financial Responsibility Standards. Education institutions participating in Title IV programs must satisfy a series of specific standards of financial responsibility. The U.S. Department of Education has adopted standards to determine an institution's financial responsibility to participate in Title IV programs. The regulations establish three ratios: (i) the equity ratio, intended to measure an institution's capital resources, ability to borrow and financial viability; (ii) the primary reserve ratio, intended to measure an institution's ability to support current operations from expendable resources; and (iii) the net income ratio, intended to measure an institution's profitability. Each ratio is calculated separately, based on the figures in the institution's most recent annual audited financial statements, and then weighted and combined to arrive at a single composite score. The composite score must be at least 1.5 in order for the institution to be deemed financially responsible without conditions or additional oversight. If an institution fails to meet any of these requirements, the U.S. Department of Education may set restrictions on the institution's eligibility to participate in Title IV programs. Institutions are evaluated for compliance with these requirements as part of the U.S. Department of Education's renewal of certification process and also annually as each institution submits its audited financial statements to the U.S. Department of Education. As of June 30, 2013, the School satisfied the financial responsibility standards.

As of June 30, 2013, EDMC did not meet the required quantitative measures of financial responsibility on a consolidated basis due to the amount of indebtedness incurred and goodwill it recorded in connection with the Transaction. Accordingly, EDMC is required by the U.S. Department of Education to post a letter of credit and is subject to provisional certification and additional financial and cash monitoring of its disbursements of Title IV funds. The amount of this letter of credit was $348.6 million at June 30, 2013, which equals 15% of the total Title IV aid received by students attending EDMC's institutions during the fiscal year ended June 30, 2012.

The "90/10 Rule." Under a provision of the HEA commonly referred to as the "90/10 Rule," an institution will cease to be eligible to participate in Title IV programs if, on a cash accounting basis, more than 90% of its revenues for each of two consecutive fiscal years were derived from Title IV programs as calculated under the applicable regulations. If an institution loses its Title IV eligibility under the 90/10 Rule, it may not reapply for eligibility until the end of two fiscal years. Institutions that fail to satisfy the 90/10 Rule for one fiscal year are placed on provisional certification. The School was in compliance with the 90/10 Rule for the fiscal year ended June 30, 2013.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30 (in thousands):

Asset Class	**2013**	**2012**
Leasehold improvements	$ 32,270	$ 32,210
Technology and other equipment	11,114	10,752
Furniture and equipment	5,517	5,526
Library books	1,210	1,130
Total	50,111	49,618
Accumulated depreciation	(35,801)	(31,535)
Property and equipment, net	$ 14,310	$ 18,083

The School's depreciation and amortization expense was approximately $4.6 million in each of the fiscal years ended June 30, 2013 and 2012.

5. INTANGIBLE ASSETS

Intangible assets consisted of the following at June 30 (in thousands):

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Curriculum	$ 880	$ (612)	$ 880	$ (560)
Other intangibles	500	(423)	593	(319)
Total intangible assets	$ 1,380	$ (1,035)	$ 1,473	$ (879)

The School's amortization expense related to intangible assets was approximately $0.2 million and $0.1 million in the fiscal years ended June 30, 2013 and 2012, respectively.

Estimated annual amortization expense for each of the years ending June 30, 2014 through 2018, and thereafter is as follows at June 30, 2013 (in thousands):

Fiscal Year:	
2014	$ 66
2015	66
2016	66
2017	66
2018	66
Thereafter	15

6. ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of June 30 (in thousands):

	2013	2012
Employee compensation	$ 648	$ 884
Landlord payables	250	250
Other	268	153
Total accrued liabilities	$ 1,166	$ 1,287

7. RELATED-PARTY TRANSACTIONS

Coordinating and Support Services

The School receives coordinating and support services from EDMC, such as legal, insurance, and information technology-related services. EDMC allocates costs to the School based upon certain factors including the School's revenues and student enrollment, which estimate the amount that the School would pay an unaffiliated entity for these services. Allocated costs of approximately $6.4 million and $6.7 million were included in general and administrative expense and educational services expense in the combined statements of operations in the fiscal years ended June 30, 2013 and 2012, respectively.

Cash Management

The School participates in a cash management program operated by EDMC that allows EDMC to consolidate most cash from all its locations in order to maximize investment income. In addition, EDMC funds checks written on the School's disbursement bank account as they clear the disbursing bank. The difference between the cash provided to EDMC by the School and the day-to-day funding provided by EDMC to the School has been classified in shareholder's equity as a receivable from EDMC in the combined balance sheets as there is no formal repayment schedule related to this amount.

Employee Scholarships

The School records revenues and expenses related to its internal tuition grant policy on a gross basis. The School received $0.2 million in each of the fiscal years ended June 30, 2013 and 2012 relating to employees of other EDMC wholly-owned entities attending the School. In addition, the School paid $0.6 million and $0.9 million in fiscal 2013 and 2012, respectively, to other EDMC wholly-owned entities relating to its employees attending another EDMC school.

Leases

The School's Tampa campus shares its physical location with the South University of Tampa, a wholly-owned subsidiary of EDMC, and EDMC splits certain building costs, primarily rent expense, between South University of Tampa and the Art Institute of Tampa. Total rent expense of $2.4 million and $2.6 million was incurred for fiscal years ending June 30, 2013 and 2012, respectively, relating to this location, of which $1.4 million and $1.7 million was allocated to the Art Institute of Tampa in fiscal 2013 and 2012, respectively, and is included in the accompanying combined statements of operations within educational services expense.

EDMC guarantees all of the School's lease agreements, under which EDMC assumes all obligations, liabilities, and duties of the School in the event of default. The guarantees are in place through the full terms of the leases, including any extensions or renewals. Refer to Note 9, "Commitments and Contingencies," for the School's remaining lease obligations.

8. INCOME TAXES

Income tax expense includes current and deferred taxes, as reflected below, for the fiscal years ended June 30 (in thousands):

	2013	**2012**
Current taxes:		
Federal	$ 4,976	$ 7,768
State	111	578
Total current tax provision	5,087	8,346
Deferred tax provision (benefit)	239	(110)
Total income tax expense	$ 5,326	$ 8,236

Deferred income taxes are presented in the combined balance sheet for all significant temporary differences between tax and financial reporting, which consist primarily of intangible assets, property and equipment, the allowance for doubtful accounts and deferred rent. Net deferred income tax assets and liabilities consisted of the following at June 30 (in thousands):

	2013	2012
Total current deferred tax assets	$ 1,424	$ 2,026
Noncurrent deferred tax liabilities	$ 5,950	$ 5,409
Noncurrent deferred tax assets	2,723	1,819
Total net noncurrent deferred tax liabilities	$ 3,227	$ 3,590

9. COMMITMENTS AND CONTINGENCIES

Qui Tam Matters

Washington v. Education Management Corporation. On May 3, 2011, a *qui tam* action captioned *United States of America, and the States of California, Florida, Illinois, Indiana, Massachusetts, Minnesota, Montana, New Jersey, New Mexico, New York and Tennessee, and the District of Columbia, each ex rel. Lynntoya Washington and Michael T. Mahoney v. Education Management Corporation, et al.* ("Washington") filed under the federal False Claims Act in April 2007 was unsealed due to the U.S. Department of Justice's decision to intervene in the case. Five of the states listed on the case caption joined the case based on *qui tam* actions filed under their respective False Claims Acts. The Court granted EDMC's motion to dismiss the District of Columbia from the case and denied the Commonwealth of Kentucky's motion to intervene in the case under its consumer protection laws.

The case, which is pending in federal district court in the Western District of Pennsylvania, relates to whether EDMC's compensation plans for admission representatives violated the HEA, and U.S. Department of Education regulations prohibiting an institution participating in Title IV programs from providing any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments to any person or entity engaged in any student recruitment or admissions activity during the period of July 1, 2003 through June 30, 2011. The complaint was initially filed by a former admissions representative at The Art Institute of Pittsburgh Online Division and a former director of training at EDMC Online Higher Education and asserts the relators are entitled to recover treble the amount of actual damages allegedly sustained by the federal government as a result of the alleged activity, plus civil monetary penalties. The complaint does not specify the amount of damages sought but claims that EDMC and/or students attending EDMC's schools received over $11 billion in funds from participation in Title IV programs and state financial aid programs during the period of alleged wrongdoing.

On May 11, 2012, the Court ruled on EDMC's motion to dismiss case for failure to state a claim upon which relief can be granted, dismissing the claims that the design of EDMC's compensation plan for admissions representatives violated the incentive compensation rule and allowing common law claims and the allegations that the plan as implemented violated the rule to continue to discovery. EDMC believes the case to be without merit and intends to vigorously defend itself.

State Attorney General Investigations

In October 2010, Argosy University received a subpoena from the Florida Attorney General's office seeking a wide range of documents related to EDMC's institutions, including the nine institutions located in Florida, from January 2, 2006 to the present. The Florida Attorney General has announced that it is investigating potential misrepresentations in recruitment, financial aid and other areas. EDMC is cooperating with the investigation, but has also filed a suit to quash or limit the subpoena and to protect information sought that constitutes proprietary or trade secret information. EDMC cannot predict the eventual scope, duration or outcome of the investigation at this time.

Other Matters

EDMC is a defendant in certain other legal proceedings arising out of the conduct of its business. Additionally, EDMC is subject to compliance reviews by various state and federal agencies which provide student financial aid programs, with respect to which noncompliance may result in liability for educational benefits paid as well as fines and other corrective action. In the opinion of management, based upon an investigation of these matters and discussion with legal counsel, the ultimate outcome of such other legal proceedings and compliance reviews, individually and in the aggregate, is not expected to have a material adverse effect on EDMC's consolidated financial position, results of operations or liquidity. At June 30, 2013, the School was not subject to any legal proceedings that are expected to have a material adverse effect on its combined financial position, results of operation or liquidity.

Lease Commitments

The School leases its facilities under various operating leases that expire on various dates through 2018. Rent expense under these leases was approximately $8.8 million and $8.9 million in the fiscal years ended June 30, 2013 and 2012, respectively.

The minimum future cash commitments for the fiscal years ending June 30 under the School's noncancelable, long-term operating leases are as follows at June 30, 2013 (in thousands):

Fiscal Year:		
2014	$	7,020
2015		5,232
2016		4,268
2017		4,283
2018		1,672
Thereafter		405

10. EMPLOYEE BENEFIT PLANS

EDMC sponsors a 401(k) plan that covers substantially all employees. The School's expense relating to this plan was $0.6 million and $0.7 million in the fiscal years ended June 30, 2013 and 2012, respectively.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Shareholder and Board of Trustees
Miami International University of Art & Design (Combined)

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Miami International University of Art & Design, The Art Institute of Tampa, and The Art Institute of Jacksonville (collectively, "Miami International University of Art & Design (Combined)"), which comprise the combined balance sheets as of June 30, 2013 and 2012, and the related combined statements of operations, shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Miami International University of Art & Design (Combined)'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Miami International University of Art & Design (Combined)'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Miami International University of Art & Design (Combined)'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Miami International University of Art & Design (Combined)'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

December 16, 2013

Supplemental Information

Miami International University of Art & Design (Combined)

Combined Balance Sheet

(Dollars in thousands)

June 30, 2013

	Miami International University of Art & Design	The Art Institute of Tampa	The Art Institute of Jacksonville	Reclassifications	Miami International University of Art & Design (Combined) OPEID# 008878
Assets					
Current assets:					
Cash:					
Cash and cash equivalents	$ 4,862	$ 1,293	$ 2,108	$ —	$ 8,263
Restricted cash	1,112	89	1,513	—	2,714
Total cash	5,974	1,382	3,621	—	10,977
Receivables:					
Trade	3,267	1,461	1,168	—	5,896
Allowance for doubtful accounts	(1,403)	(915)	(618)	—	(2,936)
Notes, advances, and other receivables	193	(3)	10	—	200
Inventory	133	44	61	—	238
Deferred income taxes	757	400	267	—	1,424
Other current assets	—	—	—	—	—
Total current assets	8,921	2,369	4,509	—	15,799
Property and equipment, net	7,683	2,251	4,376	—	14,310
Deferred income taxes	—	1,409	—	(1,409)	—
Other long-term assets	169	435	75	—	679
Intangible assets, net of amortization	345	—	—	—	345
Goodwill	21,748	—	—	—	21,748
Total assets	$ 38,866	$ 6,464	$ 8,960	$ (1,409)	$ 52,881
Liabilities and shareholder's equity					
Current liabilities:					
Accounts payable	$ 37	$ 47	$ 8	$ —	$ 92
Accrued liabilities	614	344	208	—	1,166
Advance payments	1,914	738	235	—	2,887
Total current liabilities	2,565	1,129	451	—	4,145
Deferred income taxes	4,585	—	51	(1,409)	3,227
Deferred rent	1,205	589	1,214	—	3,008
Shareholder's equity:					
Additional paid-in capital	40,671	10,010	—	—	50,681
(Receivable from) payable to EDMC	(86,002)	(17,880)	12,236	—	(91,646)
Retained earnings (accumulated deficit)	75,842	12,616	(4,992)	—	83,466
Total shareholder's equity	30,511	4,746	7,244	—	42,501
Total liabilities and shareholder's equity	$ 38,866	$ 6,464	$ 8,960	$ (1,409)	$ 52,881

Miami International University of Art & Design (Combined)

Combined Balance Sheet

(Dollars in thousands)

June 30, 2012

	Miami International University of Art & Design	The Art Institute of Tampa	The Art Institute of Jacksonville	Reclassifications	Miami International University of Art & Design (Combined) OPEID# 008878
Assets					
Current assets:					
Cash:					
Cash and cash equivalents	$ 3,068	$ 1,643	$ 2,357	$ —	$ 7,068
Restricted cash	3,180	45	1,500	—	4,725
Total cash	6,248	1,688	3,857	—	11,793
Receivables:					
Trade	3,217	2,496	1,480	—	7,193
Allowance for doubtful accounts	(1,567)	(1,814)	(1,058)	—	(4,439)
Notes, advances, and other receivables	195	(5)	13	—	203
Inventory	158	124	110	—	392
Deferred income taxes	868	719	439	—	2,026
Other current assets	—	28	2	—	30
Total current assets	9,119	3,236	4,843	—	17,198
Property and equipment, net	9,372	3,399	5,312	—	18,083
Deferred income taxes	—	1,058	—	(1,058)	—
Other long-term assets	160	268	67	—	495
Intangible assets, net of amortization	594	—	—	—	594
Goodwill	21,748	—	—	—	21,748
Total assets	$ 40,993	$ 7,961	$ 10,222	$ (1,058)	$ 58,118
Liabilities and shareholder's equity					
Current liabilities:					
Accounts payable	$ 105	$ 62	$ 121	$ —	$ 288
Accrued liabilities	813	254	220	—	1,287
Advance payments	1,640	1,094	239	—	2,973
Total current liabilities	2,558	1,410	580	—	4,548
Deferred income taxes	4,473	—	175	(1,058)	3,590
Deferred rent	1,423	823	1,337	—	3,583
Shareholder's equity:					
Additional paid-in capital	40,671	10,010	—	—	50,681
(Receivable from) payable to EDMC	(75,040)	(15,930)	12,688	—	(78,282)
Retained earnings (accumulated deficit)	66,908	11,648	(4,558)	—	73,998
Total shareholder's equity	32,539	5,728	8,130	—	46,397
Total liabilities and shareholder's equity	$ 40,993	$ 7,961	$ 10,222	$ (1,058)	$ 58,118

Miami International University of Art & Design (Combined)

Combined Statement of Operations

(Dollars in thousands)

For the Fiscal Year Ended June 30, 2013

	Miami International University of Art & Design	The Art Institute of Tampa	The Art Institute of Jacksonville	Miami International University of Art & Design (Combined) OPEID# 008878
Net revenues	$ 47,794	$ 20,152	$ 12,110	$ 80,056
Costs and expenses:				
Educational services	21,559	10,296	7,827	39,682
General and administrative	10,051	6,948	3,769	20,768
Depreciation and amortization	2,341	1,328	1,143	4,812
Total costs and expenses	33,951	18,572	12,739	65,262
Income (loss) before income taxes	13,843	1,580	(629)	14,794
Income tax expense (benefit)	4,909	612	(195)	5,326
Net income (loss)	$ 8,934	$ 968	$ (434)	$ 9,468
School "90/10" Ratio				
Numerator				$ 46,220
Denominator				$ 75,042
90/10 Ratio				61.6%
Composite Score	2.2	2.9	1.9	2.6

Miami International University of Art & Design (Combined)

Combined Statement of Operations

(Dollars in thousands)

For the Fiscal Year Ended June 30, 2012

	Miami International University of Art & Design	The Art Institute of Tampa	The Art Institute of Jacksonville	Miami International University of Art & Design (Combined) OPEID# 008878
Net revenues	$ 52,827	$ 26,116	$ 13,534	$ 92,477
Costs and expenses:				
Educational services	23,106	12,179	8,363	43,648
General and administrative	9,829	7,173	3,964	20,966
Depreciation and amortization	2,205	1,366	1,177	4,748
Total costs and expenses	35,140	20,718	13,504	69,362
Income before income taxes	17,687	5,398	30	23,115
Income tax expense	6,269	1,905	62	8,236
Net income (loss)	$ 11,418	$ 3,493	$ (32)	$ 14,879
School "90/10" Ratio				
Numerator				$ 59,718
Denominator				$ 88,576
90/10 Ratio				67.4%
Composite Score	2.2	2.8	2.4	2.6

Miami International University of Art & Design (Combined)

Supplemental Schedule of Expenditures of State Financial Assistance

For the Fiscal Year Ended June 30, 2013

	CSFA No.	Grant No.	Expenditures	Transfers to Subrecipients
FLORIDA DEPARTMENT OF EDUCATION				
Direct Projects:				
Florida Student Assistance Grant	48.054	N/A	$ 477,275	$ —
Florida Access to Better Learning and Education Grant	—	N/A	623,476	—
Florida Children and Spouses of Deceased or Disabled Veterans and Service Members Scholarship	48.055	N/A	24,870	—
Florida Bright Futures Scholarship	48.059	N/A	262,008	—
TOTAL DIRECT PROJECTS			$ 1,387,629	$ —
Indirect Projects:			$ —	$ —
Passed Through:			$ —	$ —
TOTAL FLORIDA DEPARTMENT OF EDUCATION			$ 1,387,629	$ —
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			$ 1,387,629	$ —

NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

BASIS OF PRESENTATION

The information in this schedule is prepared on the accrual basis of accounting and is presented in accordance with Chapter 69I-5, Rules of the Florida Department of Financial Services, Florida Administrative Code, *Schedule of Expenditures of State Financial Assistance.*

Miami International University of Art & Design (Combined)

Supplemental Schedule of Expenditures of State Financial Assistance

For the Fiscal Year Ended June 30, 2012

	CSFA No.	Grant No.	Expenditures	Transfers to Subrecipients
FLORIDA DEPARTMENT OF EDUCATION				
Direct Projects:				
Florida Student Assistance Grant	48.054	N/A	$ 475,892	$ —
Florida Access to Better Learning and Education Grant	—	N/A	743,096	—
Florida Children and Spouses of Deceased or Disabled Veterans and Service Members Scholarship	48.055	N/A	14,012	—
Florida Bright Futures Scholarship	48.059	N/A	394,151	—
TOTAL DIRECT PROJECTS			$ 1,627,151	$ —
Indirect Projects:			$ —	$ —
Passed Through:			$ —	$ —
TOTAL FLORIDA DEPARTMENT OF EDUCATION			$ 1,627,151	$ —
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			$ 1,627,151	$ —

NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

BASIS OF PRESENTATION

The information in this schedule is prepared on the accrual basis of accounting and is presented in accordance with Chapter 69I-5, Rules of the Florida Department of Financial Services, Florida Administrative Code, *Schedule of Expenditures of State Financial Assistance.*

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