

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Embry-Riddle Aeronautical University, Inc.
Years Ended June 30, 2008, 2007, and 2006
With Report of Independent Certified Public Accountants

Embry-Riddle Aeronautical University, Inc.

Financial Statements and Supplementary Information

Years Ended June 30, 2008, 2007, and 2006

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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, 2008, 2007, and 2006, 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, 2008, 2007, and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008, 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 2, 2008

Embry-Riddle Aeronautical University, Inc.

Statements of Financial Position
(In Thousands)

	June 30		
	2008	2007	2006
Assets			
Current assets:			
Cash and cash equivalents	\$ 13,226	\$ 43,891	\$ 29,523
Investments (Note 2)	100,552	60,731	53,127
Accounts and notes receivable, less allowance for doubtful accounts of \$744, \$617, and \$425, respectively	11,089	12,046	12,178
Current portion of student loans receivable	1,422	2,352	2,176
Current portion of contributions receivable, net (Note 4)	3,039	3,401	2,892
Inventories	2,458	2,393	2,505
Prepaid expenses and other current assets	2,758	3,678	2,606
Total current assets	<u>134,544</u>	128,492	105,007
Deposits and investments with fiduciaries (Note 3)	34,828	49,375	105,985
Long-term accounts and notes receivable	1,001	1,004	21
Student loans receivable, less current portion and allowance for doubtful accounts of \$253, \$180, and \$284, respectively	9,469	7,431	7,397
Contributions receivable, net – less current portion (Note 4)	1,346	1,634	473
Land and land improvements, buildings and equipment, at cost, less accumulated depreciation (Note 5)	227,462	213,156	194,848
Unamortized bond issuance costs	6,502	6,669	7,354
Other assets	412	366	443
Total assets	<u>\$ 415,564</u>	<u>\$ 408,127</u>	<u>\$ 421,528</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 28,509	\$ 29,251	\$ 26,360
Advances for student loans and financial aid	9,441	9,459	9,287
Current portion of long-term debt (Note 6)	3,376	3,658	5,250
Student deposits and advance payments	6,420	6,119	5,501
Unearned tuition and flight fees	6,372	7,366	7,562
Total current liabilities	<u>54,118</u>	55,853	53,960
Long-term debt (Note 6)	174,201	177,518	221,890
Total liabilities	<u>228,319</u>	233,371	275,850
Net assets (Note 7):			
Unrestricted	165,462	153,037	126,200
Temporarily restricted	10,373	11,197	10,410
Permanently restricted	11,410	10,522	9,068
Total net assets	<u>187,245</u>	174,756	145,678
Total liabilities and net assets	<u>\$ 415,564</u>	<u>\$ 408,127</u>	<u>\$ 421,528</u>

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 (Note 10)	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 (Note 8):				
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 (Note 10)	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 <i>(Note 10)</i>	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 <i>(Note 10)</i>	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.

Statement of Activities

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
Grants and contracts	11,080	-	-	11,080
Private gifts	491	-	-	491
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	288	1,873	91	2,252
Net realized and unrealized gains 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 Cash Flows (In Thousands)

	Year Ended June 30		
	2008	2007	2006
Operating activities			
Changes in net assets	\$ 12,489	\$ 29,078	\$ 16,622
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Depreciation	22,979	21,220	20,221
Amortization	167	685	157
(Gain) loss on sale of equipment	(84)	695	(209)
Equipment acquired through gifts	(92)	(190)	(288)
Contributions restricted for long-term investment	(1,645)	(4,859)	(1,295)
Changes in operating assets and liabilities:			
Accounts and notes receivable	960	(851)	1,775
Contributions receivable	650	(1,670)	611
Inventories	(65)	112	90
Prepaid expenses and other assets	874	(995)	(36)
Accounts payable and accrued expenses	(742)	2,891	1,252
Advances for student loans and financial aid	(18)	172	101
Student deposits and advance payments	301	618	201
Unearned tuition and flight fees	(994)	(196)	1,006
Net cash provided by operating activities	<u>34,780</u>	<u>46,710</u>	<u>40,208</u>
Investing activities			
Sale of investments	34,343	12,193	2,338
Purchase of investments	(74,164)	(19,797)	(8,403)
Principal received on student loans receivable	1,496	2,707	2,670
Loans made to students	(2,604)	(2,917)	(1,805)
Gain on insurance proceeds	(950)	(3,380)	-
Proceeds from sale of land and land improvements, buildings, and equipment	328	1,151	24
Capital expenditures	(36,487)	(37,804)	(36,995)
Net cash used in investing activities	<u>(78,038)</u>	<u>(47,847)</u>	<u>(42,171)</u>
Financing activities			
Long-term debt proceeds	41	1,441	104,544
Principal payments on long-term debt	(3,640)	(47,405)	(5,972)
Decrease (increase) in deposits with fiduciaries	14,547	56,610	(84,803)
Payment of bond issuance costs	-	-	(3,973)
Proceeds from contributions restricted for:			
Investment in endowment	888	1,454	91
Investment in plant	757	3,405	1,204
Net cash provided by financing activities	<u>12,593</u>	<u>15,505</u>	<u>11,091</u>
Change in cash and cash equivalents	(30,665)	14,368	9,128
Cash and cash equivalents, beginning of year	43,891	29,523	20,395
Cash and cash equivalents, end of year	<u>\$ 13,226</u>	<u>\$ 43,891</u>	<u>\$ 29,523</u>
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	<u>\$ 8,890</u>	<u>\$ 10,472</u>	<u>\$ 10,299</u>

See accompanying notes.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements

June 30, 2008

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 and 2006), 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 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 \$8,224,000, \$9,082,000, and \$7,918,000 was expensed for the years ended June 30, 2008, 2007, and 2006, respectively. Interest of approximately \$651,000, \$861,000, and \$3,422,000 was capitalized for the years ended June 30, 2008, 2007, and 2006, 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

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, 2008, 2007, and 2006, was approximately \$167,000, \$685,000, and \$157,000, 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.

Recent Accounting Pronouncement

On August 6, 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. This FSP states that not-for-profit

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

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

organizations that are subject to an enacted version of UPMIFA may need to reclassify certain amounts of donor-restricted endowment funds between temporarily restricted net assets and permanently restricted net assets. As of June 30, 2008, the State of Florida had not adopted UPMIFA, therefore the University is not subject to its provisions. This FSP also states that a not-for-profit organization, whether or not it is subject to an enacted version of UPMIFA, shall disclose information to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy of its endowment funds (both donor-restricted and board-designated). The provisions of this FSP shall be effective for fiscal years ending after December 15, 2008. Consequently, the University will comply with these provisions in its financial statements for the fiscal year ending June 30, 2009.

2. Investments

Investments at June 30, 2008, 2007, and 2006, are as follows:

	2008	2007	2006
	<i>(In Thousands)</i>		
Mutual funds:			
Commonfund Intermediate Fund	\$ 346	\$ 344	\$ 326
Commonfund Short-Term Fund	37,465	–	–
American Funds EuroPacific Growth Fund	4,739	4,946	4,499
Coastal Access Ltd.	897	861	812
Merrill Lynch CMA Money Fund	21	19	2,195
American Funds Fundamental Investors Fund	5,739	7,225	9,681
Sphinx Access Ltd.	64	65	111
Touchstone Growth Fund	2,051	1,884	1,550
Vanguard Total International Stock Fund	2,985	–	–
Calamos Growth Fund – Merrill Lynch	2,170	3,249	3,245
Franklin Balance Sheet Investment Fund	3,623	4,886	5,049
American Growth Fund of America	5,473	6,925	9,143
Templeton Foreign Fund	4,119	4,526	4,279
Pimco Bond Fund	18,564	13,509	8,341
457b TIAA/CREF	405	314	255
Pimco Diversified Fund	6,422	5,543	3,596
Retirement Forfeiture – Vanguard	13	32	16
Retirement Forfeiture – TIAA/CREF	(24)	16	29
Vanguard Institutional Index Fund	5,480	6,387	–
	\$ 100,552	\$ 60,731	\$ 53,127

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

2. Investments (continued)

Investment income and gains derived from investments and deposits and investments with fiduciaries for the years ended June 30, 2008, 2007, and 2006, are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Investment income	\$ 4,844	\$ 6,496	\$ 5,989
Net realized and unrealized (losses) gains	(2,970)	6,229	4,470
	<u>\$ 1,874</u>	<u>\$ 12,725</u>	<u>\$ 10,459</u>

Refer to subsequent events as disclosed in Note 13 for further information relating to the Commonfund Short-Term Fund and Intermediate Fund.

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>2008</u>	<u>2007</u>	<u>2006</u>
	<i>(In Thousands)</i>		
Money market accounts	\$ 30,863	\$ 49,375	\$ 60,795
U.S. bonds, notes, and bills	3,965	–	45,190
	<u>\$ 34,828</u>	<u>\$ 49,375</u>	<u>\$ 105,985</u>

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.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

4. Contributions Receivable

Contributions receivable at June 30, 2008, 2007, and 2006, are classified as follows:

	2008	2007	2006
	<i>(In Thousands)</i>		
Unconditional promises expected to be collected in:			
Less than one year	\$ 3,960	\$ 4,434	\$ 3,770
One year to five years	2,117	2,926	759
More than five years	–	84	80
	6,077	7,444	4,609
Less:			
Unamortized discount	270	664	168
Allowance for uncollectible pledges	1,422	1,745	1,076
	\$ 4,385	\$ 5,035	\$ 3,365
Contributions receivable are reported in the statements of financial position as follows:			
Current portion	\$ 3,039	\$ 3,401	\$ 2,892
Long-term portion	1,346	1,634	473
	\$ 4,385	\$ 5,035	\$ 3,365

The contributions receivable balance contains pledges by two donors totaling \$4,863,000. This amount represents approximately 80% 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, 2008, 2007, and 2006, consist of the following:

	2008	2007	2006
	<i>(In Thousands)</i>		
Land and land improvements	\$ 33,871	\$ 31,156	\$ 28,602
Buildings	256,227	203,843	205,658
Equipment	130,041	120,745	110,611
Construction-in-progress	5,751	34,419	12,631
Less accumulated depreciation and amortization	(198,428)	(177,007)	(162,654)
	\$ 227,462	\$ 213,156	\$ 194,848

The University has revenue-earning assets under an operating lease with an original cost of \$7,525,000, (\$0, \$148,000, and \$504,000 net of accumulated depreciation at June 30, 2008, 2007, and 2006, respectively (see Note 10)).

Assets under capital leases, which are included in land and land improvements and buildings, at June 30, 2008, 2007, and 2006, consist of the following:

	2008	2007	2006
	<i>(In Thousands)</i>		
Land	\$ 2,685	\$ 2,685	\$ 1,244
Buildings	1,164	1,164	1,164
Less accumulated amortization	(891)	(789)	(688)
	\$ 2,958	\$ 3,060	\$ 1,720

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, 2008 (in thousands):

2009	\$	307
2010		316
2011		222
2012		203
2013		203
Thereafter		<u>2,634</u>
Total minimum lease payments		3,885
Less amounts representing interest		<u>1,531</u>
Net minimum lease payments	\$	<u><u>2,354</u></u>

The net minimum lease payments are reflected in the June 30, 2008, statement of financial position as current and noncurrent long-term debt of \$156,000 and \$2,198,000, 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, 2008, 2007, and 2006:

	Interest Rate	Payable in Installments Ending in Fiscal Year	Principal Outstanding at June 30, 2008	Principal Outstanding at June 30, 2007	Principal Outstanding at June 30, 2006	Reference to Note 6 (1)-(11) Below
<i>(In Thousands)</i>						
Capital lease obligations						
501 S. Clyde Morris Blvd. land	6.58%	2026	\$ 2,137	\$ 2,157	\$ 773	(1)
Modular buildings and lighting project	7.75%	2011	217	310	402	(2)
			<u>2,354</u>	<u>2,467</u>	<u>1,175</u>	
Notes payable						
Apartment Complex #2	3.0%	2021	546	563	597	(3)
FAA building	12.25%	2008	–	328	1,236	(4)
Other land, buildings, and equipment	6.79-14.27%	2009	77	149	219	
Prescott building	8.0%	2006	–	–	56	(5)
			<u>623</u>	<u>1,040</u>	<u>2,108</u>	
Bonds payable						
Volusia County Educational Facilities Authority Revenue Bonds, 1996	5.50-6.125%	2027	–	–	43,185	(6)
Volusia County Educational Facilities Authority Revenue Bonds, 1999A	5.75%	2029	12,318	12,291	12,291	(7)
Volusia County Educational Facilities Authority Revenue Bonds, 1999B	4.0-5.5%	2022	29,349	29,517	29,680	(8)
Volusia County Educational Facilities Authority Revenue Bonds, 2003	2.50-5.20%	2033	32,758	34,108	35,423	(9)
Volusia County Educational Facilities Authority Revenue Bonds, 2005	2.85-5.0%	2035	99,625	101,038	102,404	(10)
Student Center bonds	3.0%	2015	550	625	700	(11)
Housing bonds	3.0%	2008	–	65	125	(11)
Academic Building bonds	3.0%	2008	–	25	49	(11)
			<u>174,600</u>	<u>177,669</u>	<u>223,857</u>	
Total long-term debt			177,577	181,176	227,140	
Current portion			(3,376)	(3,658)	(5,250)	
Long-term portion			<u>\$ 174,201</u>	<u>\$ 177,518</u>	<u>\$ 221,890</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 \$7,525,000 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) Note payable to First American Title in the original amount of \$800,000 was collateralized by a security interest in the building. Final payment on the Prescott Flight Building was made on September 18, 2006.
- (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. The balance of the discount was approximately \$62,000 at June 30, 2008. The bonds are not payable until 2024.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

6. Long-Term Debt (continued)

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 \$361,000 at June 30, 2008. 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 \$252,000 at June 30, 2008. 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 \$3,010,000 at June 30, 2008. 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.

(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. 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.

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

2009	\$ 3,358
2010	3,400
2011	3,458
2012	3,595
2013	3,705
Thereafter	157,726
Unamortized bond premium	2,335
	<u>\$ 177,577</u>

The net unamortized bond premium relating to long-term debt maturing in 2009 is \$29,000.

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

7. Net Assets

Net assets at June 30, 2008, 2007, and 2006, consist of the following:

	2008	2007	2006
	<i>(In Thousands)</i>		
Unrestricted			
Internally designated for student loans	\$ 1,546	\$ 2,053	\$ 2,255
Internally designated for future capital acquisitions	3,261	18,642	51,974
Quasi endowment funds	33,155	34,205	28,534
Debt service funds	26,298	24,160	19,932
Invested in plant	36,646	23,385	2,410
Undesignated	64,556	50,592	21,095
Total unrestricted net assets	<u>165,462</u>	<u>153,037</u>	<u>126,200</u>
Temporarily Restricted			
Donor restricted	6,468	7,050	7,499
Donor pledges	3,823	4,064	2,835
Annuity and living trusts	82	83	76
Total temporarily restricted net assets	<u>10,373</u>	<u>11,197</u>	<u>10,410</u>
Permanently Restricted			
Endowment pledges	522	772	612
Endowment	10,888	9,750	8,456
Total permanently restricted net assets	<u>11,410</u>	<u>10,522</u>	<u>9,068</u>
Total net assets	<u>\$ 187,245</u>	<u>\$ 174,756</u>	<u>\$ 145,678</u>

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, 2008, 2007, and 2006, were in the following categories. The expenditures were restricted by purpose.

	2008	2007	2006
	<i>(In Thousands)</i>		
Donations restricted for capital asset construction or acquisition	\$ 1,112	\$ 3,390	\$ 230
Donations restricted for scholarships	956	853	683
Donations restricted for noncapital programs or acquisitions	130	812	46
Net assets released from restrictions	<u>\$ 2,198</u>	<u>\$ 5,055</u>	<u>\$ 959</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, 2008, 2007, and 2006, are allocated to the University's various functional areas as follows:

	2008	2007	2006
	<i>(In Thousands)</i>		
Interest expense			
General academic instruction	\$ 3,129	\$ 3,147	\$ 2,240
Flight instruction	266	269	268
Research	103	103	44
Academic support	51	53	39
Student services	1,099	1,102	940
Institutional support	510	505	353
Scholarships	3	3	2
Auxiliary enterprises	3,063	3,900	4,032
	<u>\$ 8,224</u>	<u>\$ 9,082</u>	<u>\$ 7,918</u>

Embry-Riddle Aeronautical University, Inc.

Notes to Financial Statements (continued)

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

	2008	2007	2006
	<i>(In Thousands)</i>		
Depreciation expense			
General academic instruction	\$ 6,416	\$ 5,972	\$ 5,367
Flight instruction	3,011	2,738	2,776
Research	691	616	585
Academic support	1,163	1,051	960
Student services	3,413	2,826	2,581
Institutional support	3,770	3,723	4,155
Scholarships	128	103	98
Auxiliary enterprises	4,387	4,191	3,699
	\$ 22,979	\$ 21,220	\$ 20,221
Operation and maintenance of plant			
General academic instruction	\$ 2,453	\$ 2,645	\$ 2,242
Flight instruction	794	827	703
Research	5	5	4
Academic support	533	562	478
Student services	1,517	1,619	1,373
Institutional support	468	494	419
Scholarships	2	2	2
Auxiliary enterprises	4,187	4,265	3,634
	\$ 9,959	\$ 10,419	\$ 8,855

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, 2008, 2007, and 2006, were approximately \$6,509,000, \$6,147,000, and \$5,962,000, 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. Minimum annual payments under the contract are \$2,796,000, 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, 2008, 2007, and 2006, was approximately \$6,237,000, \$6,962,000, and \$8,040,000, respectively. Future minimum rental payments required under operating leases extending beyond June 30, 2008, are as follows (in thousands):

2009	\$	4,594
2010		4,304
2011		3,041
2012		2,530
2013		2,452
Thereafter		8,735
	\$	<u>25,656</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)

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, 2008, and 2007, the gains and losses for capital and other than capital assets were as follows (in thousands):

	2008	2007
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	(2,038)	(6,743)
Insurance recoveries – other than capital assets	1,429	6,541
Net losses – other than capital assets	(609)	(202)
Total other nonoperating activities due to natural disaster	\$ 341	\$ 3,178

13. Subsequent Events

Within investments at June 30, 2008, the University has approximately \$37,465,000 in the Commonfund Short-Term Fund. This Fund is classified as cash and cash equivalents as of June 30, 2007 and 2006. The University was subsequently advised that Wachovia Bank, in its capacity as Trustee of the Fund, has elected to initiate the termination of the Short-Term Fund as a result of the financial situation in the credit markets. This will involve establishing procedures for liquidation and distribution of the Fund's assets. On September 29, 2008, a liquidity restriction was established that enabled investors to only 10% of their account balance. However, as of October 1, 2008, the Fund has been able to increase client access to 32% of their account balance. Additionally, Commonfund has advised that even if it is unable to sell any assets, liquidity will rise to 57% by December 31, 2008, based solely on maturing securities in the fund. As of October 1, 2008, the Short-Term Fund has not incurred any losses to the invested principal.

Additionally, within investments at June 30, 2008, the University has approximately \$346,000 in the Intermediate Term Fund. On October 1, 2008, Commonfund imposed a liquidity restriction allowing access to only 30% of each investor's balance to avoid the need to sell assets in a distressed market.

Supplementary Information

Embry-Riddle Aeronautical University, Inc.

Net Assets Class Disaggregation

June 30, 2008

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 13,226	\$ –	\$ –	\$ 13,226
Investments (Note 2)	83,111	6,558	10,883	100,552
Accounts and notes receivable, less allowance for doubtful accounts of \$744	11,089	–	–	11,089
Current portion of student loans receivable	1,422	–	–	1,422
Current portion of contributions receivable (Note 4)	40	2,707	292	3,039
Inventories	2,458	–	–	2,458
Prepaid expenses and other current assets	2,758	–	–	2,758
Total current assets	<u>114,104</u>	<u>9,265</u>	<u>11,175</u>	<u>134,544</u>
Deposits and investments with fiduciaries (Note 3)	34,828	–	–	34,828
Long-term accounts and notes receivable	1,001	–	–	1,001
Student loans receivable, less current portion and allowance for doubtful accounts of \$253	9,469	–	–	9,469
Contributions receivable, net – less current portion (Note 4)	–	1,111	235	1,346
Land and land improvements, buildings and equipment, at cost, less accumulated depreciation (Note 5)	227,462	–	–	227,462
Unamortized bond issuance costs	6,502	–	–	6,502
Other assets	412	–	–	412
Total assets	<u>\$ 393,778</u>	<u>\$ 10,376</u>	<u>\$ 11,410</u>	<u>\$ 415,564</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 28,506	\$ 3	\$ –	\$ 28,509
Advances for student loans and financial aid	9,441	–	–	9,441
Current portion of long-term debt (Note 6)	3,376	–	–	3,376
Student deposits and advance payments	6,420	–	–	6,420
Unearned tuition and flight fees	6,372	–	–	6,372
Total current liabilities	<u>54,115</u>	<u>3</u>	<u>–</u>	<u>54,118</u>
Long-term debt (Note 6)	174,201	–	–	174,201
Total liabilities	<u>228,316</u>	<u>3</u>	<u>–</u>	<u>228,319</u>
Net assets (Note 7)	165,462	10,373	11,410	187,245
Total liabilities and net assets	<u>\$ 393,778</u>	<u>\$ 10,376</u>	<u>\$ 11,410</u>	<u>\$ 415,564</u>