

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION

Embry-Riddle Aeronautical University, Inc.
Years Ended June 30, 2005 and 2004

Embry-Riddle Aeronautical University, Inc.

Financial Statements and Supplementary Information

Years Ended June 30, 2005 and 2004

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Report of Independent Certified Public Accountants

The Board of Trustees
Embry-Riddle Aeronautical University, Inc.

We have audited the accompanying statements of financial position of Embry-Riddle Aeronautical University, Inc. (the University) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Embry-Riddle Aeronautical University as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the University's internal control over financial reporting and on 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 audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule – Net Assets Class Disaggregation as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of the University’s management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole. The information presented in the supplementary information – Three-year Comparative Statements of Financial Position, Activities, and Cash Flows as of and for the year ended June 30, 2003, was not subject to audit and accordingly we express no opinion on that information.

Ernst & Young LLP

September 30, 2005

Embry-Riddle Aeronautical University, Inc.

Statements of Financial Position

| | June 30 | |
|--|--------------------------|--------------------------|
| | 2005 | 2004 |
| | <i>(In Thousands)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,395 | \$ 24,308 |
| Investments <i>(Note 2)</i> | 47,062 | 42,607 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$536 and \$1,126, respectively | 13,787 | 13,817 |
| Current portion of student loans receivable | 1,954 | 1,971 |
| Current portion of contributions receivable <i>(Note 4)</i> | 2,165 | 1,739 |
| Inventories | 2,595 | 2,868 |
| Prepaid expenses and other current assets | 2,506 | 897 |
| Total current assets | <u>90,464</u> | <u>88,207</u> |
| Deposits and investments with fiduciaries <i>(Note 3)</i> | 21,182 | 28,242 |
| Long-term accounts and notes receivable | 187 | 290 |
| Student loans receivable, less current portion and allowance for doubtful accounts of \$536 and \$700, respectively | 8,484 | 8,141 |
| Contributions receivable, net – less current portion <i>(Note 4)</i> | 1,811 | 751 |
| Land and land improvements, buildings and equipment, at cost, less accumulated depreciation <i>(Note 5)</i> | 177,601 | 163,138 |
| Unamortized bond issuance costs | 3,538 | 3,589 |
| Other assets | 507 | 376 |
| Total assets | <u><u>\$ 303,774</u></u> | <u><u>\$ 292,734</u></u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 25,108 | \$ 21,885 |
| Advances for student loans and financial aid | 9,186 | 8,760 |
| Current portion of long-term debt <i>(Note 6)</i> | 3,815 | 3,681 |
| Student deposits and advance payments | 5,300 | 4,734 |
| Unearned tuition and flight fees | 6,556 | 10,074 |
| Total current liabilities | <u>49,965</u> | <u>49,134</u> |
| Long-term debt <i>(Note 6)</i> | <u>124,753</u> | <u>128,283</u> |
| Total liabilities | <u>174,718</u> | <u>177,417</u> |
| Net assets <i>(Note 7)</i> : | | |
| Unrestricted | 112,007 | 102,124 |
| Temporarily restricted | 4,641 | 3,624 |
| Permanently restricted | 12,408 | 9,569 |
| Total net assets | <u>129,056</u> | <u>115,317</u> |
| Total liabilities and net assets | <u><u>\$ 303,774</u></u> | <u><u>\$ 292,734</u></u> |

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

Embry-Riddle Aeronautical University, Inc.

Statements of Activities

Year Ended June 30, 2005
(In Thousands)

| | Temporarily Restricted | | Permanently Restricted | Total |
|---|------------------------|------------|------------------------|------------|
| | Unrestricted | Restricted | Restricted | |
| Revenue and other additions: | | | | |
| Tuition | \$ 185,127 | \$ – | \$ – | \$ 185,127 |
| Less institutionally funded scholarships | 22,895 | – | – | 22,895 |
| Net tuition | 162,232 | – | – | 162,232 |
| Flight fees | 18,634 | – | – | 18,634 |
| Other fees | 6,596 | – | – | 6,596 |
| Government grants and contracts | 9,461 | – | – | 9,461 |
| Private gifts | 499 | – | – | 499 |
| Private grants and contracts | 1,044 | – | – | 1,044 |
| Sales and services – educational | 168 | – | – | 168 |
| Auxiliary enterprises (Note 10) | 18,823 | – | – | 18,823 |
| Other revenue | 1,994 | 159 | – | 2,153 |
| Investment earnings distributed | 48 | 285 | – | 333 |
| Total revenue and other additions | 219,499 | 444 | – | 219,943 |
| Net assets released from restrictions | 1,157 | (1,157) | – | – |
| Total revenue and other additions | 220,656 | (713) | – | 219,943 |
| Expenses (Note 8): | | | | |
| General academic instruction | 78,867 | – | – | 78,867 |
| Flight instruction | 33,146 | – | – | 33,146 |
| Research | 7,953 | – | – | 7,953 |
| Academic support | 13,503 | – | – | 13,503 |
| Student services | 24,682 | – | – | 24,682 |
| Institutional support | 36,910 | – | – | 36,910 |
| Scholarships | 1,130 | – | – | 1,130 |
| Auxiliary enterprises (Note 10) | 20,866 | – | – | 20,866 |
| Total expenses | 217,057 | – | – | 217,057 |
| Excess (deficiency) of revenues and other additions over (under) expenses | 3,599 | (713) | – | 2,886 |
| Nonoperating activities: | | | | |
| Private gifts – noncurrent | 1,932 | 2,742 | 1,044 | 5,718 |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | 2,690 | (834) | 1,795 | 3,651 |
| Investment income | 1,710 | 107 | – | 1,817 |
| Distribution of prior year investment earnings for spending | (48) | (285) | – | (333) |
| Total nonoperating activities | 6,284 | 1,730 | 2,839 | 10,853 |
| Change in net assets | 9,883 | 1,017 | 2,839 | 13,739 |
| Net assets, beginning of year | 102,124 | 3,624 | 9,569 | 115,317 |
| Net assets, end of year | \$ 112,007 | \$ 4,641 | \$ 12,408 | \$ 129,056 |

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

Embry-Riddle Aeronautical University, Inc.

Statements of Activities (continued)

Year Ended June 30, 2004

(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|------------------------|------------------------|------------|
| Revenue and other additions: | | | | |
| Tuition | \$ 171,396 | \$ – | \$ – | \$ 171,396 |
| Less institutionally funded scholarships | 19,489 | – | – | 19,489 |
| Net tuition | 151,907 | – | – | 151,907 |
| Flight fees | 20,880 | – | – | 20,880 |
| Other fees | 6,054 | – | – | 6,054 |
| Government grants and contracts | 9,004 | – | – | 9,004 |
| Private gifts | 340 | – | – | 340 |
| Private grants and contracts | 1,171 | – | – | 1,171 |
| Sales and services – educational | 225 | – | – | 225 |
| Auxiliary enterprises (Note 10) | 18,327 | – | – | 18,327 |
| Other revenue | 1,736 | 1 | – | 1,737 |
| Investment earnings distributed | 1 | 331 | – | 332 |
| Total revenue and other additions | 209,645 | 332 | – | 209,977 |
| Net assets released from restrictions | 1,888 | (1,888) | – | – |
| Total revenue and other additions | 211,533 | (1,556) | – | 209,977 |
| Expenses (Note 8): | | | | |
| General academic instruction | 72,937 | – | – | 72,937 |
| Flight instruction | 33,621 | – | – | 33,621 |
| Research | 6,938 | – | – | 6,938 |
| Academic support | 11,499 | – | – | 11,499 |
| Student services | 23,541 | – | – | 23,541 |
| Institutional support | 36,465 | – | – | 36,465 |
| Scholarships | 1,500 | – | – | 1,500 |
| Auxiliary enterprises (Note 10) | 19,916 | – | – | 19,916 |
| Total expenses | 206,417 | – | – | 206,417 |
| Excess (deficiency) of revenues and other additions over (under) expense: | 5,116 | (1,556) | – | 3,560 |
| Nonoperating activities: | | | | |
| Private gifts – noncurrent | 350 | 1,031 | 385 | 1,766 |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | 4,295 | (687) | 2,020 | 5,628 |
| Investment income | 1,249 | 93 | – | 1,342 |
| Distribution of prior year investment earnings for spending | (1) | (331) | – | (332) |
| Total nonoperating activities | 5,893 | 106 | 2,405 | 8,404 |
| Change in net assets | 11,009 | (1,450) | 2,405 | 11,964 |
| Net assets, beginning of year | 91,115 | 5,074 | 7,164 | 103,353 |
| Net assets, end of year | \$ 102,124 | \$ 3,624 | \$ 9,569 | \$ 115,317 |

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

Embry-Riddle Aeronautical University, Inc.

Statements of Cash Flows

| | Year Ended June 30 | |
|---|---------------------------|-------------|
| | 2005 | 2004 |
| | <i>(In Thousands)</i> | |
| Operating activities | | |
| Change in net assets | \$ 13,739 | \$ 11,964 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 17,564 | 15,488 |
| Amortization | 74 | 598 |
| Gain on sale of equipment | (144) | (230) |
| Equipment acquired through gifts | (1,932) | (351) |
| Contributions restricted for long-term investment | (5,086) | (2,597) |
| Change in operating assets and liabilities: | | |
| Accounts and notes receivable | 133 | 650 |
| Contributions receivable | (1,486) | 296 |
| Inventories | 273 | 927 |
| Prepaid expenses and other assets | (1,740) | 2,603 |
| Accounts payable and accrued expenses | 3,223 | 6,558 |
| Advances for student loans and financial aid | 426 | 779 |
| Student deposits and advance payments | 566 | (514) |
| Unearned tuition and flight fees | (3,518) | 1,238 |
| Net cash provided by operating activities | 22,092 | 37,409 |
| Investing activities | | |
| Sale of investments | 3,898 | 7,561 |
| Purchase of investments | (8,353) | (13,948) |
| Principal received on student loans receivable | 3,171 | 9,803 |
| Loans made to students | (3,497) | (11,455) |
| Proceeds from sale of land and land improvements, buildings and equipment | 405 | 287 |
| Capital expenditures | (30,356) | (25,203) |
| Net cash used in investing activities | (34,732) | (32,955) |
| Financing activities | | |
| Long-term debt proceeds | 435 | 39,765 |
| Principal payments on long-term debt | (3,831) | (17,669) |
| Decrease (increase) in deposits with fiduciaries | 7,060 | (15,933) |
| Payment of bond issuance costs | (23) | (1,822) |
| Proceeds from contributions restricted for: | | |
| Investment in endowment | 2,839 | 2,405 |
| Investment in plant | 2,247 | 192 |
| Net cash provided by financing activities | 8,727 | 6,938 |
| Change in cash and cash equivalents | (3,913) | 11,392 |
| Cash and cash equivalents, beginning of year | 24,308 | 12,916 |
| Cash and cash equivalents, end of year | \$ 20,395 | \$ 24,308 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the year for interest | \$ 7,293 | \$ 7,477 |

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

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements

Years Ended June 30, 2005 and 2004

1. Nature of Operations and Summary of Significant Accounting Policies

General

Embry-Riddle Aeronautical University, Inc. (the University), a not-for-profit corporation, offers degrees and technical programs in aviation-related disciplines. These programs are offered at campuses in Daytona Beach, Florida; Prescott, Arizona; and at various resident centers throughout the United States and Europe. The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (SACS) to award degrees at the Associate, Bachelors, and Masters levels. SACS has most recently reaffirmed the University's accreditation in 2002 for ten years. The accreditation of the University includes all its units, wherever located. Through a strict evaluation process, the bachelors degree programs in aerospace engineering at both the Daytona Beach and Prescott campuses have been accredited by the Engineering Accreditation Commission of the Accreditation Board for Engineering and Technology (ABET). Other ABET accredited programs at the Daytona Beach campus include bachelors degree curricula in aircraft engineering technology, avionics engineering technology, and engineering physics; at the Prescott campus, the electrical engineering program is also accredited by ABET. Daytona Beach business programs are accredited by the Association of Collegiate Business Schools and Programs and the Council of Aviation Accreditation.

Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when materials are received or services are provided. Expenses incurred at fiscal year-end have been accrued, and expenses applicable to future periods have been deferred. Revenues and expenses of an academic term, such as a summer session, which is conducted over a fiscal year-end, are reported totally within the fiscal year in which the program is predominantly conducted.

Net assets are classified into three separate categories. The three net asset categories as reflected in the accompanying financial statements are as follows:

- *Unrestricted* – Net assets which are free of restrictions; all revenues, gains, and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains on long-term investments not restricted by donors.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

- *Temporarily Restricted* – Net assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the University pursuant to those stipulations. Temporarily restricted net assets consist primarily of scholarship funds, funds donated to be applied to construction of new facilities, and equipment donated for use in new facilities.
- *Permanently Restricted* – Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. Permanently restricted net assets consist primarily of endowed scholarship funds.

Changes in each category are reflected in the statements of activities, certain of which are further categorized as nonoperating. Such activities primarily reflect transactions of a long-term investment or capital nature, including contributions receivable in future periods, contributions subject to donor-imposed restrictions, and gains and losses on investments in excess of the University's spending rule not specifically restricted for use by donors.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the University considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Investments in Common Fund pools, other than the Short-Term Investment Fund, are not included as cash equivalents as there is no maturity date and management does not consider such investments as part of operating cash.

A substantial portion of the balances of cash and cash equivalents are comprised of funds on deposit in demand deposit accounts, balances of which are in excess of the Federal Deposit Insurance Corporation insured amount of \$100,000 per depositor.

Investments and Deposits with Fiduciaries

Investments and deposits with fiduciaries are recorded at their estimated fair value. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is restricted by donor-imposed stipulations. Investment income is reported in the period earned as increases in unrestricted net assets unless the use of

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

the assets, from which the income is derived, is limited by donor-imposed restrictions. Gains and losses on investments of a donor-restricted endowment fund are included as changes in temporarily unrestricted net assets.

Deposits with fiduciaries held in trust to be used for specified purposes as required by related debt covenants, the interest earned on the deposits, and the deposits with fiduciaries that are held in trust primarily to pay for group health insurance claims are all classified as unrestricted.

Revenues and Student Accounts Receivable

Student tuition and related fees are recorded as revenue in the fiscal year in which the course term is predominately conducted. Resident center tuition and related expenses are recorded in the fiscal year in which each specific resident center term is predominately conducted.

Registration deposits, housing deposits and other advance payments related to future academic terms are recorded as unearned tuition and flight fees until earned by the University.

Student Loans Receivable

Student loans receivable consist of uncollateralized loans to former and current students of the University with various interest rates and repayment terms. It is not practicable to determine the fair value of student loans receivable, since such loans are primarily federally sponsored and have significant government-imposed restrictions as to marketability, interest rates, and repayment terms.

Contributions

Contributions received, including unconditional promises, are recognized as revenues when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances. Promises made and collected in the same reporting period are recorded when received in the appropriate net asset category. Promises of noncash assets are recorded at their estimated fair value. Conditional promises are recorded when donor stipulations are substantially met (see Note 4).

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated using either the lower of cost (determined on the first-in, first-out method) or estimated market value, specific identification or average cost methods, based on the type of inventory item, and, in some cases, Federal Aviation Administration (FAA) requirements.

Land and Land Improvements, Buildings and Equipment, and Depreciation Expense

Land and land improvements, buildings and equipment are stated at cost at date of acquisition (estimated fair value when received by gift). Interest associated with land and land improvements and buildings and equipment additions, if material, is capitalized from the date of the borrowing until assets are ready for their intended use. Interest of approximately \$5,935,000 and \$6,158,000 was expensed for the years ended June 30, 2005 and 2004, respectively. Interest of approximately \$1,335,000 and \$1,286,000 was capitalized for the years ended June 30, 2005 and 2004, respectively.

Depreciation expense and amortization expense for assets recorded under capital leases, which is included within depreciation expense, is calculated using the straight-line method over the following estimated useful lives (or lease term if shorter):

| | <u>Years</u> |
|-------------------|--------------|
| Land improvements | 7 |
| Buildings | 7-30 |
| Equipment | 2-10 |

For reporting purposes, land and land improvements and buildings and equipment are included in unrestricted net assets, whether purchased with temporarily restricted or unrestricted funds. Where temporarily restricted funds are used, such amounts are reported as a transfer from restricted net assets to unrestricted net assets.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Unamortized Bond Issuance Costs

Unamortized bond issuance costs incurred in connection with bond issues are being amortized on the effective yield method over the lives of the respective bond issues. Amortization expense for the years ended June 30, 2005 and 2004, was approximately \$74,000 and \$598,000, respectively.

Federal and State Income Taxes

The University is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Earnings from unrelated business activities are immaterial. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Auxiliary Enterprise Operations

Auxiliary enterprise operations consist primarily of student housing, book sales, student center services and activities under a FAA contract (see Note 10).

Fair Value of Financial Instruments

Except as set forth elsewhere in these notes, the University's financial instruments are carried in the statements of financial position at amounts that approximate their fair values.

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, 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.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

2. Investments

Investments at June 30, 2005 and 2004, are as follows:

| Mutual funds: | 2005 | 2004 |
|--|-----------------------|------------------|
| | <i>(In Thousands)</i> | |
| Commonfund Intermediate Fund | \$ 318 | \$ 308 |
| American Funds EuroPacific Growth Fund | 4,000 | 3,476 |
| Coastal Access Ltd | 760 | 497 |
| Merrill Lynch CMA Money Fund | 0 | 1 |
| American Funds Fundamental Investors Fund | 8,456 | 7,779 |
| Sphinx Access Ltd | 986 | 983 |
| AIM Small Cap Opportunities Fund | 1,330 | 3,743 |
| Calamos Growth Fund - Merrill Lynch | 2,913 | 0 |
| Franklin Balance Sheet Investment Fund | 4,311 | 3,859 |
| American Growth Fund of America | 8,087 | 7,646 |
| Templeton Foreign Fund | 3,684 | 3,227 |
| Pimco Bond Fund | 8,410 | 7,809 |
| 457b TIAA/CREF | 162 | 99 |
| Pimco Diversified Fund | 3,502 | 3,076 |
| Retirement Forfeiture – Vanguard | 16 | 0 |
| Retirement Forfeiture – TIAA/CREF | 21 | 0 |
| 457f Rabbi Trust | 106 | 104 |
| | <u>\$ 47,062</u> | <u>\$ 42,607</u> |
| Investment income | \$ 1,817 | \$ 1,342 |
| Net realized and unrealized gains (losses) | 3,651 | 5,628 |
| | <u>\$ 5,468</u> | <u>\$ 6,970</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

3. Deposits and Investments with Fiduciaries

Deposits and investments with fiduciaries are construction funds, debt service reserve funds and expense funds as required by debt agreements and consist of the following at June 30:

| | <u>2005</u> | <u>2004</u> |
|------------------------------|-----------------------|------------------|
| | <i>(In Thousands)</i> | |
| Money market accounts | \$ 17,121 | \$ 24,238 |
| U.S. bonds, notes, and bills | 4,047 | 3,990 |
| Other notes | 14 | 14 |
| | <u>\$ 21,182</u> | <u>\$ 28,242</u> |

4. Contributions Receivable

Contributions receivable at June 30, 2005 and 2004, are classified as follows:

| Unconditional promises expected to be collected in: | <u>2005</u> | <u>2004</u> |
|---|-----------------------|-----------------|
| | <i>(In Thousands)</i> | |
| Less than one year | \$ 2,818 | \$ 1,739 |
| One year to five years | 2,791 | 1,798 |
| More than five years | 6 | 20 |
| | <u>5,615</u> | <u>3,557</u> |
| Less: | | |
| Unamortized discount | 324 | 239 |
| Allowance for uncollectible pledges | 1,315 | 828 |
| | <u>\$ 3,976</u> | <u>\$ 2,490</u> |

Contributions receivable are reported in the statements of financial position as follows:

| | | |
|-------------------|-----------------|-----------------|
| Current portion | \$ 2,165 | \$ 1,739 |
| Long-term portion | 1,811 | 751 |
| | <u>\$ 3,976</u> | <u>\$ 2,490</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

4. Contributions Receivable (continued)

The contributions receivable balance contains a pledge by one donor in the amount of \$2,761,300. This amount represents approximately 50% of the gross contributions receivable balance.

5. Land and Land Improvements, Buildings and Equipment

Land and land improvements, buildings and equipment at June 30, 2005 and 2004, consist of the following:

| | 2005 | 2004 |
|--|-----------------------|-------------------|
| | <i>(In Thousands)</i> | |
| Land and land improvements | \$ 20,775 | \$ 18,696 |
| Buildings | 186,836 | 169,574 |
| Equipment | 104,521 | 91,046 |
| Construction in progress | 12,693 | 15,667 |
| Less accumulated depreciation and amortization | (147,224) | (131,845) |
| | <u>\$ 177,601</u> | <u>\$ 163,138</u> |

The University has revenue-earning assets under an operating lease with an original cost of \$7,522,000 (\$830,000 and \$1,215,000 net of accumulated depreciation at June 30, 2005 and 2004, respectively (see Note 10)).

Assets under capital leases, which are included in land and land improvements, buildings and equipment, at June 30, 2005 and 2004, consist of the following:

| | 2005 | 2004 |
|-------------------------------|-----------------------|-----------------|
| | <i>(In Thousands)</i> | |
| Land | \$ 1,244 | \$ 1,244 |
| Buildings | 1,164 | 1,164 |
| Equipment | 535 | 535 |
| Less accumulated amortization | (1,092) | (955) |
| | <u>\$ 1,851</u> | <u>\$ 1,988</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

5. Land and Land Improvements, Buildings and Equipment (continued)

The following is a schedule of future minimum lease payments under capital leases as of June 30, 2005 (in thousands):

| | | |
|------------------------------------|----|---------------------|
| 2006 | \$ | 182 |
| 2007 | | 177 |
| 2008 | | 177 |
| 2009 | | 177 |
| 2010 | | 177 |
| Thereafter | | <u>1037</u> |
| Total minimum lease payments | | 1,927 |
| Less amounts representing interest | | <u>(647)</u> |
| Net minimum lease payments | \$ | <u><u>1,280</u></u> |

The net minimum lease payments are reflected in the June 30, 2005, statement of financial position as current and noncurrent long-term debt of \$104,000 and \$1,176,000, respectively.

In March 2000, the University entered into a multi-party real estate transaction. Under the terms of the transaction, the University deeded title to a building with a book value of approximately \$1.6 million to another party to the transaction. In exchange for the deeding of the building, the University acquired a building and entered into an agreement as assignee of the lease for the land upon which the acquired building is located. Under the terms of the land lease, which expires in May 2026, the University has the option to pay \$100,000 and acquire title to the land. As a result of the transaction, the University recorded land under capital lease and building of approximately \$1.2 million each, along with a capital lease obligation for approximately \$850,000.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

6. Long-Term Debt

Long-term debt consists of the following at June 30, 2005 and 2004:

| | Interest Rate | Payable in Installments Ending in Fiscal Year | Principal Outstanding June 30 2005 | Principal Outstanding June 30 2004 | Reference to Note 6 (1)–(10) below |
|---|--------------------------|--|---|---|---|
| <i>(In Thousands)</i> | | | | | |
| Capital Lease Obligations | | | | | |
| 501 S. Clyde Morris Blvd. land | 6.58% | 2026 | \$ 794 | \$ 814 | (1) |
| Modular buildings and lighting project | 7.75% | 2011 | 486 | 596 | (2) |
| Telephone System | 9.4% | 2005 | 0 | 72 | |
| | | | 1,280 | 1,482 | |
| Notes Payable | | | | | |
| Apartment Complex #2 | 3.0% | 2021 | 645 | 676 | (3) |
| FAA building | 12.25% | 2008 | 2,041 | 2,753 | (4) |
| Other land, buildings and equipment | 6.79-14.27% | 2009 | 316 | 103 | |
| Prescott building | 8.0% | 2006 | 238 | 406 | (5) |
| | | | 3,240 | 3,938 | |
| Bonds Payable | | | | | |
| Volusia County Educational Facilities Authority Revenue Bonds, 1996 | 5.50-6.125% | 2027 | 44,199 | 45,158 | (6) |
| Volusia County Educational Facilities Authority Revenue Bonds, 1999A | 5.75% | 2029 | 12,291 | 12,291 | (7) |
| Volusia County Educational Facilities Authority Revenue Bonds, 1999B | 4.0-5.5% | 2022 | 29,833 | 29,981 | (8) |
| Volusia County Educational Facilities Authority Revenue Bonds, 2003 | 2.50-5.20% | 2033 | 36,698 | 37,939 | (9) |
| Student Center Bonds | 3.0% | 2015 | 770 | 840 | (10) |
| Housing Bonds | 3.0% | 2008 | 185 | 240 | (10) |
| Academic Building Bonds | 3.0% | 2008 | 72 | 95 | (10) |
| | | | 124,048 | 126,544 | |
| Total long-term debt | | | 128,568 | 131,964 | |
| Current portion | | | (3,815) | (3,681) | |
| Long-term portion | | | \$ 124,753 | \$ 128,283 | |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

6. Long-Term Debt (continued)

- (1) Capital lease obligation to Volusia County for land lease in the original amount of \$850,000. The lease was entered into as part of a multi-party real estate transaction whereby the University exchanged a building with a book value of approximately \$1,600,000, for a building located on the land under lease, along with the assumption of the land lease (see Note 5).
- (2) Non-taxable capital lease obligation to Banc One Leasing in the original amount of \$1,118,000 is collateralized by a security interest in modular buildings and a lighting project for the Prescott Campus.
- (3) Note payable to the Department of Housing and Urban Development in the original amount of \$1,169,000 is collateralized by a first mortgage on Apartment Complex #2 including furnishings and equipment.
- (4) Note payable in the original amount of \$7,522,000 is collateralized by an absolute assignment of rents from the FAA facilities and a first mortgage on the land and building, including furnishings and equipment (see Note 10).
- (5) Note payable to First American Title in the original amount of \$800,000 is collateralized by a security interest in the building.
- (6) The Series 1996 bonds were issued to fund various construction and renovation projects on the Daytona Beach campus and the Prescott campus. The bonds were issued under an agreement whereby the Volusia County Educational Facilities Authority issued and sold revenue bonds in the original amount of \$51,195,000 and loaned the proceeds to the University. The bonds were issued net of a discount of approximately \$586,000. The balance of the discount was approximately \$511,000 at June 30, 2005. The effective interest rate of the bond issue is 6.08%. The loan agreement contains various restrictive covenants, including annual bond coverage and additional bond tests.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

6. Long-Term Debt (continued)

- (7) The Series 1999A bonds were issued to fund various capital improvements to the Daytona Beach campus. The bonds were issued under an agreement whereby the Volusia County Educational Facilities Authority issued and sold revenue bonds in the original amount of \$12,380,000 and loaned the proceeds to the University. The bonds were issued net of a discount of approximately \$89,000. There was no amortization of the bond discount recorded during the year ended June 30, 2005, as the bonds are not payable until beginning in 2024. The effective interest rate of the bond issue is 5.75%. The loan agreement contains various restrictive covenants, including annual bond coverage and additional bond tests.
- (8) The Series 1999B bonds were issued to advance refund approximately \$27,000,000 of the Series 1992 bonds. The bonds were issued under an agreement whereby the Volusia County Educational Facilities Authority issued and sold revenue bonds in the original amount of \$31,375,000 and loaned the proceeds to the University. The bonds were issued net of a discount of approximately \$382,000. The balance of the discount was approximately \$367,000 at June 30, 2005. The effective interest rate of the bond issue is 5.43%. The loan agreement contains various restrictive covenants, including annual bond coverage and additional bond tests. As additional security for the payments of the amounts due from the University and the performance of the University of its other obligations under the loan agreement and its obligations to holders of the Nonrefunded 1992 Bonds, the Series 1996 Bonds and the Series 1999 Bonds, the University has granted a mortgage lien upon and security interest in the mortgaged property (land, buildings, and fixtures located on the University's core Daytona Beach campus) to the Trustee.
- (9) The Series 2003 bonds were issued to fund various construction and renovation projects on the Prescott campus and to refund approximately \$14,000,000 of the Series 1992 bonds. The bonds were issued under an agreement whereby the Volusia County Educational Facilities Authority issued and sold revenue bonds in the original amount of \$39,835,000 and loaned the proceeds to the University. The bonds were issued net of a discount of approximately \$304,000. The balance of the discount was approximately \$282,000 at June 30, 2005. The effective interest rate of the bond issue is 5.20%. The loan agreement contains various restrictive covenants, including annual bond coverage and additional bond tests. As additional security for the payments of the amounts due from the University and the performance of the University of its other obligations under the loan agreement and its obligations to holders of the Series 1996 Bonds, the Series 1999 Bonds, the

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements

Years Ended June 30, 2005 and 2004

6. Long-Term Debt (continued)

Bonds and holders of additional indebtedness, the University has granted a mortgage lien upon and security interest in the mortgaged property (land, buildings, and fixtures located on the University's core Daytona Beach campus) to the Trustee.

(10) Embry-Riddle Aeronautical University, Inc. Student Center Bonds, Housing Bonds, and Academic Building Bonds are each collateralized by a first mortgage on any property constituting the facilities and site, and a first lien and pledge of gross revenues of the building.

Maturities of long-term debt in each of the next five fiscal years and thereafter are as follows (in thousands):

| | | |
|---------------------------|----|----------------|
| 2006 | \$ | 3,839 |
| 2007 | | 3,909 |
| 2008 | | 3,392 |
| 2009 | | 3,101 |
| 2010 | | 3,155 |
| Thereafter | | <u>112,422</u> |
| | | 129,818 |
| Unamortized Bond Discount | | <u>(1,250)</u> |
| | \$ | <u>128,568</u> |

The unamortized bond discount relating to long-term debt maturing in 2006 is \$23,000.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

7. Net Assets

Net assets at June 30, 2005 and 2004, consist of the following:

| | 2005 | 2004 |
|---|-----------------------|-------------------|
| | <i>(In Thousands)</i> | |
| Internally designated for student loans | \$ 2,280 | \$ 2,426 |
| Internally designated for future capital acquisitions | 16,940 | 5,866 |
| Quasi endowment funds | 23,896 | 20,973 |
| Debt service funds | 13,327 | 3,951 |
| Invested in plant | 49,033 | 42,475 |
| Undesignated | 6,531 | 26,433 |
| Total unrestricted net assets | <u>112,007</u> | <u>102,124</u> |
| Donor restricted | 1,141 | 1,414 |
| Donor pledges | 3,428 | 2,139 |
| Annuity and living trusts | 72 | 71 |
| Total temporarily restricted net assets | <u>4,641</u> | <u>3,624</u> |
| True endowment pledges | 760 | 349 |
| True endowment | 11,648 | 9,220 |
| Total permanently restricted net assets | <u>12,408</u> | <u>9,569</u> |
| Total net assets | <u>\$ 129,056</u> | <u>\$ 115,317</u> |

Net assets released from restrictions during the years ended June 30, 2005 and 2004, were made in the following categories. The expenditures were restricted by purpose.

| | 2005 | 2004 |
|--|-----------------------|-----------------|
| | <i>(In Thousands)</i> | |
| Donations Restricted for Capital Asset Construction or Acquisition | \$ 648 | \$ 1,271 |
| Donations Restricted for Scholarships | 296 | 516 |
| Donations restricted for Non-Capital Programs or Acquisitions | 213 | 101 |
| Net assets released from restrictions | <u>\$ 1,157</u> | <u>\$ 1,888</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

8. Interest Expense, Depreciation Expense, and Operation and Maintenance of Plant

Interest expense, depreciation expense, and operation and maintenance of plant for the years ended June 30, 2005 and 2004, are allocated to the University's various functional areas as follows:

| | 2005 | 2004 |
|---|-----------------------|------------------|
| | <i>(In Thousands)</i> | |
| Interest expense | | |
| General academic instruction | \$ 1,444 | \$ 1,373 |
| Flight instruction | 268 | 302 |
| Institutional support | 252 | 277 |
| Academic support | 20 | 34 |
| Student services | 818 | 872 |
| Scholarships | 2 | 3 |
| Research | 12 | 13 |
| Auxiliary enterprises | 3,119 | 3,284 |
| | <u>\$ 5,935</u> | <u>\$ 6,158</u> |
| Depreciation expense | | |
| General academic instruction | \$ 4,248 | \$ 3,405 |
| Flight instruction | 2,453 | 2,182 |
| Institutional support | 3,993 | 3,898 |
| Academic support | 742 | 586 |
| Student services | 2,216 | 1,888 |
| Scholarships | 105 | 122 |
| Research | 546 | 397 |
| Auxiliary enterprises | 3,261 | 3,010 |
| | <u>\$ 17,564</u> | <u>\$ 15,488</u> |
| Operation and maintenance of plant | | |
| General academic instruction | \$ 2,090 | \$ 1,882 |
| Flight instruction | 671 | 612 |
| Institutional support | 397 | 358 |
| Academic support | 452 | 406 |
| Student services | 1,289 | 1,165 |
| Scholarships | 2 | 1 |
| Research | 4 | 3 |
| Auxiliary enterprises | 3,095 | 2,780 |
| | <u>\$ 8,000</u> | <u>\$ 7,207</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

9. Retirement Plan

Retirement benefits are provided through a noncontributory defined contribution plan covering all qualified employees. The Plan is administered through the Teachers Insurance and Annuity Association, a national organization used to fund pension benefits for educational institutions, and through the Vanguard Group of mutual funds. Retirement plan expense for the years ended June 30, 2005 and 2004, was approximately \$5,705,000 and \$4,838,000, respectively.

10. Federal Aviation Administration Contract

The University has a contract with the FAA for the service, staffing and maintenance of a management training center, having dormitory and classroom space, and the lease thereof to the FAA, for an initial period of 10 years (which commenced in October 1987) with two five-year renewal options. The first option was exercised February 11, 1997, to extend the lease through August 21, 2002. The second option was exercised July 10, 2002, to extend the lease through August 2, 2007. Minimum annual payments under the contract are \$1,977,000, including \$1,010,000 for the lease of the facility.

The FAA management training center was constructed for \$7,522,000 under a turn-key arrangement and financed by a \$7,522,000, 12.25%, 20-year first mortgage note, the outstanding balance of which was \$2,041,000 at June 30, 2005. The University has entered into an agreement whereby under certain circumstances it may convey or be required to convey for a nominal sum the FAA management training center subject only to the permanent financing.

11. Commitments and Contingencies

Operating Leases

The University leases land, buildings, and equipment for its operation. Total rental expense for the years ended June 30, 2005 and 2004, was approximately \$7,221,000 and \$7,008,000, respectively. Future minimum rental payments required under noncancelable operating leases extending beyond June 30, 2005, are as follows (in thousands):

| | |
|------|------------------|
| 2006 | \$ 6,684 |
| 2007 | 5,559 |
| 2008 | 3,658 |
| 2009 | 2,753 |
| 2010 | 2,556 |
| | <u>\$ 21,210</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

11. Commitments and Contingencies (continued)

Unionized Labor Force

The University employs approximately 100 full-time flight instructors in the Daytona Beach area who are part of a collective bargaining unit covered by the International Association of Machinists and Aerospace Workers Union, AFL-CIO, whose contract expires in June 2006.

Litigation

The University is involved in litigation on a number of matters, which arise in the normal course of business, none of which, in the opinion of the administration, are expected to have a material adverse effect on the University's financial statements.

12. Subsequent Event

Bond Refunding

In August of 2005 Embry-Riddle completed a refunding for the purpose of providing future payments on all of its outstanding Series 1996A Bonds by issuing \$101,385,000 of Series 2005 Volusia County Educational Facilities Authority (VCEFA) Educational Facilities Revenue and Refunding Bonds. The proceeds from the sale of the Bonds will be applied to refund all of VCEFA's outstanding Series 1996A bonds, finance certain land, equipment, capital improvements and renovations to the University's Daytona Beach, Florida and Prescott, Arizona campuses, make the required deposit to the Debt Service Reserve Fund, and pay the costs of issuance of the bonds.

Supplementary Information

Embry-Riddle Aeronautical University, Inc.

Net Assets Class Disaggregation

June 30, 2005
(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-------------------|---------------------------|---------------------------|-------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 20,395 | \$ – | \$ – | \$ 20,395 |
| Investments (Note 2) | 33,753 | 1,407 | 11,902 | 47,062 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$536 | 13,787 | – | – | 13,787 |
| Current portion of student loans receivable | 1,954 | – | – | 1,954 |
| Current portion of contributions receivable | 191 | 1,764 | 210 | 2,165 |
| Inventories | 2,595 | – | – | 2,595 |
| Prepaid expenses and other current assets | 2,506 | – | – | 2,506 |
| Total current assets | <u>75,181</u> | <u>3,171</u> | <u>12,112</u> | <u>90,464</u> |
| Deposits with fiduciaries | 21,182 | – | – | 21,182 |
| Long-term accounts and notes receivable | 187 | – | – | 187 |
| Student loans receivable, less current portion and allowance for doubtful accounts of \$536 | 8,484 | – | – | 8,484 |
| Contributions receivable, net – less current portion | 42 | 1,473 | 296 | 1,811 |
| Land and land improvements, buildings and equipment, at cost, less accumulated depreciation | 177,601 | – | – | 177,601 |
| Unamortized bond issuance costs | 3,538 | – | – | 3,538 |
| Other assets | 507 | – | – | 507 |
| Total assets | <u>\$ 286,722</u> | <u>\$ 4,644</u> | <u>\$ 12,408</u> | <u>\$ 303,774</u> |
| Liabilities and net assets | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 25,105 | \$ 3 | \$ – | \$ 25,108 |
| Advances for student loans and financial aid | 9,186 | – | – | 9,186 |
| Current portion of long-term debt | 3,815 | – | – | 3,815 |
| Student deposits and advance payments | 5,300 | – | – | 5,300 |
| Unearned tuition and flight fees | 6,556 | – | – | 6,556 |
| Total current liabilities | <u>49,962</u> | <u>3</u> | <u>–</u> | <u>49,965</u> |
| Long-term debt | 124,753 | – | – | 124,753 |
| Total liabilities | <u>174,715</u> | <u>3</u> | <u>–</u> | <u>174,718</u> |
| Net assets | 112,007 | 4,641 | 12,408 | 129,056 |
| Total liabilities and net assets | <u>\$ 286,722</u> | <u>\$ 4,644</u> | <u>\$ 12,408</u> | <u>\$ 303,774</u> |

Embry-Riddle Aeronautical University, Inc.

Three-Year Comparative Statements of Financial Position

June 30, 2005, 2004, and 2003

(In Thousands)

| | 2005 | 2004 | 2003 |
|---|-------------------|-------------------|--------------------|
| Assets | | | <i>(Unaudited)</i> |
| Current assets: | | | |
| Cash and cash equivalents | | | |
| Investments | \$ 20,395 | \$ 24,308 | \$ 12,916 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$536, \$1,126, and \$1,346 | 47,062 | 42,607 | 36,220 |
| Current portion of student loans receivable | 13,787 | 13,817 | 14,609 |
| Current portion of contributions receivable | 1,954 | 1,971 | 2,035 |
| Inventories | 2,165 | 1,739 | 1,404 |
| Prepaid expenses and other current assets | 2,595 | 2,868 | 3,795 |
| Total current assets | <u>2,506</u> | <u>897</u> | <u>3,395</u> |
| | 90,464 | 88,207 | 74,374 |
| Deposits with fiduciaries | | | |
| Long-term accounts and notes receivable | 21,182 | 28,242 | 12,309 |
| Student loans receivable, less current portion and allowance for doubtful accounts of \$536 , \$700, and \$417 | 187 | 290 | 148 |
| Contributions receivable, net – less current portion | 8,484 | 8,141 | 6,425 |
| Land and land improvements, buildings and equipment, at cost, less accumulated depreciation | 1,811 | 751 | 1,382 |
| Unamortized bond issuance costs | 177,601 | 163,138 | 153,129 |
| Other assets | 3,538 | 3,589 | 2,365 |
| Total assets | <u>507</u> | <u>376</u> | <u>481</u> |
| | <u>\$ 303,774</u> | <u>\$ 292,734</u> | <u>\$ 250,613</u> |
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | | | |
| Advances for student loans and financial aid | \$ 25,108 | \$ 21,885 | \$ 15,327 |
| Current portion of long-term debt | 9,186 | 8,760 | 7,981 |
| Student deposits and advance payments | 3,815 | 3,681 | 3,511 |
| Unearned tuition and flight fees | 5,300 | 4,734 | 5,248 |
| Total current liabilities | <u>6,556</u> | <u>10,074</u> | <u>8,836</u> |
| | 49,965 | 49,134 | 40,903 |
| Long-term debt | | | |
| Total liabilities | <u>124,753</u> | <u>128,283</u> | <u>106,357</u> |
| | 174,718 | 177,417 | 147,260 |
| Commitments and contingencies | | | |
| Net assets: | | | |
| Unrestricted | | | |
| Temporarily restricted | 112,007 | 102,124 | 91,115 |
| Permanently restricted | 4,641 | 3,624 | 5,074 |
| Total net assets | <u>12,408</u> | <u>9,569</u> | <u>7,164</u> |
| Total liabilities and net assets | <u>129,056</u> | <u>115,317</u> | <u>103,353</u> |
| | <u>\$ 303,774</u> | <u>\$ 292,734</u> | <u>\$ 250,613</u> |

Embry-Riddle Aeronautical University, Inc.
Three-Year Comparative Statements of Activities

Year Ended June 30, 2005
(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|------------|
| Revenue and other additions: | | | | |
| Tuition | \$ 185,127 | \$ - | \$ - | \$ 185,127 |
| Less institutionally funded scholarships | 22,895 | - | - | 22,895 |
| Net tuition | 162,232 | - | - | 162,232 |
| Flight fees | 18,634 | - | - | 18,634 |
| Other fees | 6,596 | - | - | 6,596 |
| Government grants and contracts | 9,461 | - | - | 9,461 |
| Private gifts | 499 | - | - | 499 |
| Private grants and contracts | 1,044 | - | - | 1,044 |
| Sales and services – educational | 168 | - | - | 168 |
| Auxiliary enterprises (Note 10) | 18,823 | - | - | 18,823 |
| Other revenue | 1,994 | 159 | - | 2,153 |
| Investment earnings distributed | 48 | 285 | - | 333 |
| Total revenue and other additions | 219,499 | 444 | - | 219,943 |
| Net assets released from restrictions | 1,157 | (1,157) | - | - |
| Total revenue and other additions | 220,656 | (713) | - | 219,943 |
| Expenses (Note 8): | | | | |
| General academic instruction | 78,867 | - | - | 78,867 |
| Flight instruction | 33,146 | - | - | 33,146 |
| Research | 7,953 | - | - | 7,953 |
| Academic support | 13,503 | - | - | 13,503 |
| Student services | 24,682 | - | - | 24,682 |
| Institutional support | 36,910 | - | - | 36,910 |
| Scholarships | 1,130 | - | - | 1,130 |
| Auxiliary enterprises (Note 10) | 20,866 | - | - | 20,866 |
| Total expenses | 217,057 | - | - | 217,057 |
| Excess (deficiency) of revenues and other additions over (under) expense: | 3,599 | (713) | - | 2,886 |
| Nonoperating activities: | | | | |
| Private gifts – noncurrent | 1,932 | 2,742 | 1,044 | 5,718 |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | 2,690 | (834) | 1,795 | 3,651 |
| Investment income | 1,710 | 107 | - | 1,817 |
| Distribution of prior year investment earnings for spending | (48) | (285) | - | (333) |
| Total nonoperating activities | 6,284 | 1,730 | 2,839 | 10,853 |
| Change in net assets | 9,883 | 1,017 | 2,839 | 13,739 |
| Net assets, beginning of year | 102,124 | 3,624 | 9,569 | 115,317 |
| Net assets, end of year | \$ 112,007 | \$ 4,641 | \$ 12,408 | \$ 129,056 |

Embry-Riddle Aeronautical University, Inc.

Three-Year Comparative Statements of Activities (continued)

Year Ended June 30, 2004

(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|------------------------|------------------------|------------|
| Revenue and other additions: | | | | |
| Tuition | \$ 171,396 | \$ – | \$ – | \$ 171,396 |
| Less institutionally funded scholarships | 19,489 | – | – | 19,489 |
| Net tuition | 151,907 | – | – | 151,907 |
| Flight fees | 20,880 | – | – | 20,880 |
| Other fees | 6,054 | – | – | 6,054 |
| Government grants and contracts | 9,004 | – | – | 9,004 |
| Private gifts | 340 | – | – | 340 |
| Private grants and contracts | 1,171 | – | – | 1,171 |
| Sales and services – educational | 225 | – | – | 225 |
| Auxiliary enterprises (Note 10) | 18,327 | – | – | 18,327 |
| Other revenue | 1,736 | 1 | – | 1,737 |
| Investment earnings distributed | 1 | 331 | – | 332 |
| Total revenue and other additions | 209,645 | 332 | – | 209,977 |
| Net assets released from restrictions | 1,888 | (1,888) | – | – |
| Total revenue and other additions | 211,533 | (1,556) | – | 209,977 |
| Expenses (Note 8): | | | | |
| General academic instruction | 72,937 | – | – | 72,937 |
| Flight instruction | 33,621 | – | – | 33,621 |
| Research | 6,938 | – | – | 6,938 |
| Academic support | 11,499 | – | – | 11,499 |
| Student services | 23,541 | – | – | 23,541 |
| Institutional support | 36,465 | – | – | 36,465 |
| Scholarships | 1,500 | – | – | 1,500 |
| Auxiliary enterprises (Note 10) | 19,916 | – | – | 19,916 |
| Total expenses | 206,417 | – | – | 206,417 |
| Excess (deficiency) of revenues and other additions over (under) expense: | 5,116 | (1,556) | – | 3,560 |
| Nonoperating activities: | | | | |
| Private gifts – noncurrent | 350 | 1,031 | 385 | 1,766 |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | 4,295 | (687) | 2,020 | 5,628 |
| Investment income | 1,249 | 93 | – | 1,342 |
| Distribution of prior year investment earnings for spending | (1) | (331) | – | (332) |
| Total nonoperating activities | 5,893 | 106 | 2,405 | 8,404 |
| Change in net assets | 11,009 | (1,450) | 2,405 | 11,964 |
| Net assets, beginning of year | 91,115 | 5,074 | 7,164 | 103,353 |
| Net assets, end of year | \$ 102,124 | \$ 3,624 | \$ 9,569 | \$ 115,317 |

Embry-Riddle Aeronautical University, Inc.

Three-Year Comparative Statements of Activities (continued)

Year Ended June 30, 2003 (Unaudited)
(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|-------------------------------|-------------------------------|--------------|
| Revenue and other additions: | | | | |
| Tuition | \$ 145,729 | \$ – | \$ – | \$ 145,729 |
| Less institutionally funded scholarships | 13,828 | – | – | 13,828 |
| Net tuition | 131,901 | – | – | 131,901 |
| Flight fees | 24,244 | – | – | 24,244 |
| Other fees | 5,539 | – | – | 5,539 |
| Government grants and contracts | 8,214 | – | – | 8,214 |
| Private gifts | 871 | – | – | 871 |
| Private grants and contracts | 876 | – | – | 876 |
| Sales and services – educational | 234 | – | – | 234 |
| Auxiliary enterprises | 16,810 | – | – | 16,810 |
| Other revenue | 2,435 | 884 | – | 3,319 |
| Investment earnings distributed | 177 | 261 | – | 438 |
| Total revenue and other additions | 191,301 | 1,145 | – | 192,446 |
| Net assets released from restrictions | 3,797 | (3,797) | – | – |
| Total revenue and other additions | 195,098 | (2,652) | – | 192,446 |
| Expenses: | | | | |
| General academic instruction | 69,775 | – | – | 69,775 |
| Flight instruction | 32,494 | – | – | 32,494 |
| Research | 5,770 | – | – | 5,770 |
| Academic support | 8,418 | – | – | 8,418 |
| Student services | 21,128 | – | – | 21,128 |
| Institutional support | 34,480 | – | – | 34,480 |
| Scholarships | 1,203 | – | – | 1,203 |
| Auxiliary enterprises | 19,991 | – | – | 19,991 |
| Total expenses | 193,259 | – | – | 193,259 |
| Excess (deficiency) of revenues over (under) expenses and other additions | 1,839 | (2,652) | – | (813) |
| Nonoperating activities: | | | | |
| Private gifts – noncurrent | 4,401 | 3,173 | 530 | 8,104 |
| Net realized and unrealized appreciation (depreciation) in fair value of investments | 878 | (35) | 143 | 986 |
| Investment income | 1,812 | 155 | (7) | 1,960 |
| Distribution of prior year investment earnings for spending | (177) | (261) | – | (438) |
| Total nonoperating activities | 6,914 | 3,032 | 666 | 10,612 |
| Change in net assets | 8,753 | 380 | 666 | 9,799 |
| Net assets, beginning of year | 82,362 | 4,694 | 6,498 | 93,554 |
| Net assets, end of year | \$ 91,115 | \$ 5,074 | \$ 7,164 | \$ 103,353 |

Embry-Riddle Aeronautical University, Inc.

Three-Year Comparative Statements of Cash Flows

Years Ended June 30, 2005, 2004 and 2003

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|--------------------|
| | | | <i>(Unaudited)</i> |
| Operating activities | | | |
| Change in net assets | \$ 13,739 | \$ 11,964 | \$ 9,799 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Depreciation | 17,564 | 15,488 | 12,167 |
| Amortization | 74 | 598 | 1,106 |
| Gain on sale of equipment | (144) | (230) | (219) |
| Equipment acquired through gifts | (1,932) | (351) | (2,186) |
| Contributions restricted for long-term investment | (5,086) | (2,597) | (2,728) |
| Change in operating assets and liabilities: | | | |
| Accounts and notes receivable | 133 | 650 | (3,479) |
| Contributions receivable | (1,486) | 296 | (2,160) |
| Inventories | 273 | 927 | (472) |
| Prepaid expenses and other assets | (1,740) | 2,603 | 351 |
| Accounts payable and accrued expenses | 3,223 | 6,558 | 4,628 |
| Advances for student loans and financial aid | 426 | 779 | 509 |
| Student deposits and advance payments | 566 | (514) | 1,428 |
| Unearned tuition and flight fees | (3,518) | 1,238 | 1,959 |
| Net cash provided by operating activities | <u>22,092</u> | <u>37,409</u> | <u>20,703</u> |
| Investing activities | | | |
| Sale of investments | 3,898 | 7,561 | 4,208 |
| Purchase of investments | (8,353) | (13,948) | (10,218) |
| Principal received on student loans receivable | 3,171 | 9,803 | 3,775 |
| Loans made to students | (3,497) | (11,455) | (3,827) |
| Proceeds from sale of land and land improvements, buildings and equipment | 405 | 287 | 1,840 |
| Capital expenditures | (30,356) | (25,203) | (19,494) |
| Net cash used in investing activities | <u>(34,732)</u> | <u>(32,955)</u> | <u>(23,716)</u> |
| Financing activities | | | |
| Long-term debt proceeds | 435 | 39,765 | - |
| Principal payments on long-term debt | (3,831) | (17,669) | (30,019) |
| Decrease (increase) in deposits with fiduciaries | 7,060 | (15,933) | 29,215 |
| Payment of bond issuance costs | (23) | (1,822) | - |
| Proceeds from contributions restricted for: | | | |
| Investment in endowment | 2,839 | 2,405 | 666 |
| Investment in plant | 2,247 | 192 | 2,062 |
| Net cash provided by financing activities | <u>8,727</u> | <u>6,938</u> | <u>1,924</u> |
| Change in cash and cash equivalents | (3,913) | 11,392 | (1,089) |
| Cash and cash equivalents, beginning of year | 24,308 | 12,916 | 14,005 |
| Cash and cash equivalents, end of year | <u>\$ 20,395</u> | <u>\$ 24,308</u> | <u>\$ 12,916</u> |
| Supplemental disclosures of cash flow information | | | |
| Cash paid during the year for interest | <u>\$ 7,293</u> | <u>\$ 7,477</u> | <u>\$ 8,409</u> |