SOUTH UNIVERSITY

FLORIDA SINGLE AUDIT REPORTS

Year Ended June 30, 2013

FOGLE & ASSOCIATES, LLC
Certified Public Accountants

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Fogle & 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
South University

Report on Compliance for Each Major State Project

We have audited South University'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 South University's major State projects for the year ended June 30, 2013. South University'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 South University'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 South University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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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 South University's compliance.

Opinion on Each Major State Project

In our opinion, South University 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 South University 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 South University'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 South University's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South University'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

SOUTH UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - STATE PROJECTS

Year Ended June 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

1. The consolidated financial statements of South University, LLC and Subsidiaries were audited by another independent registered public accounting firm whose report dated December 16, 2013 expressed an unmodified opinion.

2. The consolidated financial statements of South University, LLC and Subsidiaries 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 South University expresses an unmodified opinion.

4. The audit of the major state projects of South University disclosed no findings or questioned costs required to be disclosed 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

6. The dollar threshold for distinguishing between Type A and Type B projects was $279,347 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*.

Consolidated Financial Statements and Supplemental Information

South University, LLC and Subsidiaries
Fiscal Year Ended June 30, 2013
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

South University, LLC and Subsidiaries

Consolidated Financial Statements and Supplemental Information

Fiscal Year Ended June 30, 2013

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Report of Independent Auditors

The Members and Board of Trustees
South University, LLC and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of South University, LLC (a wholly owned subsidiary of Education Management Corporation) and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statements of operations, members' equity, and cash flows for the year then ended, and the related notes to the consolidated 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 audit. We conducted our audit 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 consolidated financial position of South University, LLC and Subsidiaries at June 30, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheet, consolidating statement 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 South University, LLC and Subsidiaries' 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 South University, LLC and Subsidiaries' internal control over financial reporting and compliance.

Ernst & Young LLP

December 16, 2013

South University, LLC and Subsidiaries

Consolidated Balance Sheet
(In thousands)

	June 30, 2013
Assets	
Current assets:	
Cash and cash equivalents	$ 17,525
Restricted cash	44,691
Student accounts receivable, net of allowance of $36,296	64,635
Notes, advances, and other receivables	9,374
Inventory	1,672
Deferred income taxes	13,539
Other current assets	545
Total current assets	151,981
Property and equipment, net	51,846
Other long-term assets	5,481
Intangible assets, net	4,377
Goodwill	44,902
Total assets	$ 258,587
Liabilities and members' equity	
Current liabilities:	
Accounts payable	$ 3,010
Accrued liabilities	15,427
Unearned tuition	43,136
Advance payments	24,408
Total current liabilities	85,981
Deferred income taxes	6,807
Deferred rent	28,943
Members' equity:	
Investment in EDMC	72,312
Receivable from EDMC	(51,970)
Accumulated earnings	116,514
Total members' equity	136,856
Total liabilities and members' equity	$ 258,587

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

South University, LLC and Subsidiaries

Consolidated Statement of Operations

(In thousands)

	For the Fiscal Year Ended June 30, 2013
Net revenues	$ 398,396
Costs and expenses:	
Educational services	210,801
General and administrative	136,356
Depreciation and amortization	17,140
Total costs and expenses	364,297
Income before income taxes	34,099
Income tax expense	12,374
Net income	$ 21,725

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

South University, LLC and Subsidiaries

Consolidated Statement of Members' Equity
(In thousands)

	Investment of EDMC	(Receivable from) Payable to EDMC	Accumulated Earnings	Total Members' Equity
Balance, June 30, 2012	$ 72,312	$ 18,960	$ 94,789	$ 186,061
Change in receivable from EDMC	—	(70,930)	—	(70,930)
Net income	—	—	21,725	21,725
Balance, June 30, 2013	$ 72,312	$ (51,970)	$ 116,514	$ 136,856

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

South University, LLC and Subsidiaries

Consolidated Statement of Cash Flows
(In thousands)

	For the Fiscal Year Ended June 30, 2013
Cash flows from operating activities:	
Net income	$ 21,725
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation of property and equipment	15,512
Amortization of intangible assets	1,628
Bad debt expense	37,467
Non-cash adjustments related to deferred rent	(1,167)
Deferred income taxes	673
Changes in assets and liabilities:	
Restricted cash	6,499
Receivables	(49,618)
Reimbursements for tenant improvements	5,345
Inventory	(299)
Other assets	433
Accounts payable	(178)
Accrued liabilities	11,305
Unearned tuition and advance payments	(4,889)
Total adjustments	22,711
Net cash flows provided by operating activities	44,436
Cash flows from investing activities:	
Expenditures for long-lived assets	(10,988)
Reimbursements for tenant improvements	(5,345)
Net cash flows used in investing activities	(16,333)
Cash flows from financing activities:	
Payments to EDMC	(73,949)
Net cash flows used in financing activities	(73,949)
Net decrease in cash and cash equivalents	(45,846)
Cash and cash equivalents, beginning of year	63,371
Cash and cash equivalents, end of year	$ 17,525

	As of June 30, 2013
Supplemental disclosure of cash flow information	
Capital expenditures in current liabilities	$ 1,105

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

1. OWNERSHIP, OPERATIONS, AND GOVERNANCE

South University, LLC and Subsidiaries (“South University” or the “University”) is a nonsectarian, coeducational institution of higher education with campuses in the following cities:

- Savannah, Georgia
- West Palm Beach, Florida
- Montgomery, Alabama
- Tampa, Florida
- Columbia, South Carolina
- Richmond, Virginia
- Virginia Beach, Virginia
- Novi, Michigan
- Cleveland, Ohio
- High Point, North Carolina
- Austin, Texas

Additionally, the University’s consolidated financial statements include campuses of the Art Institute in the following cities:

- Dallas, Texas
- Fort Worth, Texas
- Charlotte, North Carolina
- Raleigh-Durham, North Carolina

The University is a wholly-owned subsidiary of Education Management Corporation (“EDMC”), and South University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (“SACS”) to award Associate’s, Bachelor’s, Master’s, and Doctoral degrees. South University offers its degree programs fully online through South University-Savannah or through a flexible combination of both online and campus-based instruction.

During fiscal 2013, The Art Institute of Charlotte and The Art Institute of Raleigh-Durham became part of South University through a re-alignment of entities under common control. Additionally, South University of Austin, South University of Cleveland, and South University of Highpoint were approved for eligibility to Title IV funding in fiscal 2013. As a result, these institutions are included in the University’s consolidated financial statements for fiscal 2013. The impact from the inclusion of the aforementioned campuses to the University’s financial statements was $57.7 million and $(4.7) million, respectively, to net revenues and net income for the fiscal year ended June 30, 2013, and $43.2 million to total assets as of June 30, 2013.

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 University’s financial statements. The University’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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Presentation

The accompanying consolidated 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 consolidation. 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 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 revenue and expenses during the reporting period. Management bases its estimates on assumptions that management 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. However, management believes that its estimates are reasonable.

Cash and Cash Equivalents and Restricted Cash

The University 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 University holds funds from the United States government under various student aid grants and loan programs in separate bank accounts. The University 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 consolidated balance sheet 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.

Restricted cash was as follows at June 30, 2013 (in thousands):

Cash secured letters of credit (1)	$ 41,800
Title IV funds in excess of charges applied (2)	2,891
Total restricted cash	$ 44,691

(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 information.

(2) U.S. Department of Education regulations require Title IV Program funds received by the University 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 University's consolidated

balance sheet. 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 University's ability to fund daily operations.

Revenue Recognition

The University'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 University derived approximately 95% of its net revenues from tuition and fees in fiscal 2013. The University 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. Some of the University's academic terms have starting and ending dates that differ from the University's fiscal quarters. Therefore, at the end of each fiscal year, the University has tuition from academic terms with respect to which the associated revenue has not yet been earned. Such amounts are recorded as unearned tuition as a current liability in the accompanying consolidated balance sheet. Advance payments are generally refundable and relate to payments received for future academic periods and are also recorded as a current liability in the accompanying consolidated balance sheet.

If a student withdraws from the University, 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, most state education authorities that regulate the University's schools, the Commission on Colleges of the Southern Association of Colleges and Schools ("SACS") and the University'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 university for the tuition and fees related to that academic term. The University records revenue net of any refunds that result from any applicable Refund Policy.

Student Receivables

The University 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 consolidated balance sheet. During fiscal 2013, the University 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 University 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 University's educational programs. Cost is determined using the average cost method, and inventory is valued at the lower of cost or market.

Leases

The University 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 University'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 consolidated balance sheet. As spending occurs, the University records increases to leasehold improvement assets in property and equipment. Other current assets are reduced once the landlord reimburses the University. 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. The University received $5.3 million of reimbursements from landlords during the fiscal year ended June 30, 2013 relating to tenant improvements made at The Art Institute of Dallas, South University of West Palm Beach and South University of Richmond. These reimbursements were recorded as a reduction to other current assets on the accompanying consolidated balance sheet.

Many of the University'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 three to 15 years with one or more renewal options. For leases with renewal options, the University 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 University 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 University'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 University 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.

Goodwill and Intangible Assets

The University was acquired by EDMC in fiscal 2004. 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 University 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 as a result of this testing.

Intangible assets primarily consist of curriculum, which is recorded at cost. The University uses the straight-line method of amortization for these intangible assets.

Costs and Expenses

Educational services expense consists primarily of costs related to the development, delivery and administration of the University's education 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 consists of marketing and student admissions expenses and certain central staff costs such as executive management, finance and accounting, legal, corporate development and other departments that do not provide direct services to the University's education programs.

Marketing costs, which are expensed as incurred and classified as general and administrative expense in the consolidated statement of operations, were $54.6 million in the fiscal year ended June 30, 2013. The University made substantial marketing strategy and operational changes for its fully-online programs at the beginning of fiscal 2013 in order to more effectively attract students who it believes are more likely to apply, start and persist towards completion of their academic programs. These changes resulted in lower marketing expenses in the current fiscal year compared to fiscal 2012.

Contingencies

The University 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 consolidated financial statements.

Income Taxes

The University 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 University is included in the federal consolidated tax return filed by EDMC. The University and EDMC do not have a formal tax-sharing agreement. The provision for income taxes in the accompanying statement 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 not deductible for tax purposes. State taxes are accrued and reported to the states where the University provides services.

Fair Value

The fair value of the University's cash and cash equivalents, restricted cash, student receivables and notes receivable, accounts payable and accrued expenses approximate their carrying values.

Subsequent Events

The University 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 University's schools 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 University 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 University 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, 2013 (in thousands):

Asset Class	
Leasehold improvements	$ 59,867
Technology and other equipment	25,058
Furniture and equipment	18,991
Library books	6,145
Construction in progress	3,636
Total	113,697
Accumulated depreciation	(61,851)
Property and equipment, net	$ 51,846

The University's depreciation and amortization expense of property and equipment was $15.5 million in the fiscal year ended June 30, 2013. Included in depreciation expense was approximately $3.0 million for the fiscal year ended June 30, 2013 that has been allocated from EDMC for assets which are not recorded in the University's consolidated financial statements but are utilized by the University.

5. INTANGIBLE ASSETS

Intangible assets consisted of the following at June 30, 2013 (in thousands):

	Gross Carrying Amount	Accumulated Amortization
Curriculum	$ 14,218	$ (9,973)
Other intangibles	350	(218)
Total intangible assets	$ 14,568	$ (10,191)

The University's amortization expense related to intangible assets was approximately $1.6 million in the fiscal year ended June 30, 2013. 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:	Amortization Expense
2014	$ 1,793
2015	1,445
2016	731
2017	128
2018	128
Thereafter	152

6. ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of June 30, 2013 (in thousands):

Employee compensation	$ 4,033
Student support services	3,424
Capital expenditures	729
Taxes	322
Student refunds	211
Other	6,708
Total accrued liabilities	$ 15,427

7. RELATED-PARTY TRANSACTIONS

Coordinating and Support Services

The University receives coordinating and support services from EDMC, such as legal, insurance, and information technology-related services. EDMC allocates costs to the University based upon certain factors including the University's revenues and student enrollment, which estimate the amount that the University would pay an unaffiliated entity for these services. Allocated costs of approximately $35.7 million were included in general and administrative expense and educational services expense in the consolidated statement of operations in the fiscal year ended June 30, 2013.

Cash Management

South University 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 University's disbursement bank account as they clear the disbursing bank. The difference between the cash provided to EDMC by the University and the day-to-day funding provided by EDMC to the University has been classified in members' equity as a receivable from EDMC in the consolidated balance sheet as there is no formal repayment schedule related to this amount.

Employee Scholarships

The University records revenues and expenses related to its internal tuition grant policy on a gross basis. The University received $3.0 million in fiscal 2013 relating to employees of other EDMC wholly-owned entities attending the University. In addition, the University paid $0.8 million in fiscal 2013 to other EDMC wholly-owned entities relating to its employees attending another EDMC wholly-owned institution.

Leases

South University, LLC, a wholly-owned subsidiary of EDMC, leased facilities under a long-term arrangement from two separate entities owned by John T. South, one of EDMC's executive officers. Total rental payments under these arrangements approximated $0.5 million in fiscal 2013. The facilities were sold to an unrelated third party in September 2012. Mr. South paid the University $0.8 million in connection with the closing of the sale of the properties due to the University's renegotiation of the leases prior to the sale.

The University's Tampa campus shares its physical location with the Art Institute of Tampa, which is also wholly-owned by EDMC. Certain building costs, primarily rent expense, are allocated by EDMC between South University of Tampa and the Art Institute of Tampa. During the fiscal year ended June 30, 2013, total rent expense for this shared location was $2.4 million. Included in this amount was approximately $1.0 million that was allocated to South University of Tampa for the fiscal year ended June 30, 2013 and is included in the accompanying consolidated statement of operations within educational services expense.

EDMC guarantees all of the University's lease agreements, under which EDMC assumes all obligations, liabilities, and duties of the University 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 University's remaining lease obligations.

8. INCOME TAXES

The provision for income taxes includes current and deferred taxes, as reflected below, for the fiscal year ended June 30, 2013 (in thousands):

Current taxes:	
Federal	$ 10,181
State	1,520
Total current tax provision	11,701
Deferred tax expense	673
Income tax expense	$ 12,374

Deferred income taxes are presented in the consolidated balance sheet for all significant temporary differences between tax and financial reporting, which consist primarily of the allowance for doubtful accounts on student receivables, intangible assets, deferred rent, start-up costs and property and equipment. Net deferred income tax assets and liabilities consisted of the following at June 30, 2013 (in thousands):

Gross current deferred tax assets	$	14,927
Valuation allowance		(1,388)
Total current deferred tax assets	$	13,539
Total noncurrent deferred tax assets	$	7,555
Valuation allowance on noncurrent deferred tax assets		(177)
Total noncurrent deferred tax assets		7,378
Noncurrent deferred tax liabilities		14,185
Total net noncurrent deferred tax liabilities	$	6,807

The University is also included in the Georgia consolidated state tax return filed by EDMC, which includes parent company net operating losses. Because of the Georgia net operating losses, which exist at the parent company level but are used to offset Georgia taxable income of the University, management has determined that it is more-likely-than-not that the Georgia deferred tax assets of the University will not be realized. Therefore, a valuation allowance has been established against these deferred tax assets.

At June 30, 2013, the University had a North Carolina net operating loss carry forward of approximately $2.1 million available to offset future taxable income and a related deferred tax asset of $0.1 million. This carry forward expires in fiscal 2028. The University expects to fully utilize the net operating loss within the carry forward period.

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.

Sobek v. Education Management Corporation. On March 13, 2012, a *qui tam* action captioned *United States of America, ex rel. Jason Sobek v. Education Management Corporation, et al*. filed under the federal False Claims Act on January 28, 2010 was unsealed after the U.S. Department of Justice declined to intervene in the case. The case, which is pending in the federal district court in the Western District of Pennsylvania, alleges that the defendants violated the U.S. Department of Education's regulation prohibiting institutions from making substantial misrepresentations to prospective students, did not adequately track student academic progress and violated the U.S. Department of Education's prohibition on the payment of incentive compensation to admissions representatives. The complaint was filed by a former project associate director of admissions at EDMC Online Higher Education who worked for South University and asserts the relator is 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's institutions were ineligible to participate in Title IV programs during the period of alleged wrongdoing.

In August 2013, the parties to the action, along with the U.S. Department of Justice, participated in a private mediation in which the relator and defendants reached an agreement in principle regarding the financial terms of a potential settlement. The agreement between the parties remains subject to approval by the U.S. Department of Justice. Significant terms remain to be negotiated, and there is no certainty that a final agreement will be reached. The settlement amount agreed to by the parties under the terms of the agreement in principle would be paid by EDMC's insurer and EDMC would pay an immaterial amount of attorneys' fees incurred by the relator. The ultimate dismissal of the action, should a final settlement be reached, is subject to the Court's approval.

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 University was not subject to any legal proceedings that are expected to have a material adverse effect on its consolidated financial position, results of operation or liquidity.

Lease Commitments

The University leases its facilities under various operating leases, some of which are with related parties (see Note 7, "Related-Party Transactions"), that expire on various dates through 2027. Rent expense under these leases was approximately $22.2 million in the fiscal year ended June 30, 2013.

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

Fiscal Year:	
2014	$ 18,209
2015	16,484
2016	15,567
2017	15,536
2018	15,784
Thereafter	84,817

Surety Bonds

At June 30, 2013, the University has provided $9.8 million of surety bonds primarily to state regulatory agencies through two different surety providers. The University believes that these surety bonds will expire without being funded; therefore, the commitments are not expected to affect the University's financial condition.

10. EMPLOYEE BENEFIT PLANS

EDMC sponsors a 401(k) plan that covers substantially all employees. The University's expense relating to this plan was $3.4 million in the fiscal year ended June 30, 2013.

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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 Members and Board of Trustees
South University, LLC and Subsidiaries

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 South University, LLC and Subsidiaries (a wholly owned subsidiary of Education Management Corporation), which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statements of operations, members' equity, and cash flows for the year 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 audit of the financial statements, we considered South University, LLC and Subsidiaries' 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 South University, LLC and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the South University, LLC and Subsidiaries' 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 a 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 and therefore, material weaknesses or significant deficiencies may exist, that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South University, LLC and Subsidiaries' 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.*

South University, LLC and Subsidiaries' Response to Findings

South University, LLC and Subsidiaries' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. South University, LLC and Subsidiaries' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

South University, LLC and Subsidiaries
Schedule of Findings and Responses
Year Ended June 30, 2013

2013-001

Criteria:	The South University, LLC and Subsidiaries (the "University") consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. The account balances included within the consolidated financial statements are recorded as part of the University's financial statement close process.
Condition:	As a result of our audit procedures, which are based on prescribed materiality thresholds, we identified balance sheet reclassification adjustments that aggregated to approximately $8.3 million or 3% of total assets on an absolute basis primarily resulting from one transaction. These adjustments did not impact members' equity on the consolidated balance sheet.
Context	Although these reclassification adjustments have no impact to the consolidated statements of operations, members' equity and cash flows for the fiscal year ended June 30, 2013, they are more than inconsequential to the consolidated balance sheet at June 30, 2013.
Cause:	The University's internal controls over the financial statement close process did not timely identify these balance sheet reclassifications.
Effect:	The deficiencies identified in internal control over the financial statement close process could result in unidentified balance sheet reclassifications within the consolidated financial statements that could be more than inconsequential.
Recommendation:	Due to the aforementioned reclassification adjustments identified, we recommend that the University enhance the controls over the financial statement close process to identify all reclassifying adjustments to the consolidated balance sheet.
Views of responsible officials planned corrective actions:	Management believes it has an adequate internal control structure in place to identify and properly record transactions affecting the consolidated statements of operations, members' equity and cash flows of the University and its composite score, which were not impacted by these balance sheet reclassifying adjustments. In order to remediate the deficiency in internal control noted above, the University has added a new internal control in fiscal 2014 to more thoroughly identify and properly record transactions affecting only the consolidated balance sheet.

Supplemental Information

South University, LLC and Subsidiaries

Consolidating Balance Sheet

(Dollars in thousands)

June 30, 2013

	South University-Savannah	South University-Tampa	South University-West Palm Beach	South University-Montgomery	South University-Richmond	South University-Columbia	South University Virginia Beach	South University-Novi	South University-Austin	South University - Cleveland	South University - Highpoint	The Art Institute of Dallas	The Art Institute of Fort Worth	The Art Institute of Charlotte	The Art Institute of Raleigh - Durham	Reclass-ifications & Eliminations	South University, LLC and Subsidiaries
Assets																	
Current assets:																	
Cash:																	
Cash and cash equivalents	$ 243	$ 19	$ 1,572	$ 8	$ 1	$ 1	$ 3,791	$ 1	$ 2,288	$ 4,690	$ 3,893	$ 1,042	$ 10	$ 8	$ (42)	$ —	$ 17,525
Restricted cash	27,334	200	3,334	1,901	2,100	3,520	1,000	4,000	—	—	—	66	1,021	201	14	—	44,691
Total cash	27,577	219	4,906	1,909	2,101	3,521	4,791	4,001	2,288	4,690	3,893	1,108	1,031	209	(28)	—	62,216
Receivables:																	
Trade	34,252	6,973	6,493	5,982	5,815	10,383	5,657	3,251	1,290	1,522	1,188	4,328	1,136	8,122	4,539	—	100,931
Allowance for doubtful accounts	(17,965)	(1,012)	(743)	(1,368)	(773)	(1,545)	(785)	(411)	(203)	(206)	(130)	(2,753)	(518)	(5,414)	(2,470)	—	(36,296)
Notes, advances, and other receivables	9,222	12	8	6	5	37	7	1	—	—	8	(11)	73	(28)	34	—	9,374
Inventory	154	107	135	106	146	197	267	102	35	75	86	106	48	55	53	—	1,672
Deferred income taxes	6,407	430	346	570	321	608	324	186	78	90	67	1,005	198	1,914	995	—	13,539
Other current assets	85	25	8	8	11	21	17	—	—	—	7	361	—	2	—	—	545
Total current assets	59,732	6,754	11,153	7,213	7,626	13,222	10,278	7,130	3,488	6,171	5,119	4,144	1,968	4,860	3,123	—	151,981
Property and equipment, net	2,425	1,571	6,638	2,347	5,161	4,224	2,565	2,763	1,488	4,153	3,717	5,822	1,419	2,305	5,248	—	51,846
Investment in subsidiaries	85,155	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(85,155)	—
Deferred income taxes	—	254	387	494	566	353	—	93	—	—	626	1,439	432	629	54	(5,327)	—
Other long-term assets	733	36	41	671	816	851	71	227	42	87	23	372	70	858	583	—	5,481
Intangible assets, net of amortization	4,101	—	133	89	—	54	—	—	—	—	—	—	—	—	—	—	4,377
Goodwill	44,295	—	—	—	—	—	—	—	—	—	—	—	—	607	—	—	44,902
Total assets	$ 196,441	$ 8,615	$ 18,352	$ 10,814	$ 14,169	$ 18,704	$ 12,914	$ 10,213	$ 5,018	$ 10,411	$ 9,485	$ 11,777	$ 3,889	$ 9,259	$ 9,008	$ (90,482)	$ 258,587
Liabilities and members' equity																	
Current liabilities:																	
Accounts payable	$ 1,310	$ 91	$ 123	$ 94	$ 151	$ 304	$ 272	$ 101	$ 63	$ 72	$ 150	$ 53	$ 27	$ 129	$ 70	$ —	$ 3,010
Accrued liabilities	12,023	224	205	152	106	128	146	145	183	127	132	1,195	98	323	241	(1)	15,427
Unearned tuition	12,143	4,361	5,015	3,050	2,991	7,630	3,259	2,010	820	1,029	828	—	—	—	—	—	43,136
Advance payments	21,370	176	106	70	32	126	359	56	12	5	9	1,201	305	324	257	—	24,408
Total current liabilities	46,846	4,852	5,449	3,366	3,280	8,188	4,036	2,312	1,078	1,233	1,119	2,449	430	776	568	(1)	85,981
Deferred income taxes	11,616	—	—	—	—	—	117	—	232	169	—	—	—	—	—	(5,327)	6,807
Deferred rent	1,126	103	4,856	2,015	2,911	1,466	1,429	2,416	83	2,674	2,305	3,795	717	823	2,224	—	28,943
Members' equity:																	
Investment in EDMC	57,474	—	1,476	1,133	—	1,185	—	—	—	—	—	4,125	—	12,052	—	(5,133)	72,312
Payable to (receivable from) EDMC	8,770	(1,226)	(15,398)	(7,818)	7,800	(28,738)	8,685	11,449	10,443	11,000	8,162	(44,010)	2,879	(19,124)	4,024	(8,868)	(51,970)
Accumulated earnings (deficit)	70,609	4,886	21,969	12,118	178	36,603	(1,353)	(5,964)	(6,818)	(4,665)	(2,101)	45,418	(137)	14,732	2,192	(71,153)	116,514
Total members' equity	136,853	3,660	8,047	5,433	7,978	9,050	7,332	5,485	3,625	6,335	6,061	5,533	2,742	7,660	6,216	(85,154)	136,856
Total liabilities and members' equity	$ 196,441	$ 8,615	$ 18,352	$ 10,814	$ 14,169	$ 18,704	$ 12,914	$ 10,213	$ 5,018	$ 10,411	$ 9,485	$ 11,777	$ 3,889	$ 9,259	$ 9,008	$ (90,482)	$ 258,587

South University, LLC and Subsidiaries

Consolidating Statement of Operations

(Dollars in thousands)

For the Fiscal Year Ended June 30, 2013

	South University-Savannah	South University-Tampa	South University-West Palm Beach	South University-Montgomery	South University-Richmond	South University-Columbia	South University-Virginia Beach	South University-Novi	South University - Austin	South University - Cleveland	South University - Highpoint	The Art Institute of Dallas	The Art Institute of Fort Worth	The Art Institute of Charlotte	The Art Institute of Raleigh - Durham	Reclassifications & Eliminations	South University, LLC and Subsidiaries
Net revenues	$ 171,009	$ 20,104	$ 22,302	$ 14,412	$ 13,134	$ 36,226	$ 13,193	$ 6,382	$ 2,677	$ 2,552	$ 1,265	$ 35,110	$ 8,834	$ 31,335	$ 19,861	$ —	$ 398,396
Costs and expenses:																	
Educational services	85,276	10,095	10,911	7,923	7,526	15,239	6,487	4,356	3,743	3,369	2,204	19,111	3,915	18,108	12,538	—	210,801
General and administrative	65,918	5,772	5,123	3,610	4,328	6,775	5,269	3,320	2,721	2,907	1,992	11,216	3,497	8,585	5,323	—	136,356
Depreciation and amortization	5,761	828	946	589	685	1,743	564	494	550	479	251	1,597	402	1,355	896	—	17,140
Total costs and expenses	156,955	16,695	16,980	12,122	12,539	23,757	12,320	8,170	7,014	6,755	4,447	31,924	7,814	28,048	18,757	—	364,297
Earnings in investment in subsidiaries	12,784	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,784)	—
Income (loss) before income taxes	26,838	3,409	5,322	2,290	595	12,469	873	(1,788)	(4,337)	(4,203)	(3,182)	3,186	1,020	3,287	1,104	(12,784)	34,099
Income tax expense (benefit)	5,113	1,186	1,826	837	159	4,756	286	(646)	(1,548)	(1,405)	(1,279)	1,130	395	1,141	423	—	12,374
Net income (loss)	$ 21,725	$ 2,223	$ 3,496	$ 1,453	$ 436	$ 7,713	$ 587	$ (1,142)	$ (2,789)	$ (2,798)	$ (1,903)	$ 2,056	$ 625	$ 2,146	$ 681	$(12,784)	$ 21,725
University "90/10" Ratio																	
Numerator																	$ 286,572
Denominator																	$ 355,314
Rate																	80.7%
Composite Score	3.0	2.7	2.4	3.0	2.9	2.9	3.0	1.8	1.8	1.8	1.8	2.0	3.0	3.0	2.3		2.5

South University, LLC and Subsidiaries

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	$ 317,900	$ —
Florida Access to Better Learning and Education Grant	—	N/A	515,517	—
Florida Children and Spouses of Deceased or Disabled Veterans and Service Members Scholarship	48.055	N/A	4,974	—
Florida Bright Futures Scholarship	48.059	N/A	93,031	—
TOTAL DIRECT PROJECTS			$ 931,422	$ —
Indirect Projects:			$ —	$ —
Passed Through:			$ —	$ —
TOTAL FLORIDA DEPARTMENT OF EDUCATION			$ 931,422	$ —
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			$ 931,422	$ —

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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