

FINANCIAL STATEMENTS AND SUPPLEMENTARY  
INFORMATION

Embry-Riddle Aeronautical University, Inc.  
Years Ended June 30, 2007, 2006 and 2005  
With Report of Independent Certified Public Accountants

Embry-Riddle Aeronautical University, Inc.

Financial Statements and Supplementary Information

Years Ended June 30, 2007, 2006 and 2005

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## Report of Independent Certified Public Accountants

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

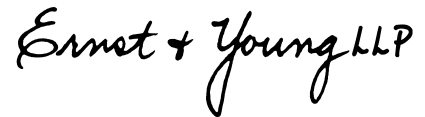
We have audited the accompanying statements of financial position of Embry-Riddle Aeronautical University, Inc. (the University) as of June 30, 2007, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the 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 the administration, 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 the University as of June 30, 2007, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007, 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, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information – 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.



October 5, 2007

Embry-Riddle Aeronautical University, Inc.

Statements of Financial Position  
(In Thousands)

	June 30		
	2007	2006	2005
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 43,891	\$ 29,523	\$ 20,395
Investments (Note 2)	60,731	53,127	47,062
Accounts and notes receivable, less allowance for doubtful accounts of \$617, \$425 and \$536, respectively	12,046	12,178	13,787
Current portion of student loans receivable	2,352	2,176	1,954
Current portion of contributions receivable, net (Note 4)	3,401	2,892	2,165
Inventories	2,393	2,505	2,595
Prepaid expenses and other current assets	3,678	2,606	2,506
Total current assets	<u>128,492</u>	<u>105,007</u>	<u>90,464</u>
Deposits and investments with fiduciaries (Note 3)	49,375	105,985	21,182
Long-term accounts and notes receivable	1,004	21	187
Student loans receivable, less current portion and allowance for doubtful accounts of \$180, \$284 and \$536, respectively	7,431	7,397	8,484
Contributions receivable, net – less current portion (Note 4)	1,634	473	1,811
Land and land improvements, buildings and equipment, at cost, less accumulated depreciation (Note 5)	213,156	194,848	177,601
Unamortized bond issuance costs	6,669	7,354	3,538
Other assets	366	443	507
Total assets	<u>\$ 408,127</u>	<u>\$ 421,528</u>	<u>\$ 303,774</u>
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 29,251	\$ 26,360	\$ 25,108
Advances for student loans and financial aid	9,459	9,287	9,186
Current portion of long-term debt (Note 6)	3,658	5,250	3,815
Student deposits and advance payments	6,119	5,501	5,300
Unearned tuition and flight fees	7,366	7,562	6,556
Total current liabilities	<u>55,853</u>	<u>53,960</u>	<u>49,965</u>
Long-term debt (Note 6)	177,518	221,890	124,753
Total liabilities	<u>233,371</u>	<u>275,850</u>	<u>174,718</u>
Net assets (Note 7):			
Unrestricted	153,037	126,200	112,007
Temporarily restricted	11,197	10,410	4,641
Permanently restricted	10,522	9,068	12,408
Total net assets	<u>174,756</u>	<u>145,678</u>	<u>129,056</u>
Total liabilities and net assets	<u>\$ 408,127</u>	<u>\$ 421,528</u>	<u>\$ 303,774</u>

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Statements of Activities

Year Ended June 30, 2007

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other additions:				
Tuition	\$ 213,875	\$ -	\$ -	\$ 213,875
Less: institutionally funded scholarships	29,809	-	-	29,809
Net tuition	184,066	-	-	184,066
Flight fees	21,878	-	-	21,878
Other fees	7,394	-	-	7,394
Government grants and contracts	11,020	-	-	11,020
Private gifts	843	-	-	843
Private grants and contracts	1,240	-	-	1,240
Sales and services – educational	187	-	-	187
Auxiliary enterprises (Note 10)	21,223	-	-	21,223
Other revenue	1,908	-	-	1,908
Investment earnings distributed	828	469	-	1,297
Total revenue and other additions	250,587	469	-	251,056
Net assets released from restrictions	5,055	(5,055)	-	-
Total revenue and other additions	255,642	(4,586)	-	251,056
Expenses (Note 8):				
General academic instruction	91,285	-	-	91,285
Flight instruction	29,147	-	-	29,147
Research	8,767	-	-	8,767
Academic support	16,407	-	-	16,407
Student services	28,049	-	-	28,049
Institutional support	40,118	-	-	40,118
Scholarships	1,364	-	-	1,364
Auxiliary enterprises (Note 10)	25,061	-	-	25,061
Total expenses	240,198	-	-	240,198
Excess (deficiency) of revenues and other additions over (under) expenses	15,444	(4,586)	-	10,858
Nonoperating activities:				
Private gifts – primarily restricted	190	3,880	1,454	5,524
Net realized and unrealized appreciation in fair value of investments	4,549	1,680	-	6,229
Investment income	6,214	282	-	6,496
Distribution of prior year investment earnings for spending	(828)	(469)	-	(1,297)
Other nonoperating activities	3,178	-	-	3,178
Loss on extinguishment of debt	(1,910)	-	-	(1,910)
Total nonoperating activities	11,393	5,373	1,454	18,220
Change in net assets	26,837	787	1,454	29,078
Net assets, beginning of year	126,200	10,410	9,068	145,678
Net assets, end of year	\$ 153,037	\$ 11,197	\$ 10,522	\$ 174,756

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Statements of Activities (continued)

Year Ended June 30, 2006

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other additions:				
Tuition	\$ 199,726	\$ –	\$ –	\$ 199,726
Less: institutionally funded scholarships	24,998	–	–	24,998
Net tuition	174,728	–	–	174,728
Flight fees	20,676	–	–	20,676
Other fees	7,062	–	–	7,062
Government grants and contracts	9,798	–	–	9,798
Private gifts	491	–	–	491
Private grants and contracts	1,282	–	–	1,282
Sales and services – educational	205	–	–	205
Auxiliary enterprises (Note 10)	20,264	–	–	20,264
Other revenue	1,429	1	–	1,430
Investment earnings distributed	2,371	302	–	2,673
Total revenue and other additions	238,306	303	–	238,609
Net assets released from restrictions	959	(959)	–	–
Total revenue and other additions	239,265	(656)	–	238,609
Expenses (Note 8):				
General academic instruction	88,536	–	–	88,536
Flight instruction	32,814	–	–	32,814
Research	7,619	–	–	7,619
Academic support	14,944	–	–	14,944
Student services	26,181	–	–	26,181
Institutional support	39,475	–	–	39,475
Scholarships	1,060	–	–	1,060
Auxiliary enterprises (Note 10)	23,796	–	–	23,796
Total expenses	234,425	–	–	234,425
Excess (deficiency) of revenues and other additions over (under) expenses	4,840	(656)	–	4,184
Nonoperating activities:				
Private gifts – primarily restricted	288	1,873	91	2,252
Net realized and unrealized appreciation in fair value of investments	3,224	1,246	–	4,470
Investment income	5,812	177	–	5,989
Distribution of prior year investment earnings for spending	(2,371)	(302)	–	(2,673)
Other nonoperating activities	2,400	–	–	2,400
Reclassifications	–	3,431	(3,431)	–
Total nonoperating activities	9,353	6,425	(3,340)	12,438
Change in net assets	14,193	5,769	(3,340)	16,622
Net assets, beginning of year	112,007	4,641	12,408	129,056
Net assets, end of year	\$ 126,200	\$ 10,410	\$ 9,068	\$ 145,678

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Statements of Activities (continued)

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) expenses	3,599	(713)	–	2,886
Nonoperating activities:				
Private gifts – primarily restricted	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

See accompanying notes.

# Embry-Riddle Aeronautical University, Inc.

## Statements of Cash Flows (In Thousands)

	Year Ended June 30		
	2007	2006	2005
<b>Operating activities</b>			
Changes in net assets	\$ 29,078	\$ 16,622	\$ 13,739
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Depreciation	21,220	20,221	17,564
Amortization	685	157	74
(Gain) loss on sale of equipment	695	(209)	(144)
Equipment acquired through gifts	(190)	(288)	(1,932)
Contributions restricted for long-term investment	(4,859)	(1,295)	(5,086)
Changes in operating assets and liabilities:			
Accounts and notes receivable	(851)	1,775	133
Contributions receivable	(1,670)	611	(1,486)
Inventories	112	90	273
Prepaid expenses and other assets	(995)	(36)	(1,740)
Accounts payable and accrued expenses	2,891	1,252	3,223
Advances for student loans and financial aid	172	101	426
Student deposits and advance payments	618	201	566
Unearned tuition and flight fees	(196)	1,006	(3,518)
Net cash provided by operating activities	<u>46,710</u>	<u>40,208</u>	<u>22,092</u>
<b>Investing activities</b>			
Sale of investments	12,193	2,338	3,898
Purchase of investments	(19,797)	(8,403)	(8,353)
Principal received on student loans receivable	2,707	2,670	3,171
Loans made to students	(2,917)	(1,805)	(3,497)
Gain on insurance proceeds	(3,379)	-	-
Proceeds from sale of land and land improvements, buildings and equipment	1,150	24	405
Capital expenditures	(37,804)	(36,995)	(30,356)
Net cash used in investing activities	<u>(47,847)</u>	<u>(42,171)</u>	<u>(34,732)</u>
<b>Financing activities</b>			
Long-term debt proceeds	1,441	104,544	435
Principal payments on long-term debt	(47,405)	(5,972)	(3,831)
(Increase) decrease in deposits with fiduciaries	56,610	(84,803)	7,060
Payment of bond issuance costs	-	(3,973)	(23)
Proceeds from contributions restricted for:			
Investment in endowment	1,454	91	2,839
Investment in plant	3,405	1,204	2,247
Net cash provided by financing activities	<u>15,505</u>	<u>11,091</u>	<u>8,727</u>
Change in cash and cash equivalents	14,368	9,128	(3,913)
Cash and cash equivalents, beginning of year	29,523	20,395	24,308
Cash and cash equivalents, end of year	<u>\$ 43,891</u>	<u>\$ 29,523</u>	<u>\$ 20,395</u>
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for interest	<u>\$ 10,472</u>	<u>\$ 10,299</u>	<u>\$ 7,293</u>

See accompanying notes.

# Embry-Riddle Aeronautical University, Inc.

## Notes to Financial Statements

June 30, 2007

### 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, bachelor's, and master's 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 bachelor's 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 bachelor's 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 of an academic term, such as a summer session, which is conducted over a fiscal year-end, are reported when earned.

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 that 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 changes 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 restricted 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.

Approximately \$45,190,000 of the deposits with fiduciaries reported in fiscal year 2006 was being held in trust to extinguish the outstanding 1996 Volusia County Educational Facilities Authority Revenue Bonds and related accumulated interest. The Series 1996 bonds were called and the debt was extinguished on October 1, 2006.

#### **Revenues and Student Accounts Receivable**

Student tuition and related fees are recognized as revenue in the fiscal year in which they are earned.

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 as a gift). Interest associated with land and the land improvements, 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 \$9,082,000, \$7,918,000 and \$5,935,000 was expensed for the years ended June 30, 2007, 2006 and 2005, respectively. Interest of approximately \$861,000, \$3,422,000 and \$1,335,000 was capitalized for the years ended June 30, 2007, 2006 and 2005, respectively.

Depreciation expense and amortization expense for assets recorded under capital leases, which are included within depreciation expense, are 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, 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, 2007, 2006 and 2005, was approximately \$685,000, \$157,000 and \$74,000, respectively.

#### **Federal and State Income Taxes**

The University is exempt from federal and state income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) of the Code. 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 an 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 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, 2007, 2006 and 2005, are as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
Mutual funds:			
Commonfund Intermediate Fund	\$ 344	\$ 326	\$ 318
American Funds EuroPacific Growth Fund	4,946	4,499	4,000
Coastal Access Ltd.	861	812	760
Merrill Lynch CMA Money Fund	19	2,195	–
American Funds Fundamental Investors Fund	7,225	9,681	8,456
Sphinx Access Ltd.	65	111	986
Touchstone Growth Fund	1,884	1,550	–
AIM Small Cap Opportunities Fund	–	–	1,330
Calamos Growth Fund – Merrill Lynch	3,249	3,245	2,913
Franklin Balance Sheet Investment Fund	4,886	5,049	4,311
American Growth Fund of America	6,925	9,143	8,087
Templeton Foreign Fund	4,526	4,279	3,684
Pimco Bond Fund	13,509	8,341	8,410
457b TIAA/CREF	314	255	162
Pimco Diversified Fund	5,543	3,596	3,502
Retirement Forfeiture – Vanguard	32	16	16
Retirement Forfeiture – TIAA/CREF	16	29	21
Vanguard Institutional Index Fund	6,387	–	–
457f Rabbi Trust	–	–	106
	<b>\$ 60,731</b>	<b>\$ 53,127</b>	<b>\$ 47,062</b>

Investment income and gains derived from investments and deposits and investments with fiduciaries for the years ended June 30, 2007, 2006 and 2005, are as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Investment income	\$ 6,496	\$ 5,989	\$ 1,817
Net realized and unrealized gains	6,229	4,470	3,651
	<b>\$ 12,725</b>	<b>\$ 10,459</b>	<b>\$ 5,468</b>

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:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
Money market accounts	\$ <b>49,375</b>	\$ 60,795	\$ 17,121
U.S. bonds, notes, and bills	–	45,190	4,047
Other notes	–	–	14
	<b>\$ 49,375</b>	<b>\$ 105,985</b>	<b>\$ 21,182</b>

Approximately \$45,190,000 of the deposits with fiduciaries reported in fiscal year 2006 was being held in trust to extinguish the outstanding Series 1996 bonds and related accumulated interest. The Series 1996 bonds were called and the debt was extinguished on October 1, 2006.

**4. Contributions Receivable**

Contributions receivable at June 30, 2007, 2006 and 2005, are classified as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
Unconditional promises expected to be collected in:			
Less than one year	\$ <b>4,434</b>	\$ 3,770	\$ 2,818
One year to five years	<b>2,926</b>	759	2,791
More than five years	<b>84</b>	80	6
	<b>7,444</b>	4,609	5,615
Less:			
Unamortized discount	<b>664</b>	168	324
Allowance for uncollectible pledges	<b>1,745</b>	1,076	1,315
	<b>\$ 5,035</b>	<b>\$ 3,365</b>	<b>\$ 3,976</b>

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

Current portion	\$ <b>3,401</b>	\$ 2,892	\$ 2,165
Long-term portion	<b>1,634</b>	473	1,811
	<b>\$ 5,035</b>	<b>\$ 3,365</b>	<b>\$ 3,976</b>

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**4. Contributions Receivable (continued)**

The contributions receivable balance contains pledges by two donors totaling \$5,617,300. This amount represents approximately 76% of the gross contributions receivable balance.

**5. Land and Land Improvements, Buildings, and Equipment**

Land and land improvements, buildings and equipment at June 30, 2007, 2006 and 2005, consist of the following:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
Land and land improvements	<b>\$ 31,156</b>	\$ 28,602	\$ 20,775
Buildings	<b>203,843</b>	205,658	186,836
Equipment	<b>120,745</b>	110,611	104,521
Construction-in-progress	<b>34,419</b>	12,631	12,693
Less accumulated depreciation and amortization	<b>(177,007)</b>	(162,654)	(147,224)
	<b>\$ 213,156</b>	\$ 194,848	\$ 177,601

The University has revenue-earning assets under an operating lease with an original cost of \$7,525,000 (\$148,000, \$504,000 and \$830,000 net of accumulated depreciation at June 30, 2007, 2006 and 2005, respectively (see Note 10)).

Assets under capital leases, which are included in land and land improvements, buildings and equipment, at June 30, 2007, 2006 and 2005, consist of the following:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
Land	<b>\$ 2,685</b>	\$ 1,244	\$ 1,244
Buildings	<b>1,164</b>	1,164	1,164
Equipment	-	-	535
Less accumulated amortization	<b>(789)</b>	(688)	(955)
	<b>\$ 3,060</b>	\$ 1,720	\$ 1,988

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, 2007 (in thousands):

2008	\$	307
2009		316
2010		316
2011		222
2012		203
Thereafter		<u>2,796</u>
Total minimum lease payments		4,160
Less amounts representing interest		<u>(1,693)</u>
Net minimum lease payments	\$	<u><u>2,467</u></u>

The net minimum lease payments are reflected in the June 30, 2007, statement of financial position as current and noncurrent long-term debt of \$145,000 and \$2,322,000, respectively.

In March 2000, the University entered into a multiparty real estate transaction. Under the terms of the transaction, the University deeded title to a building with a book value of approximately \$1,600,000 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 \$1,200,000 each, along with a capital lease obligation for approximately \$850,000. In July 2006, in accordance with the lease agreement, the land value was reappraised resulting in the increase of the asset and liability by approximately \$1,441,000 each.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**6. Long-Term Debt**

Long-term debt consists of the following at June 30, 2007, 2006, and 2005:

	Interest Rate	Payable in Installments Ending in Fiscal Year	Principal Outstanding at June 30, 2007	Principal Outstanding at June 30, 2006	Principal Outstanding at June 30, 2005	Reference to Note 6 (1)-(11) Below
<i>(In Thousands)</i>						
<b>Capital lease obligations</b>						
501 S. Clyde Morris Blvd. land	6.58%	2026	\$ 2,157	\$ 773	\$ 794	(1)
Modular buildings and lighting project	7.75%	2011	310	402	486	(2)
			<u>2,467</u>	<u>1,175</u>	<u>1,280</u>	
<b>Notes payable</b>						
Apartment Complex #2	3.0%	2021	563	597	645	(3)
FAA building	12.25%	2008	328	1,236	2,041	(4)
Other land, buildings and equipment	6.79-14.27%	2009	149	219	316	
Prescott building	8.0%	2006	–	56	238	(5)
			<u>1,040</u>	<u>2,108</u>	<u>3,240</u>	
<b>Bonds payable</b>						
Volusia County Educational Facilities Authority Revenue Bonds, 1996	5.50-6.125%	2027	–	43,185	44,199	(6)
Volusia County Educational Facilities Authority Revenue Bonds, 1999A	5.75%	2029	12,291	12,291	12,291	(7)
Volusia County Educational Facilities Authority Revenue Bonds, 1999B	4.0-5.5%	2022	29,517	29,680	29,833	(8)
Volusia County Educational Facilities Authority Revenue Bonds, 2003	2.50-5.20%	2033	34,108	35,423	36,698	(9)
Volusia County Educational Facilities Authority Revenue Bonds, 2005	2.85-5.0%	2035	101,038	102,404	–	(10)
Student Center bonds	3.0%	2015	625	700	770	(11)
Housing bonds	3.0%	2008	65	125	185	(11)
Academic Building bonds	3.0%	2008	25	49	72	(11)
			<u>177,669</u>	<u>223,857</u>	<u>124,048</u>	
Total long-term debt			181,176	227,140	128,568	
Current portion			(3,658)	(5,250)	(3,815)	
Long-term portion			<u>\$ 177,518</u>	<u>\$ 221,890</u>	<u>\$ 124,753</u>	

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**6. Long-Term Debt (continued)**

- (1) Capital lease obligation to Volusia County for land leased in the amount of \$2,157,000. 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) Nontaxable 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 effective interest rate of the bond issue was 6.08%. The Series 1996 bonds were called and the debt was extinguished on October 1, 2006.
- (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, 2007, as the bonds are not payable

# Embry-Riddle Aeronautical University, Inc.

## Notes to Financial Statements (continued)

### 6. Long-Term Debt (continued)

until 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 \$363,000 at June 30, 2007. 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 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 \$262,000 at June 30, 2007. 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 1999 Bonds, the 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.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**6. Long-Term Debt (continued)**

(10) The Series 2005 bonds were issued to fund various construction and renovation projects on the Daytona Beach campus and the Prescott campus and to refund all of Volusia County Educational Facilities Authority's (VCEFA) outstanding Series 1996A bonds. The bonds were issued under an agreement whereby the VCEFA issued and sold revenue bonds in the original amount of \$101,385,000 and loaned the proceeds to the University. The bonds were issued at a premium of approximately \$3,159,000. The balance of the premium was approximately \$3,053,000 at June 30, 2007. The effective interest rate of the bond issue is 4.98%. 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 1999 bonds, the Series 2003 bonds, the 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.

(11) The 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):

2008	\$	3,658
2009		3,358
2010		3,400
2011		3,458
2012		3,595
Thereafter		161,369
Unamortized bond premium		2,338
		<u>\$ 181,176</u>

The net unamortized bond premium relating to long-term debt maturing in 2008 is \$30,000.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**7. Net Assets**

Net assets at June 30, 2007, 2006 and 2005, consist of the following:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
<b>Unrestricted</b>			
Internally designated for student loans	\$ 2,053	\$ 2,255	\$ 2,280
Internally designated for future capital acquisitions	<b>18,642</b>	51,974	16,940
Quasi endowment funds	<b>34,205</b>	28,534	23,896
Debt service funds	<b>24,160</b>	19,932	13,327
Invested in plant	<b>23,385</b>	2,410	49,033
Undesignated	<b>50,592</b>	21,095	6,531
Total unrestricted net assets	<b>153,037</b>	126,200	112,007
<b>Temporarily Restricted</b>			
Donor restricted	<b>7,050</b>	7,499	1,141
Donor pledges	<b>4,064</b>	2,835	3,428
Annuity and living trusts	<b>83</b>	76	72
Total temporarily restricted net assets	<b>11,197</b>	10,410	4,641
<b>Permanently Restricted</b>			
Endowment pledges	<b>772</b>	612	760
Endowment	<b>9,750</b>	8,456	11,648
Total permanently restricted net assets	<b>10,522</b>	9,068	12,408
Total net assets	<b>\$ 174,756</b>	\$ 145,678	\$ 129,056

In fiscal year 2006, approximately \$3,431,000 of net assets was reclassified from permanently restricted net assets to temporarily restricted net assets. These amounts represent earnings on endowment funds that should have been classified as temporarily restricted.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**7. Net Assets (continued)**

Net assets released from restrictions during the years ended June 30, 2007, 2006 and 2005, were in the following categories. The expenditures were restricted by purpose.

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
Donations restricted for capital asset construction or acquisition	\$ 3,390	\$ 230	\$ 648
Donations restricted for scholarships	853	683	296
Donations restricted for noncapital programs or acquisitions	812	46	213
Net assets released from restrictions	<u>\$ 5,055</u>	<u>\$ 959</u>	<u>\$ 1,157</u>

**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, 2007, 2006 and 2005, are allocated to the University's various functional areas as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
<b>Interest expense</b>			
General academic instruction	\$ 3,147	\$ 2,240	\$ 1,444
Flight instruction	269	268	268
Research	103	44	12
Academic support	53	39	20
Student services	1,102	940	818
Institutional support	505	353	252
Scholarships	3	2	2
Auxiliary enterprises	3,900	4,032	3,119
	<u>\$ 9,082</u>	<u>\$ 7,918</u>	<u>\$ 5,935</u>

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**8. Interest Expense, Depreciation Expense, and Operation and Maintenance of Plant (continued)**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(In Thousands)</i>		
<b>Depreciation expense</b>			
General academic instruction	\$ 5,972	\$ 5,367	\$ 4,248
Flight instruction	2,738	2,776	2,453
Research	616	585	546
Academic support	1,051	960	742
Student services	2,826	2,581	2,216
Institutional support	3,723	4,155	3,993
Scholarships	103	98	105
Auxiliary enterprises	4,191	3,699	3,261
	<b>\$ 21,220</b>	<b>\$ 20,221</b>	<b>\$ 17,564</b>
<b>Operation and maintenance of plant</b>			
General academic instruction	\$ 2,645	\$ 2,242	\$ 2,090
Flight instruction	827	703	671
Research	5	4	4
Academic support	562	478	452
Student services	1,619	1,373	1,289
Institutional support	494	419	397
Scholarships	2	2	2
Auxiliary enterprises	4,265	3,634	3,095
	<b>\$ 10,419</b>	<b>\$ 8,855</b>	<b>\$ 8,000</b>

**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 expenses for the years ended June 30, 2007, 2006 and 2005, were approximately \$6,147,000, \$5,962,000 and \$5,705,000, respectively.

# Embry-Riddle Aeronautical University, Inc.

## Notes to Financial Statements (continued)

### 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 on February 11, 1997, to extend the lease through August 21, 2002. The second option was exercised on July 10, 2002, to extend the lease through August 21, 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 \$328,000 at June 30, 2007. 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, 2007, 2006, and 2005, was approximately \$6,962,000, \$8,040,000 and \$7,221,000, respectively. Future minimum rental payments required under operating leases extending beyond June 30, 2007, are as follows (in thousands):

2008	\$ 3,965
2009	3,140
2010	2,850
2011	1,919
2012	1,333
Thereafter	8,620
	<u>\$ 21,827</u>

#### Unionized Labor Force

The University employs approximately 125 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 2010.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

**11. Commitments and Contingencies (continued)**

**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. Natural Disaster**

In December 2006, the Daytona Beach Campus was damaged by a tornado. The University recorded insurance proceeds net of loss as a \$3,178,000 gain under other nonoperating activities in the statements of activities. For the year ended June 30, 2007, the gains and losses for capital and other than capital assets are as follows (in thousands):

Nonoperating impairment gains (losses) – capital assets:	
Impairment losses – capital assets	\$ (2,807)
Insurance recoveries on impairment losses	6,187
Net gain – capital assets	<u>3,380</u>
Other nonoperating gains (losses) – other than capital assets:	
Losses – other than capital assets	(6,743)
Insurance recoveries – other than capital assets	6,541
Net losses – other than capital assets	<u>(202)</u>
Total other nonoperating activities	<u><u>\$ 3,178</u></u>

# Supplementary Information

Embry-Riddle Aeronautical University, Inc.

Net Assets Class Disaggregation

June 30, 2007

(In Thousands)

	Temporarily Permanently			Total
	Unrestricted	Restricted	Restricted	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 43,891	\$ -	\$ -	\$ 43,891
Investments (Note 2)	43,850	7,063	9,818	60,731
Accounts and notes receivable, less allowance for doubtful accounts of \$617	12,046	-	-	12,046
Current portion of student loans receivable	2,352	-	-	2,352
Current portion of contributions receivable (Note 4)	194	2,875	332	3,401
Inventories	2,393	-	-	2,393
Prepaid expenses and other current assets	3,678	-	-	3,678
Total current assets	<u>108,404</u>	<u>9,938</u>	<u>10,150</u>	<u>128,492</u>
Deposits and investments with fiduciaries (Note 3)	49,375	-	-	49,375
Long-term accounts and notes receivable	1,004	-	-	1,004
Student loans receivable, less current portion and allowance for doubtful accounts of \$180	7,431	-	-	7,431
Contributions receivable, net – less current portion (Note 4)	-	1,262	372	1,634
Land and land improvements, buildings and equipment, at cost, less accumulated depreciation (Note 5)	213,156	-	-	213,156
Unamortized bond issuance costs	6,669	-	-	6,669
Other assets	366	-	-	366
Total assets	<u>\$ 386,405</u>	<u>\$ 11,200</u>	<u>\$ 10,522</u>	<u>\$ 408,127</u>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 29,248	\$ 3	\$ -	\$ 29,251
Advances for student loans and financial aid	9,459	-	-	9,459
Current portion of long-term debt (Note 6)	3,658	-	-	3,658
Student deposits and advance payments	6,119	-	-	6,119
Unearned tuition and flight fees	7,366	-	-	7,366
Total current liabilities	<u>55,850</u>	<u>3</u>	<u>-</u>	<u>55,853</u>
Long-term debt (Note 6)	177,518	-	-	177,518
Total liabilities	<u>233,368</u>	<u>3</u>	<u>-</u>	<u>233,371</u>
Net assets (Note 7)	153,037	11,197	10,522	174,756
Total liabilities and net assets	<u>\$ 386,405</u>	<u>\$ 11,200</u>	<u>\$ 10,522</u>	<u>\$ 408,127</u>