

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Embry-Riddle Aeronautical University, Inc.
Years Ended June 30, 2009, 2008, and 2007
With Report of Independent Certified Public Accountants

Embry-Riddle Aeronautical University, Inc.

Financial Statements and Supplementary Information

Years Ended June 30, 2009, 2008, and 2007

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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, 2009, 2008, and 2007, 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 the University as of June 30, 2009, 2008, and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009, 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.

Ernst + Young LLP

October 13, 2009

Embry-Riddle Aeronautical University, Inc.

Statements of Financial Position

(In Thousands)

| | 2009 | June 30 2008 | 2007 |
|--|-------------------|-----------------|------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 62,254 | \$ 13,226 | \$ 43,891 |
| Investments (Note 2) | 60,036 | 100,147 | 60,417 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$997, \$744, and \$617, respectively | 8,424 | 11,089 | 12,046 |
| Current portion of student loans receivable | 1,021 | 1,422 | 2,352 |
| Current portion of contributions receivable, net (Note 4) | 1,294 | 3,039 | 3,401 |
| Inventories | 2,737 | 2,458 | 2,393 |
| Prepaid expenses and other current assets | 3,894 | 2,758 | 3,678 |
| Total current assets | 139,660 | 134,139 | 128,178 |
| Deposits and investments with fiduciaries (Note 3) | 30,327 | 34,828 | 49,375 |
| Long-term accounts and notes receivable | 836 | 1,001 | 1,004 |
| Student loans receivable, less current portion and allowance for doubtful accounts of \$785, \$253, and \$180, respectively | 10,841 | 9,469 | 7,431 |
| Contributions receivable, net – less current portion (Note 4) | 3,486 | 1,346 | 1,634 |
| Land and land improvements, buildings and equipment, at cost, less accumulated depreciation and amortization (Note 5) | 224,562 | 227,462 | 213,156 |
| Unamortized bond issuance costs | 6,372 | 6,502 | 6,669 |
| Other assets | 707 | 817 | 680 |
| Total assets | \$ 416,791 | \$ 415,564 | \$ 408,127 |
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 33,074 | \$ 28,509 | \$ 29,251 |
| Advances for student loans and financial aid | 9,592 | 9,441 | 9,459 |
| Current portion of long-term debt (Note 6) | 3,388 | 3,376 | 3,658 |
| Student deposits and advance payments | 5,160 | 6,420 | 6,119 |
| Unearned tuition and flight fees | 4,666 | 6,372 | 7,366 |
| Total current liabilities | 55,880 | 54,118 | 55,853 |
| Long-term debt (Note 6) | 169,899 | 174,201 | 177,518 |
| Total liabilities | 225,779 | 228,319 | 233,371 |
| Net assets (Note 7): | | | |
| Unrestricted | 170,811 | 165,462 | 153,037 |
| Temporarily restricted | 8,352 | 10,373 | 11,197 |
| Permanently restricted | 11,849 | 11,410 | 10,522 |
| Total net assets | 191,012 | 187,245 | 174,756 |
| Total liabilities and net assets | \$ 416,791 | \$ 415,564 | \$ 408,127 |

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Statement of Activities

Year Ended June 30, 2009

(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|------------------------|------------------------|------------|
| Revenue and other additions: | | | | |
| Tuition | \$ 239,644 | \$ - | \$ - | \$ 239,644 |
| Less: institutionally funded scholarships | 39,235 | - | - | 39,235 |
| Net tuition | 200,409 | - | - | 200,409 |
| Flight fees | 24,801 | - | - | 24,801 |
| Other fees | 8,014 | - | - | 8,014 |
| Grants and contracts | 11,887 | - | - | 11,887 |
| Private gifts | 595 | - | - | 595 |
| Sales and services – educational | 218 | - | - | 218 |
| Auxiliary enterprises | 21,863 | - | - | 21,863 |
| Other revenue | 2,104 | - | - | 2,104 |
| Investment earnings distributed | 32 | 785 | - | 817 |
| Total revenue and other additions | 269,923 | 785 | - | 270,708 |
| Net assets released from restrictions | 3,290 | (3,290) | - | - |
| Total revenue and other additions | 273,213 | (2,505) | - | 270,708 |
| Expenses (Note 8): | | | | |
| General academic instruction | 102,712 | - | - | 102,712 |
| Flight instruction | 29,815 | - | - | 29,815 |
| Research | 10,849 | - | - | 10,849 |
| Academic support | 16,298 | - | - | 16,298 |
| Student services | 34,244 | - | - | 34,244 |
| Institutional support | 46,118 | - | - | 46,118 |
| Scholarships | 1,759 | - | - | 1,759 |
| Auxiliary enterprises | 23,659 | - | - | 23,659 |
| Total expenses | 265,454 | - | - | 265,454 |
| Excess (deficiency) of revenues and other additions over (under) expenses | 7,759 | (2,505) | - | 5,254 |
| Nonoperating activities: | | | | |
| Private gifts | 2,483 | 3,496 | 439 | 6,418 |
| Net realized and unrealized (losses) gains in fair value of investments | (7,877) | (2,302) | - | (10,179) |
| Investment income | 2,754 | 75 | - | 2,829 |
| Distribution of prior year investment earnings for spending | (32) | (785) | - | (817) |
| Other nonoperating activities | 262 | - | - | 262 |
| Total nonoperating activities | (2,410) | 484 | 439 | (1,487) |
| Change in net assets | 5,349 | (2,021) | 439 | 3,767 |
| Net assets, beginning of year | 165,462 | 10,373 | 11,410 | 187,245 |
| Net assets, end of year | \$ 170,811 | \$ 8,352 | \$ 11,849 | \$ 191,012 |

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Statement of Activities

Year Ended June 30, 2008

(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|------------|
| Revenue and other additions: | | | | |
| Tuition | \$ 226,411 | \$ – | \$ – | \$ 226,411 |
| Less: institutionally funded scholarships | 33,704 | – | – | 33,704 |
| Net tuition | 192,707 | – | – | 192,707 |
| Flight fees | 21,652 | – | – | 21,652 |
| Other fees | 8,113 | – | – | 8,113 |
| Grants and contracts | 10,547 | – | – | 10,547 |
| Private gifts | 520 | – | – | 520 |
| Sales and services – educational | 228 | – | – | 228 |
| Auxiliary enterprises | 20,604 | – | – | 20,604 |
| Other revenue | 1,950 | – | – | 1,950 |
| Investment earnings distributed | 53 | 585 | – | 638 |
| Total revenue and other additions | 256,374 | 585 | – | 256,959 |
| Net assets released from restrictions | 2,198 | (2,198) | – | – |
| Total revenue and other additions | 258,572 | (1,613) | – | 256,959 |
| Expenses <i>(Note 8)</i> : | | | | |
| General academic instruction | 97,976 | – | – | 97,976 |
| Flight instruction | 28,377 | – | – | 28,377 |
| Research | 9,002 | – | – | 9,002 |
| Academic support | 16,148 | – | – | 16,148 |
| Student services | 31,264 | – | – | 31,264 |
| Institutional support | 44,413 | – | – | 44,413 |
| Scholarships | 1,587 | – | – | 1,587 |
| Auxiliary enterprises | 21,898 | – | – | 21,898 |
| Total expenses | 250,665 | – | – | 250,665 |
| Excess (deficiency) of revenues and other additions over (under) expenses | 7,907 | (1,613) | – | 6,294 |
| Nonoperating activities: | | | | |
| Private gifts | 92 | 1,617 | 888 | 2,597 |
| Net realized and unrealized (losses) gains in fair value of investments | (2,525) | (445) | – | (2,970) |
| Investment income | 4,645 | 199 | – | 4,844 |
| Distribution of prior year investment earnings for spending | (53) | (585) | – | (638) |
| Other nonoperating activities | 2,359 | 3 | – | 2,362 |
| Total nonoperating activities | 4,518 | 789 | 888 | 6,195 |
| Change in net assets | 12,425 | (824) | 888 | 12,489 |
| Net assets, beginning of year | 153,037 | 11,197 | 10,522 | 174,756 |
| Net assets, end of year | \$ 165,462 | \$ 10,373 | \$ 11,410 | \$ 187,245 |

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Statement 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 |
| Grants and contracts | 12,260 | - | - | 12,260 |
| Private gifts | 843 | - | - | 843 |
| Sales and services – educational | 187 | - | - | 187 |
| Auxiliary enterprises | 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 <i>(Note 8)</i> : | | | | |
| 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 | 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 | 190 | 3,880 | 1,454 | 5,524 |
| Net realized and unrealized gains 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 Cash Flows (In Thousands)

| | Year Ended June 30 | | |
|--|--------------------|------------------|------------------|
| | 2009 | 2008 | 2007 |
| Operating activities | | | |
| Changes in net assets | \$ 3,767 | \$ 12,489 | \$ 29,078 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | | |
| Depreciation | 22,909 | 22,979 | 21,220 |
| Amortization | 130 | 167 | 685 |
| Loss (gain) on sale of equipment | 1,355 | (84) | 695 |
| Equipment acquired through gifts | (2,483) | (92) | (190) |
| Contributions restricted for long-term investment | (3,032) | (1,645) | (4,859) |
| Changes in operating assets and liabilities: | | | |
| Accounts and notes receivable | 2,830 | 960 | (851) |
| Contributions receivable | (395) | 650 | (1,670) |
| Inventories | (279) | (65) | 112 |
| Prepaid expenses and other assets | (1,026) | 783 | (1,054) |
| Accounts payable and accrued expenses | 4,565 | (742) | 2,891 |
| Advances for student loans and financial aid | 151 | (18) | 172 |
| Student deposits and advance payments | (1,260) | 301 | 618 |
| Unearned tuition and flight fees | (1,706) | (994) | (196) |
| Net cash provided by operating activities | <u>25,526</u> | <u>34,689</u> | <u>46,651</u> |
| Investing activities | | | |
| Sale of investments | 44,937 | 34,343 | 12,193 |
| Purchase of investments | (4,826) | (74,073) | (19,738) |
| Principal received on student loans receivable | 1,594 | 1,496 | 2,707 |
| Loans made to students | (2,565) | (2,604) | (2,917) |
| Gain on insurance proceeds | - | (950) | (3,380) |
| Proceeds from sale of land and land improvements, buildings, and equipment | 985 | 328 | 1,151 |
| Capital expenditures | (19,866) | (36,487) | (37,804) |
| Net cash provided by (used in) investing activities | <u>20,259</u> | <u>(77,947)</u> | <u>(47,788)</u> |
| Financing activities | | | |
| Long-term debt proceeds | - | 41 | 1,441 |
| Principal payments on long-term debt | (4,290) | (3,640) | (47,405) |
| Decrease in deposits with fiduciaries | 4,501 | 14,547 | 56,610 |
| Proceeds from contributions restricted for: | | | |
| Investment in endowment | 439 | 888 | 1,454 |
| Investment in plant | 2,593 | 757 | 3,405 |
| Net cash provided by financing activities | <u>3,243</u> | <u>12,593</u> | <u>15,505</u> |
| Change in cash and cash equivalents | 49,028 | (30,665) | 14,368 |
| Cash and cash equivalents, beginning of year | 13,226 | 43,891 | 29,523 |
| Cash and cash equivalents, end of year | <u>\$ 62,254</u> | <u>\$ 13,226</u> | <u>\$ 43,891</u> |
| Supplemental disclosure of cash flow information | | | |
| Cash paid during the year for interest | <u>\$ 8,767</u> | <u>\$ 8,890</u> | <u>\$ 10,472</u> |

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements

June 30, 2009

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 10 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 (for the years ended June 30, 2007), 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 \$250,000 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.

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).

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.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

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

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 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 \$8,381,000, \$8,224,000, and \$9,082,000, was expensed for the years ended June 30, 2009, 2008, and 2007, respectively. Interest of approximately \$353,000, \$651,000, and \$861,000, was capitalized for the years ended June 30, 2009, 2008, and 2007, 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.

Unamortized Bond Issuance Costs

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, 2009, 2008, and 2007, was approximately \$130,000, \$167,000, and \$685,000, 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.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

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

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

The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, other receivables, accounts payables and deposits held in custody for others approximate fair value because of the short-term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rate in effect at June 30.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at rates that approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

The fair value for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 13.

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)

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Investments

Investments at June 30, 2009, 2008, and 2007, are as follows:

| | 2009 | 2008 | 2007 |
|---|-----------------------|-------------------|------------------|
| | <i>(In Thousands)</i> | | |
| Mutual funds: | | | |
| Commonfund Intermediate Fund | \$ 321 | \$ 346 | \$ 344 |
| Commonfund Short-Term Fund | 5,804 | 37,465 | – |
| American Funds EuroPacific Growth Fund | 3,529 | 4,739 | 4,946 |
| Coastal Access Ltd. | 787 | 897 | 861 |
| Merrill Lynch CMA Money Fund | – | 21 | 19 |
| Salem Trust Money Fund | 36 | – | – |
| American Funds Fundamental Investors Fund | 4,078 | 5,739 | 7,225 |
| Sphinx Access Ltd. | 63 | 64 | 65 |
| Touchstone Growth Fund | 1,398 | 2,051 | 1,884 |
| Vanguard Total International Stock Fund | 2,074 | 2,985 | – |
| Calamos Growth Fund – Merrill Lynch | 1,447 | 2,170 | 3,249 |
| Franklin Balance Sheet Investment Fund | – | 3,623 | 4,886 |
| Ridgeworth Small Capital Value Equity | 2,606 | – | – |
| American Growth Fund of America | 4,007 | 5,473 | 6,925 |
| Templeton Foreign Fund | 3,087 | 4,119 | 4,526 |
| Pimco Bond Fund | 20,283 | 18,564 | 13,509 |
| Pimco Diversified Fund | 6,377 | 6,422 | 5,543 |
| Retirement Forfeiture – Vanguard | 49 | 13 | 32 |
| Retirement Forfeiture – TIAA/CREF | 39 | (24) | 16 |
| Vanguard Institutional Index Fund | 4,051 | 5,480 | 6,387 |
| | \$ 60,036 | \$ 100,147 | \$ 60,417 |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

2. Investments (continued)

Investment earnings and gains (losses) derived from investments and deposits and investments with fiduciaries for the years ended June 30, 2009, 2008, and 2007, are as follows:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------|------------------|
| | <i>(In Thousands)</i> | | |
| Investment income | \$ 2,829 | \$ 4,844 | \$ 6,496 |
| Net realized and unrealized (losses) gains | (10,179) | (2,970) | 6,229 |
| | <u>\$ (7,350)</u> | <u>\$ 1,874</u> | <u>\$ 12,725</u> |

The University has approximately \$5,804,000 and \$37,465,000 in the Commonfund Short-Term Fund as of June 30, 2009 and 2008, respectively. This Fund was classified as cash and cash equivalents in 2007, and was reclassified to investments in 2008 as a result of a subsequent event. In September 2008, Wachovia Bank, in its capacity as Trustee of the Fund, elected to initiate the termination of the Short-Term Fund as a result of the financial situation in the credit markets. This involved establishing procedures for liquidation and distribution of the Fund's assets. As of June 30, 2009, 84% of the funds have been distributed to the University.

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>2009</u> | <u>2008</u> | <u>2007</u> |
|------------------------------|-----------------------|------------------|------------------|
| | <i>(In Thousands)</i> | | |
| Money market accounts | \$ 30,327 | \$ 30,863 | \$ 49,375 |
| U.S. bonds, notes, and bills | - | 3,965 | - |
| | <u>\$ 30,327</u> | <u>\$ 34,828</u> | <u>\$ 49,375</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

4. Contributions Receivable

Contributions receivable at June 30, 2009, 2008, and 2007 are classified as follows:

| | 2009 | 2008 | 2007 |
|---|-----------------------|-----------------|-----------------|
| | <i>(In Thousands)</i> | | |
| Unconditional promises expected to be collected in: | | | |
| Less than one year | \$ 2,202 | \$ 3,960 | \$ 4,434 |
| One year to five years | 4,239 | 2,117 | 2,926 |
| More than five years | — | — | 84 |
| | <u>6,441</u> | <u>6,077</u> | <u>7,444</u> |
| Less: | | | |
| Unamortized discount | 152 | 270 | 664 |
| Allowance for uncollectible pledges | 1,509 | 1,422 | 1,745 |
| | <u>\$ 4,780</u> | <u>\$ 4,385</u> | <u>\$ 5,035</u> |
| Contributions receivable are reported in the statements of financial position as follows: | | | |
| Current portion | \$ 1,294 | \$ 3,039 | \$ 3,401 |
| Long-term portion | 3,486 | 1,346 | 1,634 |
| | <u>\$ 4,780</u> | <u>\$ 4,385</u> | <u>\$ 5,035</u> |

The contributions receivable balance contains pledges by three donors totaling \$5,723,000. This amount represents approximately 89% of the gross contributions receivable balance.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

5. Land and Land Improvements, Buildings, and Equipment

Land and land improvements, buildings, and equipment at June 30, 2009, 2008, and 2007, consist of the following:

| | 2009 | 2008 | 2007 |
|--|-----------------------|-------------|-------------|
| | <i>(In Thousands)</i> | | |
| Land and land improvements | \$ 34,279 | \$ 33,871 | \$ 31,156 |
| Buildings | 260,058 | 256,227 | 203,843 |
| Equipment | 136,618 | 130,041 | 120,745 |
| Construction-in-progress | 9,963 | 5,751 | 34,419 |
| Less accumulated depreciation and amortization | (216,356) | (198,428) | (177,007) |
| | \$ 224,562 | \$ 227,462 | \$ 213,156 |

The University has revenue-earning assets under an operating lease with an original cost of \$7,525,000, (\$0, \$0, and \$148,000, net of accumulated depreciation at June 30, 2009, 2008, and 2007, respectively (see Note 10)).

Assets under capital leases, which are included in land and land improvements and buildings, at June 30, 2009, 2008, and 2007, consist of the following:

| | 2009 | 2008 | 2007 |
|-------------------------------|-----------------------|-------------|-------------|
| | <i>(In Thousands)</i> | | |
| Land | \$ 2,685 | \$ 2,685 | \$ 2,685 |
| Buildings | 1,164 | 1,164 | 1,164 |
| Less accumulated amortization | (1,002) | (891) | (789) |
| | \$ 2,847 | \$ 2,958 | \$ 3,060 |

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, 2009 (in thousands):

| | | |
|------------------------------------|----|--------------|
| 2010 | \$ | 307 |
| 2011 | | 222 |
| 2012 | | 203 |
| 2013 | | 203 |
| 2014 | | 203 |
| Thereafter | | 2,430 |
| Total minimum lease payments | | <u>3,568</u> |
| Less amounts representing interest | | <u>1,378</u> |
| Net minimum lease payments | \$ | <u>2,190</u> |

The net minimum lease payments are reflected in the June 30, 2009 statement of financial position as current and noncurrent long-term debt of \$177,000 and \$2,013,000, 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, 2009, 2008, and 2007:

| | Interest Rate | Payable in Installments Ending in Fiscal Year | Principal Outstanding at June 30, 2009 | Principal Outstanding at June 30, 2008 | Principal Outstanding at June 30, 2007 | Reference to Note 6 (1)-(9) Below |
|---|---------------|---|--|--|--|-----------------------------------|
| <i>(In Thousands)</i> | | | | | | |
| Capital lease obligations | | | | | | |
| 501 S. Clyde Morris Blvd. land Modular buildings and lighting project | 6.58% | 2026 | \$ 2,073 | \$ 2,137 | \$ 2,157 | (1) |
| | 7.75 | 2011 | 117 | 217 | 310 | (2) |
| | | | 2,190 | 2,354 | 2,467 | |
| Notes payable | | | | | | |
| Apartment Complex #2 | 3.00 | 2021 | – | 546 | 563 | (3) |
| FAA building | 12.25 | 2008 | – | – | 328 | (4) |
| Other land, buildings, and equipment | 6.79-14.27 | 2009 | 76 | 77 | 149 | |
| | | | 76 | 623 | 1,040 | |
| Bonds payable | | | | | | |
| Volusia County Educational Facilities Authority Revenue Bonds, 1999A | 5.75 | 2029 | 12,321 | 12,318 | 12,291 | (5) |
| Volusia County Educational Facilities Authority Revenue Bonds, 1999B | 4.00-5.50 | 2022 | 29,170 | 29,349 | 29,517 | (6) |
| Volusia County Educational Facilities Authority Revenue Bonds, 2003 | 2.50-5.20 | 2033 | 31,379 | 32,758 | 34,108 | (7) |
| Volusia County Educational Facilities Authority Revenue Bonds, 2005 | 2.85-5.00 | 2035 | 98,151 | 99,625 | 101,038 | (8) |
| Student Center bonds | 3.00 | 2015 | – | 550 | 625 | (9) |
| Housing bonds | 3.00 | 2008 | – | – | 65 | (9) |
| Academic building bonds | 3.00 | 2008 | – | – | 25 | (9) |
| | | | 171,021 | 174,600 | 177,669 | |
| Total long-term debt | | | 173,287 | 177,577 | 181,176 | |
| Current portion | | | (3,388) | (3,376) | (3,658) | |
| Long-term portion | | | \$ 169,899 | \$ 174,201 | \$ 177,518 | |

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. Final payment on the Apartment Complex #2 was made on January 29, 2009.
- (4) Note payable in the original amount of \$7,525,000 was 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). Final payment on the FAA Building was made on October 1, 2007.
- (5) 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. The balance of the discount was approximately \$59,000 at June 30, 2009. The bonds are not payable 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.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

6. Long-Term Debt (continued)

- (6) 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 \$359,000 at June 30, 2009. 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.
- (7) 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 \$241,000 at June 30, 2009. 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)

(8) 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 \$2,966,000 at June 30, 2009. 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 by 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.

(9) 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. Final payment on the Housing Bonds was made on September 4, 2007. Final payment on the Academic Building bonds was made on October 1, 2007. Final payment on the University, Inc. Student Center bonds was made on February 4, 2009.

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

| | |
|--------------------------|-------------------|
| 2010 | \$ 3,284 |
| 2011 | 3,341 |
| 2012 | 3,472 |
| 2013 | 3,576 |
| 2014 | 4,027 |
| Thereafter | 153,281 |
| Unamortized bond premium | 2,306 |
| | <u>\$ 173,287</u> |

The net unamortized bond premium relating to long-term debt maturing in 2010 is \$30,000.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

7. Net Assets

Net assets at June 30, 2009, 2008, and 2007, consist of the following:

| | 2009 | 2008 | 2007 |
|---|-----------------------|-------------------|-------------------|
| | <i>(In Thousands)</i> | | |
| Unrestricted | | | |
| Internally designated for student loans | \$ 1,577 | \$ 1,546 | \$ 2,053 |
| Internally designated for future capital acquisitions | 6,295 | 3,261 | 18,642 |
| Quasi endowment funds | 27,092 | 33,155 | 34,205 |
| Debt service funds | 27,272 | 26,298 | 24,160 |
| Invested in plant | 36,712 | 36,646 | 23,385 |
| Undesignated | 71,863 | 64,556 | 50,592 |
| Total unrestricted net assets | <u>170,811</u> | <u>165,462</u> | <u>153,037</u> |
| Temporarily Restricted | | | |
| Donor restricted | 3,659 | 6,468 | 7,050 |
| Donor pledges | 4,617 | 3,823 | 4,064 |
| Annuity and living trusts | 76 | 82 | 83 |
| Total temporarily restricted net assets | <u>8,352</u> | <u>10,373</u> | <u>11,197</u> |
| Permanently Restricted | | | |
| Endowment pledges | 163 | 522 | 772 |
| Endowment | 11,686 | 10,888 | 9,750 |
| Total permanently restricted net assets | <u>11,849</u> | <u>11,410</u> | <u>10,522</u> |
| Total net assets | <u>\$ 191,012</u> | <u>\$ 187,245</u> | <u>\$ 174,756</u> |

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, 2009, 2008, and 2007, were in the following categories. The expenditures were restricted by purpose.

| | 2009 | 2008 | 2007 |
|--|-----------------------|-----------------|-----------------|
| | <i>(In Thousands)</i> | | |
| Donations restricted for capital asset construction or acquisition | \$ 1,847 | \$ 1,112 | \$ 3,390 |
| Donations restricted for scholarships | 1,099 | 956 | 853 |
| Donations restricted for noncapital programs or acquisitions | 344 | 130 | 812 |
| Net assets released from restrictions | <u>\$ 3,290</u> | <u>\$ 2,198</u> | <u>\$ 5,055</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, 2009, 2008, and 2007, are allocated to the University's various functional areas as follows:

| | 2009 | 2008 | 2007 |
|------------------------------|-----------------------|-----------------|-----------------|
| | <i>(In Thousands)</i> | | |
| Interest expense | | | |
| General academic instruction | \$ 3,124 | \$ 3,129 | \$ 3,147 |
| Flight instruction | 263 | 266 | 269 |
| Research | 107 | 103 | 103 |
| Academic support | 49 | 51 | 53 |
| Student services | 1,101 | 1,099 | 1,102 |
| Institutional support | 519 | 510 | 505 |
| Scholarships | 3 | 3 | 3 |
| Auxiliary enterprises | 3,215 | 3,063 | 3,900 |
| | <u>\$ 8,381</u> | <u>\$ 8,224</u> | <u>\$ 9,082</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

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

| | 2009 | 2008 | 2007 |
|---|-----------------------|------------------|------------------|
| | <i>(In Thousands)</i> | | |
| Depreciation expense | | | |
| General academic instruction | \$ 6,494 | \$ 6,416 | \$ 5,972 |
| Flight instruction | 3,004 | 3,011 | 2,738 |
| Research | 598 | 691 | 616 |
| Academic support | 1,212 | 1,163 | 1,051 |
| Student services | 3,732 | 3,413 | 2,826 |
| Institutional support | 3,360 | 3,770 | 3,723 |
| Scholarships | 116 | 128 | 103 |
| Auxiliary enterprises | 4,393 | 4,387 | 4,191 |
| | \$ 22,909 | \$ 22,979 | \$ 21,220 |
| Operation and maintenance of plant | | | |
| General academic instruction | \$ 2,960 | \$ 2,453 | \$ 2,645 |
| Flight instruction | 934 | 794 | 827 |
| Research | 5 | 5 | 5 |
| Academic support | 633 | 533 | 562 |
| Student services | 1,816 | 1,517 | 1,619 |
| Institutional support | 556 | 468 | 494 |
| Scholarships | 2 | 2 | 2 |
| Auxiliary enterprises | 4,959 | 4,187 | 4,265 |
| | \$ 11,865 | \$ 9,959 | \$ 10,419 |

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, 2009, 2008, and 2007, were approximately \$7,084,000, \$6,509,000, and \$6,147,000, 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 and maintenance of a management training center, having dormitory and classroom space, and the lease thereof to the FAA, for an initial period of one year (that commenced on August 22, 2007) with four, one-year renewal options. The University has exercised Option 2 extending the lease through August 21, 2010. Minimum annual payments under the contract are \$2,843,000, including \$1,415,000 for the lease of the facility.

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, 2009, 2008, and 2007, was approximately \$6,512,000, \$6,237,000, and \$6,962,000, respectively. Future minimum rental payments required under operating leases extending beyond June 30, 2009, are as follows (in thousands):

| | |
|------------|------------------|
| 2010 | \$ 4,804 |
| 2011 | 4,203 |
| 2012 | 3,920 |
| 2013 | 3,515 |
| 2014 | 3,025 |
| Thereafter | 8,899 |
| | <u>\$ 28,366</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.

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.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

11. Commitments and Contingencies (continued)

Guarantee Liability

The University participated in the Guaranteed Access to Education (GATE) loan program, which is administered by a third-party vendor. The University entered into a limited guarantee agreement through 2022 for student loans, which is triggered when students default. At June 30, 2009, the maximum potential amount of future payments under this program is \$1,785,000 (undiscounted). At June 30, 2009, the University has established a liability of \$1,039,000 to estimate student loan defaults under this program.

12. Natural Disaster

In December 2006, the Daytona Beach Campus was damaged by a tornado. The University recorded insurance proceeds, net of losses, under other nonoperating activities in the statements of activities. For the years ended June 30, 2009, 2008, and 2007, the gains and losses for capital and other than capital assets were as follows:

| | 2009 | 2008 | 2007 |
|--|-----------------------|---------|------------|
| | <i>(In Thousands)</i> | | |
| Nonoperating impairment gains (losses) – capital assets: | | | |
| Impairment losses – capital assets | \$ – | \$ – | \$ (2,807) |
| Insurance recoveries on impairment losses | – | 950 | 6,187 |
| Net gain – capital assets | – | 950 | 3,380 |
| Other nonoperating (losses) gains – other than capital assets: | | | |
| Losses – other than capital assets | (255) | (2,038) | (6,743) |
| Insurance recoveries – other than capital assets | 467 | 1,429 | 6,541 |
| Net gain – other than capital assets | 212 | (609) | (202) |
| Total other nonoperating activities due to natural disaster | \$ 212 | \$ 341 | \$ 3,178 |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

13. Fair Value Measurements

Effective July 1, 2008, the University adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. FSP FAS 157-2 delays the effective date for SFAS No. 157 to fiscal years beginning after November 15, 2008, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

SFAS No. 157 establishes a three-level hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Quoted prices in active markets which are unadjusted and accessible as of the measurement date for identical unrestricted assets and liabilities;
- Level 2 – Quotes prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly;
- Level 3 – Prices or valuations that require inputs that are unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We determine fair value on the following assets using these input levels as of June 30, 2009:

| | Total | Level 1 | Level 2 | Level 3 |
|-------------------------|-----------------------|------------------|-----------------|----------------|
| | <i>(In Thousands)</i> | | | |
| Assets | | | | |
| Short-term investments | \$ 6,249 | \$ – | \$ 6,249 | \$ – |
| Equity securities | 26,277 | 26,277 | – | – |
| Fixed income securities | 26,660 | 26,660 | – | – |
| Alternative investments | 850 | – | – | 850 |
| Total | \$ 60,036 | \$ 52,937 | \$ 6,249 | \$ 850 |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

13. Fair Value Measurements (continued)

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Short-Term Investments – The fair value of short-term investments, consisting primarily of money market funds are classified as Level 2 as these funds are not traded on a regular basis.

Equity Securities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Fixed Income Securities – Investments in fixed income securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Alternative Investments – Investments in hedge funds for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net portfolio value, the University has estimated its fair value by using the net portfolio value as of June 30, 2009.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at reporting date.

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

| | Balance at June 30, 2008 | Net Realized and Unrealized Losses Included in Change in Net Assets | Purchases, Sales, Issuances and Settlements, Net | Net Transfers In (Out) of Level 3 | Balance at June 30, 2009 |
|----------------------------|---|--|---|--|---|
| | <i>(In Thousands)</i> | | | | |
| Assets | | | | | |
| Alternative investments | \$ 961 | \$ (111) | \$ – | \$ – | \$ 850 |
| Total | \$ 961 | \$ (111) | \$ – | \$ – | \$ 850 |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

13. Fair Value Measurements (continued)

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at June 30, 2009 are \$(111,000).

14. Endowment

The University's endowment consists of approximately 193 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida operates under the Florida Uniform Management of Institutional Funds Act (UMIFA), enacted in 2003. The Board of Trustees of the University has interpreted UMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed in UMIFA. In accordance with UMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The purposes of the organization and the donor-restricted endowment funds;
- 3) General economic conditions;
- 4) The possible effect of inflation and deflation;

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

14. Endowment (continued)

- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources of the organization; and
- 7) The investment policies of the organization

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2009, 2008, and 2007, the amount of permanently restricted endowments whose fair value of assets was less than the level required by donor stipulation totaled \$337,000, \$70,000, and \$36,000, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Performance Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to attain an average annual rate of return that exceeds the consumer price index (CPI) by 4%. This 4% target represents a 5% risk premium on equity investments (65%) and a 2.5% risk premium on fixed income investments (35%).

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

14. Endowment (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University's investments are diversified by asset class, with asset classes and by manager. The purpose of diversification is to provide reasonable assurance that no class of securities, manager, or individual holding will have a disproportionate impact on the endowments aggregate results. To achieve its long-term investment objective, the endowment's assets are invested primarily in equities, but also include allocations to asset classes that might serve as partial hedges against inflation and deflation. The asset allocation of the endowment reflects the University's long-term financial objectives as well as the University's tolerance for risk. Endowment results are measured relative to blended benchmarks composed of the appropriate asset class indices and weighted based upon the endowment's policy target and actual allocations.

Spending Policy

The endowment seeks to achieve reasonable stability in budgeting for University operations and to maintain intergenerational equity between near-term and long-term priorities. The target spending rate was established using 1995 as the base year, a base year payout of 5%, and a unit value established at 100. At the end of each year, the unit value is increased (decreased) by the total return achieved during that year for the endowment portfolio. This adjusted year-end unit value is then reduced (increased) by the dollar inflation (disinflation) of the adjusted year-end unit value. Any year in which the inflation adjusted unit value decreases (increases), the spending rate for the following year will then be reduced (increased) by 0.5%. The only exception to this adjustment rule is that before a spending rate will be increased above its current level, the new inflation adjusted unit value must be higher than any previous inflation adjusted unit value. Distributions are based on each moving three-year ending market value multiplied by the calculated spending rate for the previous year.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

14. Endowment (continued)

**Changes in Endowment Net Assets
June 30, 2009**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------------|-----------------------------------|-----------------------------------|--------------|
| | <i>(In Thousands)</i> | | | |
| Endowment net assets, beginning of year | \$ 33,155 | \$ 5,007 | \$ 11,410 | \$ 49,572 |
| Investment return: | | | | |
| Investment income | 1,822 | 60 | – | 1,882 |
| Net depreciation (realized and unrealized) | (7,827) | (2,298) | – | (10,125) |
| Total investment return | (6,005) | (2,238) | – | (8,243) |
| Contributions | – | – | 439 | 439 |
| Appropriation of endowment assets for expenditure | (70) | (746) | – | (816) |
| Other changes: | | | | |
| Transfers to create board-designated endowment funds | 12 | – | – | 12 |
| Endowment net assets, end of year | \$ 27,092 | \$ 2,023 | \$ 11,849 | \$ 40,964 |

**Endowment Net Asset Composition by Type of Fund
June 30, 2009**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|-----------------------|-----------------------------------|-----------------------------------|--------------|
| | <i>(In Thousands)</i> | | | |
| Donor-restricted endowment funds | \$ – | \$ 2,023 | \$ 11,849 | \$ 13,872 |
| Board-designated endowment funds | 27,092 | – | – | 27,092 |
| | \$ 27,092 | \$ 2,023 | \$ 11,849 | \$ 40,964 |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

14. Endowment (continued)

**Changes in Endowment Net Assets
June 30, 2008**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------------|-----------------------------------|-----------------------------------|------------------|
| | <i>(In Thousands)</i> | | | |
| Endowment net assets, beginning of year | \$ 34,205 | \$ 5,630 | \$ 10,522 | \$ 50,357 |
| Investment return: | | | | |
| Investment income | 963 | 247 | – | 1,210 |
| Net depreciation (realized and unrealized) | (1,971) | (443) | – | (2,414) |
| Total investment return | (1,008) | (196) | – | (1,204) |
| Contributions | – | – | 888 | 888 |
| Appropriation of endowment assets for expenditure | (53) | (427) | – | (480) |
| Other changes: | | | | |
| Transfers to create board-designated endowment funds | 11 | – | – | 11 |
| Endowment net assets, end of year | <u>\$ 33,155</u> | <u>\$ 5,007</u> | <u>\$ 11,410</u> | <u>\$ 49,572</u> |

**Endowment Net Asset Composition by Type of Fund
June 30, 2008**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|-----------------------|-----------------------------------|-----------------------------------|------------------|
| | <i>(In Thousands)</i> | | | |
| Donor-restricted endowment funds | \$ – | \$ 5,007 | \$ 11,410 | \$ 16,417 |
| Board-designated endowment funds | 33,155 | – | – | 33,155 |
| | <u>\$ 33,155</u> | <u>\$ 5,007</u> | <u>\$ 11,410</u> | <u>\$ 49,572</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

14. Endowment (continued)

**Changes in Endowment Net Assets
June 30, 2007**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------------|-----------------------------------|-----------------------------------|------------------|
| | <i>(In Thousands)</i> | | | |
| Endowment net assets, beginning of year | \$ 28,534 | \$ 4,289 | \$ 9,068 | \$ 41,891 |
| Investment return: | | | | |
| Investment income | 738 | 218 | – | 956 |
| Net appreciation (realized and unrealized) | 4,978 | 1,678 | – | 6,656 |
| Total investment return | 5,716 | 1,896 | – | 7,612 |
| Contributions | – | – | 1,454 | 1,454 |
| Appropriation of endowment assets for expenditure | (50) | (555) | – | (605) |
| Other changes: | | | | |
| Transfers to create board-designated endowment funds | 5 | – | – | 5 |
| Endowment net assets, end of year | <u>\$ 34,205</u> | <u>\$ 5,630</u> | <u>\$ 10,522</u> | <u>\$ 50,357</u> |

**Endowment Net Asset Composition by Type of Fund
June 30, 2007**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|-----------------------|-----------------------------------|-----------------------------------|------------------|
| | <i>(In Thousands)</i> | | | |
| Donor-restricted endowment funds | \$ – | \$ 5,630 | \$ 10,522 | \$ 16,152 |
| Board-designated endowment funds | 34,205 | – | – | 34,205 |
| | <u>\$ 34,205</u> | <u>\$ 5,630</u> | <u>\$ 10,522</u> | <u>\$ 50,357</u> |

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

15. Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. SFAS No. 165 defines two types of subsequent events. The effects of events or transactions that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing financial statements, are recognized in the financial statements. The effects of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date are not recognized in the financial statements. The University adopted SFAS No. 165 as of June 30, 2009. Management of the University has reviewed subsequent events through October 13, 2009 (the date the accompanying financial statements are available to be issued).

Supplementary Information

Embry-Riddle Aeronautical University, Inc.

Net Assets Class Disaggregation

June 30, 2009
(In Thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 62,254 | \$ – | \$ – | \$ 62,254 |
| Investments (Note 2) | 44,612 | 3,738 | 11,686 | 60,036 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$997 | 8,424 | – | – | 8,424 |
| Current portion of student loans receivable | 1,021 | – | – | 1,021 |
| Current portion of contributions receivable (Note 4) | – | 1,131 | 163 | 1,294 |
| Inventories | 2,737 | – | – | 2,737 |
| Prepaid expenses and other current assets | 3,894 | – | – | 3,894 |
| Total current assets | 122,942 | 4,869 | 11,849 | 139,660 |
| Deposits and investments with fiduciaries (Note 3) | 30,327 | – | – | 30,327 |
| Long-term accounts and notes receivable | 836 | – | – | 836 |
| Student loans receivable, less current portion and allowance for doubtful accounts of \$785 | 10,841 | – | – | 10,841 |
| Contributions receivable, net – less current portion (Note 4) | – | 3,486 | – | 3,486 |
| Land and land improvements, buildings and equipment, at cost, less accumulated depreciation (Note 5) | 224,562 | – | – | 224,562 |
| Unamortized bond issuance costs | 6,372 | – | – | 6,372 |
| Other assets | 707 | – | – | 707 |
| Total assets | \$ 396,587 | \$ 8,355 | \$ 11,849 | \$ 416,791 |
| Liabilities and net assets | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 33,071 | \$ 3 | \$ – | \$ 33,074 |
| Advances for student loans and financial aid | 9,592 | – | – | 9,592 |
| Current portion of long-term debt (Note 6) | 3,388 | – | – | 3,388 |
| Student deposits and advance payments | 5,160 | – | – | 5,160 |
| Unearned tuition and flight fees | 4,666 | – | – | 4,666 |
| Total current liabilities | 55,877 | 3 | – | 55,880 |
| Long-term debt (Note 6) | 169,899 | – | – | 169,899 |
| Total liabilities | 225,776 | 3 | – | 225,779 |
| Net assets (Note 7) | 170,811 | 8,352 | 11,849 | 191,012 |
| Total liabilities and net assets | \$ 396,587 | \$ 8,355 | \$ 11,849 | \$ 416,791 |