HEIN & ASSOCIATES LLP
Certified Public Accountants and Advisors

JONES INTERNATIONAL UNIVERSITY, LTD.

Financial Statements

December 31, 2010 and 2009

(With Independent Auditor's Report Thereon)

HEIN & ASSOCIATES LLP
Certified Public Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jones International University, Ltd.
Centennial, Colorado

We have audited the accompanying statements of financial position of Jones International University, Ltd. as of December 31, 2010 and 2009 and the related statements of operations, shareholder's equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Jones International University, Ltd.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Jones International University, Ltd. as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying footnote 6 on the Jones International University, Ltd.'s calculation of its Title IV 90/10 revenue test and footnote 7 on related party transactions are required by the U. S. Department of Education and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2011 on our consideration of the Jones International University, Ltd.'s internal control over financial reporting and our tests of its 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hein + Associates LLP

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Denver, Colorado
May 27, 2011

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JONES INTERNATIONAL UNIVERSITY, LTD.
(A Majority Owned Subsidiary of Jones Knowledge Group, Inc.)
Statements of Financial Position

	December 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 9,580,866	$ 12,449,333
Accounts receivable, net of allowance for doubtful accounts of $2,600,000 and $677,000 respectively	9,433,592	9,167,536
Other current assets	672,890	423,017
Total current assets	19,687,348	22,039,886
Property and equipment:		
Office furniture and fixtures	221,787	34,799
Computer hardware and software	3,120,008	1,997,652
Leasehold improvements	211,499	26,837
Less accumulated depreciation and amortization	(2,222,911)	(1,625,861)
Property and equipment, net	1,330,383	433,427
Course and content development costs:		
Investment in courses and content	3,188,365	2,705,530
Less accumulated amortization	(2,242,087)	(2,024,671)
Course and content development costs, net	946,278	680,859
Other long-term assets	395,098	100,000
Total assets	$ 22,359,107	$ 23,254,172
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,598,398	$ 2,315,378
Deferred revenue	4,949,363	8,678,786
Total current liabilities	7,547,761	10,994,164
Advances due to Jones Knowledge Group	4,053,596	389,232
Total liabilities	11,601,357	11,383,396
Commitments and Contingencies (Notes 1, 5 and 7)		
Shareholders' equity:		
Class A Covertible Preferred Stock, $0.01 par value, authorized, issued, and outstanding 5,882 shares, liquidation preference $5,946,002 and $5,454,302 as of December 31, 2010 and December 31, 2009 respectively	59	59
Class B Convertible Preferred Stock, $0.01 par value, authorized, issued, and outstanding 2,165 shares, liquidation preferences $2,508,865 and $2,301,710 as of December 31, 2010 and December 31, 2009 respectively	22	22
Class C Convertible Preferred Stock, $0.01 par value, authorized, issued, and outstanding 7,935 shares, liquidation preferences $13,031,886 and $0 as of December 31, 2010 and December 31, 2009 respectively	79	-
Class A Common Stock, $0.01 par value. Authorized, issued, and outstanding 10,000 shares	100	100
Class B Common Stock, $0.01 par value. Authorized, issued, and outstanding 10,000 shares	100	100
Additional paid-in-capital (Note 7)	93,164,641	80,164,889
Accumulated deficit	(82,407,251)	(68,294,394)
Total shareholders' equity	10,757,751	11,870,776
Total liabilities and shareholders' equity	$ 22,359,108	$ 23,254,172

See accompanying notes to these financial statements.

JONES INTERNATIONAL UNIVERSITY, LTD.
(A Majority Owned Subsidiary of Jones Knowledge Group, Inc.)
Statements of Operations

	For the Years Ended December 31, 2010	2009
Revenues:		
Tuition revenues	$ 46,058,660	$ 26,264,499
Other student services	330,572	1,059,218
Other revenues	45,703	48,421
Total revenues	46,434,935	27,372,138
Direct operating expenses:		
Technology	1,714,243	141,472
Salaries and benefits	4,891,524	4,355,438
Depreciation and amortization of course and content development costs	444,664	262,409
Instructional costs and services	9,820,368	5,655,049
Facilities and other	963,946	710,228
Total direct operating expenses	17,834,745	11,124,596
Selling and marketing expenses:		
Salaries and benefits	16,371,338	7,659,967
Marketing expenses	11,800,169	5,336,222
Total selling and marketing expenses	28,171,507	12,996,189
General and administrative expenses:		
Technology	3,621,009	2,062,902
Salaries and benefits	3,894,045	2,359,131
Depreciation	452,530	396,653
Professional services	4,030,153	2,735,825
Facilities and other	2,920,387	2,070,343
Total general and administrative expenses	14,918,124	9,624,854
Total expenses	60,924,376	33,745,639
Operating loss	(14,489,441)	(6,373,501)
Other income:		
Interest income – third party	2,402	28,363
Interest income – affiliated entities	124,157	87,897
Other income, net	-	3,493
Total other income, net	126,559	119,753
Loss before income tax benefit	(14,362,882)	(6,253,748)
Income tax benefit	250,025	1,566,206
Net loss	$ (14,112,857)	$ (4,687,542)

See accompanying notes to these financial statements.

JONES INTERNATIONAL UNIVERSITY, LTD.
(A Majority Owned Subsidiary of Jones Knowledge Group, Inc.)
Statements of Shareholder's Equity
For the Years Ended December 31, 2010 and 2009

	Preferred Stock Class A		Preferred Stock Class B		Preferred Stock Class C		Common Stock Class A		Common Stock Class B				
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholder's Equity (Deficit)
Balance, January 1, 2009	5,882	$ 59	-	$ -	-	$ -	10,000	$ 100	10,000	$ 100	$ 74,264,901	$ (63,606,852)	$ 10,658,308
Issuance of Preferred Stock (Note 7)	-	-	2,165	22	-	-	-	-	-	-	5,899,988	-	5,900,010
Net loss	-	-	-	-	-	-	-	-	-	-	-	(4,687,542)	(4,687,542)
Balance, December 31, 2009	5,882	59	2,165	22	-	-	10,000	100	10,000	100	80,164,889	(68,294,394)	11,870,776
Issuance of Preferred Stock (Note 7)	-	-	-	-	7,935	79	-	-	-	-	12,999,752	-	12,999,831
Net loss	-	-	-	-	-	-	-	-	-	-	-	(14,112,856)	(14,112,856)
Balance, December 31, 2010	5,882	$ 59	2,165	$ 22	7,935	$ 79	10,000	$ 100	10,000	$ 100	$ 93,164,641	$ (82,407,251)	$ 10,757,750

See accompanying notes to these financial statements.

JONES INTERNATIONAL UNIVERSITY, LTD.
(A Majority Owned Subsidiary of Jones Knowledge Group, Inc.)
Statements of Cash Flows

	For the Years Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	$ (14,112,857)	$ (4,687,542)
Adjustments to reconcile net loss to net cash used/provided by operating activities:		
Amortization of course and content development costs	444,664	235,172
Depreciation	452,530	327,887
Bad debt expense	1,947,205	503,829
Net change in assets and liabilities:		
(Increase) in accounts receivable	(2,534,835)	(2,004,747)
(Increase) in other current assets	(47,763)	(75,164)
(Increase) in other long term assets	(217,317)	(100,000)
Decrease in loans receivable	45,471	-
Increase in accounts payable and accrued liabilities	283,019	1,103,791
Increase/(decrease) in deferred revenue	(3,729,423)	1,259,018
Net cash used in operating activities	(17,469,306)	(3,437,756)
Cash flows from investing activities:		
Investment in course development	(668,707)	(434,965)
Purchase of property and equipment	(1,335,216)	(382,564)
Net cash used in investing activities	(2,003,923)	(817,529)
Cash flows from financing activities:		
Issuance of Preferred Stock	9,000,765	2,300,009
Advances from Jones Knowledge Group, Inc.	7,603,997	9,018,068
Net cash provided by financing activities	16,604,762	11,318,077
Increase/(decrease) in cash and cash equivalents	(2,868,467)	7,062,792
Cash and cash equivalents, beginning of year	12,449,333	5,386,541
Cash and cash equivalents, end of year	$ 9,580,866	$ 12,449,333
Supplemental cash flow disclosures:		
Capitalization of advances from Jones Knowledge Group, Inc. (Note 7)	$ 3,999,066	$ 3,600,000
Institutional Loans awarded	$ 321,575	$ -

See accompanying notes to these financial statements.

(1) Organization and Business

Jones International University, Ltd. ("JIU" or the "Company") was formed for the purpose of developing and distributing, via the internet, academic courses and degree programs for students at a distance. The mission of JIU is to make higher education more readily available to mature students who are able to work independently and accept responsibility for their educational progress. JIU is distinguished as the world's first fully-online university to receive regional accreditation. Through its online course offerings, JIU offers degree programs at the undergraduate and graduate levels, as well as certificates of specialization, which are oriented to the training and continuing education needs of the adult workforce. Accreditation allows JIU course credits to be transferred to other accredited institutions and also facilitates corporate tuition reimbursement.

JIU began distributing courses and enrolling students in May 1995. In March 1999, JIU was awarded full accreditation from the Higher Learning Commission (HLC), a member of North Central Association of Colleges and Schools. JIU achieved accreditation by demonstrating that it had the academic, human and fiscal resources to offer, and continue to offer academic degrees and by meeting the standard criteria set by this accrediting body. In February 2004, the HLC voted to continue the accreditation of JIU for an additional seven years. In December 2010, JIU began the reaccreditation process with HLC. JIU will learn the results of the reaccreditation process after the HLC Board meeting in June 2011

JIU is owned 85% by Jones Knowledge Group, Inc. (JKG) and 15% by Glenn R. Jones. JKG is owned 81% by Jones International, Ltd. (International), 10 % by Mr. Jones, and the remaining 9% is owned by Mr. Jones' children's trusts and other trusts. International is wholly owned by Mr. Jones, who is Chairman of the Board of JKG and Chancellor and Chief Executive Officer of JIU. International is a holding company with ownership interests in several companies involved in education, software development, and entertainment.

On April 27, 2010, JKG exchanged $7,850,000 of payables to International for 19% ownership interest of JIU. The exchange was based upon the fair market value of JIU and equaled 1,900 shares of each class of Common Stock, 1,118 shares of Series A Convertible Preferred Stock and 411 shares of Series B Convertible Preferred Stock.

On January 14, 2004, JIU was approved by the United States Department of Education (ED) to participate in the student financial assistance programs authorized by Title IV of The Higher Education Act of 1965, as amended (Title IV, HEA Program). JIU administers Direct Subsidized Stafford Loans, Direct Unsubsidized Stafford Loans, Federal Academic Competitiveness Grant, Direct PLUS Loans, Federal Pell Grants and Federal Supplemental Education Opportunity Grants (FSEOG).

The Company has incurred losses and negative cash flows from operations in the past and anticipates incurring losses in the coming year. As a result of the losses, JKG has provided significant funding to the Company. Approximately $13 million was contributed to the Company as capital contributions during the year ended December 31, 2010. In December 2010, JKG made a capital contribution to JIU of approximately $13.0 million to fund future operational and working capital needs. The capital contribution to JIU was in exchange for 7,935 shares of a new Series C Convertible Preferred Stock. JKG has no obligation to provide incremental funding support through December 31, 2011.

To the extent that cash flows from operations and the loans from JKG are not sufficient to meet its liquidity requirements in 2011, the Company may be required to obtain additional debt or equity infusions. Such additional debt or equity may not be available at acceptable terms, in the time required, or at all.

However, management believes that the Company has sufficient cash to meet its funding requirements over the next year.

The Company follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure they consistently report the Company's financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these notes are to the *FASB Accounting Standards Codification*™, sometimes referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ending on or after September 15, 2009.

(2) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(b) Allowance for Doubtful Accounts

Trade accounts receivable are recorded at their estimated net realizable value. The allowance for doubtful accounts is determined through an analysis of the past-due status of accounts receivable and assessments of risk regarding collectability. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The balances of the allowance for doubtful accounts as of December 31, 2010 and 2009 were $2,600,000 and $677,000, respectively. The increase is attributable to growth as well as deterioration of the economy.

(c) Property and Equipment

Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives of three to five years. JIU capitalizes any reasonable cost based on its estimated useful life.

(d) Course and Content Development Costs

Costs to develop courses and content, including content development, production, and other costs, are paid primarily to third parties and are capitalized as incurred. Once the course and content is completed, the related capitalized development costs are amortized on a straight-line basis over the estimated useful life of the course, which is generally determined to be three years. As of December 31, 2010, 403 courses had been developed and were available to students.

(e) Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of an asset to estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets subject to disposition are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less estimated costs of sale, and are no longer subject to depreciation or amortization. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the statements of financial position. The Company reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment indicators were identified by JIU during 2010 and 2009.

(f) Preferred Stock

JIU currently has 5,882, 2,165 and 7,935 shares of Series A, Series B, and Series C Convertible Preferred Stock issued and outstanding, respectively (each a "Preferred Share" and collectively the "Preferred Shares"), which have the following principal terms:

(i) The Preferred Shares are ranked *pari passu* with respect to each other and have a preference over the Common Stock with respect to dividend rights and rights on liquidation, dissolution or winding up of the Company.

(ii) The Preferred Shares are entitled to a cumulative dividend of 9% from and after their respective issuance date, payable in cash when, as and if declared by the Board of Directors.

(iii) The following table details the cumulative unpaid dividends and the additional liquidation preference of the Preferred Shares as of December 31, 2010:

Series of Convertible Preferred Stock	Cumulative Unpaid Dividends	Liquidation Preference
A	$946,302	$4,999,700
B	$208,856	$2,300,009
C	$32,054	$12,999,832

The Preferred Shares may be automatically converted into Class A Shares at one-to-one ratio (subject to adjustment) upon the completion of a qualified public offering or by the written consent or agreement of the holders of at least two-thirds of the then-outstanding Preferred Shares. The Preferred Shares may also be voluntarily converted by their respective holder into Class A Shares at one-to-one ratio (subject to adjustment) at any time.

(iv) The holders of the Preferred Shares may vote with holders of the Common Shares (as a single voting group) on all matters brought before the shareholders at a rate equal to one vote for each Class A Shares-equivalent share, except as otherwise required by either law or the Company's Articles of Incorporation.

(v) The conversion price, conversion rate, and the number of Common Shares underlying the Preferred Shares are subject to customary adjustments, including anti-dilution protection, at any time or from time to time after the issuance date.

(g) Common Stock

The Class A Common Stock has voting rights that are generally one-twentieth of those held by the Class B Common Stock. In the election of directors, the holders of Class A Common Stock, voting as a separate class, are entitled to elect that number of directors that constitute approximately 25% of the total membership of the board of directors of the Company. Holders of the Class B Common Stock, also voting as a separate class, are entitled to elect the remaining directors.

(h) Revenue Recognition

JIU recognizes revenue primarily in the form of tuition. Tuition revenue is based on student enrollment in JIU courses and 50% of tuition revenue is recognized in the first month of the course and 50% of the revenue is recognized in the second month of the course. There was approximately $4,949,000 and $8,679,000 in deferred revenue relating to paid tuition and fees for future courses at December 31, 2010 and 2009, respectively. The large decrease in deferred revenue is primarily due to a policy change of when future course registrations are recognized. Future course registrations are now recognized at the start of a student's term where historically they were recognized when the student registered for the course.

(i) Advertising Costs

Advertising costs are expensed as incurred and are included in selling and marketing expenses in the accompanying statements of operations. Advertising expense was approximately $11,303,000 and $4,909,000 in 2010 and 2009, respectively.

(j) Income Taxes

JIU joins in filing a consolidated income tax return as provided under the terms of a tax allocation agreement with International and certain of International's subsidiaries. Pursuant to the terms of the income tax allocation agreement, JIU will recognize a provision (benefit) for income taxes based on its pro-rata contribution of taxable income (loss) to International's consolidated taxable income (loss).

JIU accounts for deferred tax liabilities or assets based on the temporary differences between the financial reporting and tax bases of assets and liabilities as measured by the enacted tax rates which are expected to be in effect when these differences reverse. Deferred tax assets are reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which are not expected to be realized.

The Company adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*, on January 1, 2009. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows. The Company has not recorded any liabilities as of December 31, 2010 related to the adoption of this statement. Subsequent to adoption, there have been no changes to the Company's assessment of uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2010, the Company made no provision for interest or penalties related to uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various states. The consolidated federal tax return for International and its subsidiaries for the years ended 2007 and 2008 are currently under examination by the Internal Revenue Service. No adjustments that affect the Company are anticipated. There are currently no state income tax examinations underway. Furthermore, the Company is no longer subject to U.S. federal income tax examinations by the Internal Revenue service for tax years before 2007 and for state and local tax authorities for years before 2006. The Company's tax years of 2006 and forward are subject to examination by federal and state taxing authorities.

(k) 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 could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Fair Value Estimates

The Company's financial instruments including accounts receivable and accounts payable are carried at cost, which approximates fair value due to the short-term maturity of these instruments.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on the net loss.

(3) Income Taxes

JIU files a consolidated tax return with International as provided under the terms of a tax sharing agreement with International and its subsidiaries. Pursuant to the terms of the agreement, tax provisions (benefits) are allocated to members of the tax sharing group based on their respective pro-rata contribution of taxable income (loss). The Company recognized an income tax benefit of approximately $250,000 and $1,566,000 for the years ended December 31, 2010 and 2009, respectively.

	Years Ended December 31,	
	2010	2009
Current income tax benefit (provision):		
Federal	$ 231	$ 768
State	19	66
Total current income tax benefit (provision)	$ 250	$ 834
Deferred income tax benefit (provision):		
Federal	$ –	$ 732
State	–	–
Total deferred income tax benefit (provision)	$ –	$ 732
Total income tax benefit (provision):		
Federal	$ 231	$ 1,500
State	19	66
Total income tax benefit (provision)	$ 250	$ 1,566

The approximate differences between the statutory federal income tax rate and effective tax rate are summarized as follows (in thousands):

	Years Ended December 31,	
	2010	2009
Computed expected federal tax benefit	$ 5,027	$ 2,189
Computed expected state tax benefit	432	188
	5,459	2,377
Deferred tax asset with full valuation allowance	(5,116)	–
Other, including meals and entertainment	(93)	(811)
Total income tax benefit	$ 250	$ 1,566

The approximate tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2010	2009
Deferred tax assets:		
Federal tax net operating loss carryforward	$ 4,269	$ 277
State tax net operating loss carryforward	1,261	918
Federal tax credits (AMT and R&D credits)	1,136	1,210
Fixed assets	38	–
Future deductible amounts associated with current assets and liabilities, net	1,125	345
Deferred tax assets	7,829	2,750
Less valuation allowance	(7,829)	(2,713)
Deferred tax assets, net	$ –	$ 37
Deferred tax liabilities:		
Fixed assets	$ –	$ 37
Deferred tax liabilities	–	(37)
Net deferred taxes	$ –	$ –

At December 31, 2010, the Company has net operating loss carryforwards for federal income tax purposes of approximately $12,169,000. At December 31, 2010, the Company has net operating loss carryforwards for state income tax purposes of approximately $41,883,000, which are available to offset future state tax liabilities. The net operating losses available to offset future federal tax liabilities expire in 2023 and 2030. The Company has recorded a valuation allowance against net deferred tax assets as it is more likely than not the Company will not be able to realize the assets.

(4) Concentration of Credit Risk

The Company performs ongoing evaluations of its customers' financial condition and generally requires no collateral from its customers.

(5) Commitments and Contingencies

(a) Deferred Compensation Plans

The Company's employees are eligible to participate in an Employee Profit Sharing/Retirement Savings Plan (the "401(k) Plan"). Under the 401(k) Plan, eligible employees are permitted to defer up to 60% of their annual compensation. The Company matched 50% of the employees' deferrals up to a maximum of 3% of their annual compensation for the years ended December 31, 2010 and 2009, respectively. Contributions to the 401(k) Plan are invested by the trustees of the 401(k) Plan in accordance with the directions of each participant. Participants and their beneficiaries are entitled to payment of benefits: (i) upon retirement either at or after age 65; (ii) upon death or disability; or (iii) upon termination of employment, unless the participant elects to receive payment prior to one of the events previously listed. For the years ended December 31, 2010 and 2009, the Company contributed approximately $132,000 and $60,000, respectively, to the 401(k) Plan on behalf of its employees.

(b) Possible Loss Contingency

In July 2009, Jones International University (JIU) received a demand letter on behalf of a former employee, claiming that the employee was subjected to unlawful harassment and terminated by JIU based upon gender and national origin in violation of Title VII. Subsequently, the former employee filed a charge of discrimination with the U.S. Equal Employment Opportunity Commission (EEOC). JIU believes there is no basis for such charge and has contested the charge with the EEOC. There has been no further action on this charge in 2010.

(c) Lease Commitments

The Company has entered into two operating leases for office space. These leases expire on January 31, 2013 and May 17, 2015. Rental payments paid were $331,000 and $18,000 for the years ended December 31, 2010 and 2009, respectively. Rental expense was $529,000 and $30,000 for the years ended December 31, 2010 and 2009, respectively.

The following is a schedule of future rental payments:

2011	$ 408,000
2012	416,000
2013	295,000
2014	287,000
2015	108,000
	$ 1,514,000

(6) Regulatory

(a) Revenue Requirements

The Company derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV, HEA program. To continue to participate in the SFA programs, the Company must comply with the regulations promulgated under the Title IV, HEA program. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV, HEA programs. The failure of the Company to meet the 90 percent limitation will result in the loss of the Company's ability to participate in SFA programs. This information is required by ED; it is presented for purposes of additional analysis and is not a required part of the basic financial statements. The calculation of percentage of total cash receipts from Title IV funds for the fiscal year ended December 31, 2010 is as follows:

Revenue by Source ($s in thousands):

Adjusted student Title IV revenue		
Subsidized Loan	$	24,218
Unsubsidized Loan up to pre-ECASLA Loan Limit		33,053
Plus Loan		243
Pell Grant		6,125
TEACH Grant		282
Federal Direct Loan		272
FSEOG		78
Subtotal student Title IV revenue		64,271
Adjustments		(28,181)
Adjusted student Title IV revenue	$	36,090
Student Non-Title IV revenue		
Grant funds for the student from non-federal public agencies or private sources independent of the Institution	$	918
Amount of Unsubsidized Loan over the pre-ECASLA Loan Limit		211
Student payment		3,173
Student Non-Title IV revenue		4,302
Revenue from other sources		
Net present value of institutional loans disbursed to students		89
Total Revenue	$	40,481
Adjusted Student Title IV revenue (adjusted Student Title IV revenue plus Student Non-Title IV revenue plus revenue from outside sources):		
Adjusted Student Title IV revenue	$	36,090
Total revenue	$	40,481
Percentage of eligible cash receipts from Title IV funds		89.1%

(7) Related Party Transactions

(a) Accounts Receivable from Officers

The Company participates in SFA programs under the Title IV, HEA program and must comply with the regulations promulgated under the Title IV, HEA program. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. As of December 31, 2010 there were no accounts receivables from officers.

(b) Transactions with Affiliates

International owns a controlling interest in a number of affiliated entities, including JKG. Certain members of management of JIU are also officers or directors of other affiliated entities with which JIU has transactions. Certain expenses are paid by affiliated entities on behalf of JIU and are allocated at cost based on specific identification or other reasonable methods. Significant transactions with affiliated entities are described below.

JIU leases office and warehouse space in Englewood, Colorado from an affiliate of International. Rent and associated expenses are allocated to JIU based on the amount of square footage it occupies. Office and warehouse rent expense of approximately $841,000 and $925,000 was charged to JIU for the years ended December 31, 2010 and 2009, respectively.

An affiliate of International provides technology related maintenance, operations, and development services to JIU. The costs related to these services of approximately $3,987,000 and $2,178,000 were charged to JIU for the years ended December 31, 2010 and 2009, respectively.

JIU reimburses International and certain of its affiliates for certain allocated administrative services. These services, which consist primarily of accounting, human resources, and legal services, are allocated to JIU at cost, which includes salaries and related benefits. Allocations of personnel costs are generally based on actual time spent by affiliated associates with respect to JIU. Such expenses totaled approximately $4,251,000 and $4,052,000 for the years ended December 31, 2010 and 2009, respectively.

(c) Advances to/from Affiliate

JIU has funded its operating activities using advances from JKG and received interest income at the published prime rate for 2010 of 3.25% on the outstanding balance. Total interest earned by JIU was approximately $143,000 for the year ended December 31, 2010. JIU was charged interest on all such advances due to JKG at the published prime rate for 2010 and 2009 (3.25% at December 31, 2010 and December 31, 2009). Total interest charged by JKG was approximately $19,000 for the years ended December 31, 2010 and December 31, 2009. Approximately $4,000,000 and $3,600,000 of the amount advanced to the Company was contributed to the Company as capital contributions during the years ended December 31, 2010 and 2009, respectively. There is approximately $4,100,000 of advances due to JKG as of December 31, 2010 compared to $400,000 of advances due from JKG as of December 31, 2009.

(8) Composite Score Standard

As a condition of eligibility to participate in the various federal financial assistance programs, a school is required to demonstrate financial responsibility, as defined in United States Department of Education regulations, by maintaining a "composite score standard" of at least 1.5. The regulations also establish a composite score zone between 1.0 and 1.4, demonstrating an institution as financially weak, but viable. Regulations allow institutions falling within this zone up to three consecutive years to improve their financial condition without requiring surety.

The Company's "composite score standard" at December 31, 2010, was 1.6 and, therefore, is in compliance with the above requirement.

(9) Subsequent Events

Events subsequent to December 31, 2010 were evaluated through May 27, 2011, the date the financial statements were available to be issued. On January 28, 2011, International assigned marketing and promotion services on a certain cable channel to JIU valued at $764,000 and will be used over the next two years.

HEIN & ASSOCIATES LLP
Certified Public Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT 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

To the Board of Directors
Jones International University, Ltd.
Centennial, Colorado

We have audited the financial statements of Jones International University, Ltd. as of and for the year ended December 31, 2010, and have issued our report thereon dated May 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jones International University, Ltd.'s internal control over financial reporting as a basis for designing our auditing procedures 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 Jones International University, Ltd.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jones International University, Ltd.'s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jones International University, Ltd.'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*.

This report is intended solely for the information and use of management, the Audit Committee, Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

Hein & Associates LLP

***HEIN** & ASSOCIATES LLP*

Denver, Colorado
May 27, 2011