



# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

Consolidated Financial Statements and  
Supplemental Information  
Years Ended June 30, 2017 and 2016

The report accompanying these financial statements was issued by  
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member  
of BDO International Limited, a UK company limited by guarantee.



**Embry-Riddle Aeronautical University, Inc. and Subsidiaries**

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**Consolidated Financial Statements  
and Supplemental Information  
Years End June 30, 2017 and 2016**

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Embry-Riddle Aeronautical University, Inc. and Subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Embry-Riddle Aeronautical University, Inc. and Subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matter*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Net Assets Class Disaggregation Schedule is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The Net Assets Class Disaggregation Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Net Assets Class Disaggregation Schedule is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

BDO USA, LLP

Miami, Florida  
October 9, 2017

Certified Public Accountants

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Consolidated Statements of Financial Position (in Thousands)

<i>June 30,</i>	2017	2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 176,419	\$ 123,450
Investments (Note 2)	126,389	111,838
Accounts and notes receivable, less allowance for doubtful accounts of \$728 and \$1,224, respectively	6,946	9,263
Current portion of student loan receivables, net	1,873	1,784
Current portion of contributions receivable, net (Note 4)	973	669
Inventories	3,146	2,868
Prepaid expenses and other current assets	5,635	5,443
<b>Total Current Assets</b>	<b>321,381</b>	<b>255,315</b>
Deposits and investments with fiduciaries (Note 3)	19,215	79,749
Long-term accounts and notes receivables, net	2,284	36
Student loans receivable, less current portion and allowance for doubtful accounts of \$1,001 and \$1,340, respectively	10,607	10,363
Contributions receivable, net, less current portion (Note 4)	1,701	1,917
Land and land improvements, buildings and equipment, net (Note 5)	403,993	349,004
Other assets	1,128	2,348
<b>Total Assets</b>	<b>\$ 760,309</b>	<b>\$ 698,732</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 44,420	\$ 37,058
Advances for student loans and financial aid	10,125	9,819
Student deposits and advance payments	6,498	7,626
Deferred revenue - current portion	15,719	13,766
Current portion of long-term debt (Note 6)	12,672	11,262
<b>Total Current Liabilities</b>	<b>89,434</b>	<b>79,531</b>
Deferred revenue, less current portion	11,503	10,905
Long-term debt (Note 6)	204,695	216,432
<b>Total Liabilities</b>	<b>305,632</b>	<b>306,868</b>
<b>Net Assets (Note 8)</b>		
Unrestricted	401,955	347,829
Temporarily restricted	25,920	20,341
Permanently restricted	26,802	23,694
<b>Total Net Assets</b>	<b>454,677</b>	<b>391,864</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 760,309</b>	<b>\$ 698,732</b>

*See accompanying notes to consolidated financial statements.*

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Consolidated Statements of Activities (in Thousands)

<i>Year ended June 30, 2017</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
<b>Operating Activities</b>				
<b>Revenue and Other Additions</b>				
Tuition	\$ 363,550	\$ -	\$ -	\$ 363,550
Less: Institutionally funded scholarships	(84,432)	-	-	(84,432)
Net tuition	279,118	-	-	279,118
Flight fees	29,248	-	-	29,248
Other fees	17,215	-	-	17,215
Grants and contracts	21,451	-	-	21,451
State appropriation	5,300	-	-	5,300
Private gifts	489	-	-	489
Sales and services-educational	509	-	-	509
Auxiliary enterprises	23,161	-	-	23,161
Other revenue	2,267	-	-	2,267
Investment earnings distributed	42	1,065	-	1,107
<b>Total Operating Revenue and Other Additions</b>	<b>378,800</b>	<b>1,065</b>	<b>-</b>	<b>379,865</b>
<b>Net Assets Released from Restrictions</b>	<b>2,256</b>	<b>(2,224)</b>	<b>(32)</b>	<b>-</b>
<b>Total Operating Revenue and Other Additions</b>	<b>381,056</b>	<b>(1,159)</b>	<b>(32)</b>	<b>379,865</b>
<b>Expenses (Note 9)</b>				
General academic instruction	137,537	-	-	137,537
Flight instruction	32,146	-	-	32,146
Research	13,437	-	-	13,437
Academic support	23,941	-	-	23,941
Student services	47,813	-	-	47,813
Institutional support	71,027	-	-	71,027
Scholarships	1,933	-	-	1,933
Auxiliary enterprises	20,847	-	-	20,847
<b>Total Operating Expenses</b>	<b>348,681</b>	<b>-</b>	<b>-</b>	<b>348,681</b>
<b>Excess (Deficiency) from Operating Activities</b>	<b>32,375</b>	<b>(1,159)</b>	<b>(32)</b>	<b>31,184</b>
<b>Non-Operating Activities</b>				
Private gifts	154	2,734	3,140	6,028
Net realized and unrealized gains				
in fair value of investments	8,485	4,112	-	12,597
Investment income	2,465	957	-	3,422
Distribution of prior year investment				
earnings for spending	(42)	(1,065)	-	(1,107)
Other non-operating activities	10,689	-	-	10,689
<b>Total Non-Operating Activities</b>	<b>21,751</b>	<b>6,738</b>	<b>3,140</b>	<b>31,629</b>
<b>Changes in Net Assets</b>	<b>54,126</b>	<b>5,579</b>	<b>3,108</b>	<b>62,813</b>
<b>Net Assets, beginning of year</b>	<b>347,829</b>	<b>20,341</b>	<b>23,694</b>	<b>391,864</b>
<b>Net Assets, end of year</b>	<b>\$ 401,955</b>	<b>\$ 25,920</b>	<b>\$ 26,802</b>	<b>\$ 454,677</b>

*See accompanying notes to consolidated financial statements.*

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Consolidated Statements of Activities (in Thousands)

<i>Year ended June 30, 2016</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
<b>Operating Activities</b>				
<b>Revenue and Other Additions</b>				
Tuition	\$ 347,341	\$ -	\$ -	\$ 347,341
Less: Institutionally funded scholarships	(75,088)	-	-	(75,088)
Net tuition	272,253	-	-	272,253
Flight fees	28,075	-	-	28,075
Other fees	12,909	-	-	12,909
Grants and contracts	21,367	-	-	21,367
State appropriation	5,742	-	-	5,742
Private gifts	332	-	-	332
Sales and services-educational	225	-	-	225
Auxiliary enterprises	20,276	-	-	20,276
Other revenue	3,766	-	-	3,766
Investment earnings distributed	41	971	-	1,012
<b>Total Operating Revenue and Other Additions</b>	<b>364,986</b>	<b>971</b>	<b>-</b>	<b>365,957</b>
<b>Net Assets Released from Restrictions</b>	<b>2,544</b>	<b>(2,544)</b>	<b>-</b>	<b>-</b>
<b>Total Operating Revenue and Other Additions</b>	<b>367,530</b>	<b>(1,573)</b>	<b>-</b>	<b>365,957</b>
<b>Expenses (Note 9)</b>				
General academic instruction	130,529	-	-	130,529
Flight instruction	30,978	-	-	30,978
Research	16,432	-	-	16,432
Academic support	22,550	-	-	22,550
Student services	47,843	-	-	47,843
Institutional support	67,034	-	-	67,034
Scholarships	3,172	-	-	3,172
Auxiliary enterprises	19,564	-	-	19,564
<b>Total Operating Expenses</b>	<b>338,102</b>	<b>-</b>	<b>-</b>	<b>338,102</b>
<b>Excess (Deficiency) from Operating Activities</b>	<b>29,428</b>	<b>(1,573)</b>	<b>-</b>	<b>27,855</b>
<b>Non-Operating Activities</b>				
Private gifts	324	2,159	671	3,154
Net realized and unrealized losses in fair value of investments	(1,259)	(663)	-	(1,922)
Investment income	1,426	676	-	2,102
Distribution of prior year investment earnings for spending	(41)	(971)	-	(1,012)
Loss on extinguishment of debt	(3,340)	-	-	(3,340)
Other non-operating activities	(1,440)	-	-	(1,440)
<b>Total Non-Operating Activities</b>	<b>(4,330)</b>	<b>1,201</b>	<b>671</b>	<b>(2,458)</b>
<b>Changes in Net Assets</b>	<b>25,098</b>	<b>(372)</b>	<b>671</b>	<b>25,397</b>
<b>Net Assets, beginning of year</b>	<b>322,731</b>	<b>20,713</b>	<b>23,023</b>	<b>366,467</b>
<b>Net Assets, end of year</b>	<b>\$ 347,829</b>	<b>\$ 20,341</b>	<b>\$ 23,694</b>	<b>\$ 391,864</b>

*See accompanying notes to consolidated financial statements.*



# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows (in Thousands)

<i>Year ended June 30,</i>	2017	2016
<b>Cash Flows From Operating Activities</b>		
Changes in net assets	\$ 62,813	\$ 25,397
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	33,178	31,723
Amortization	140	495
Loss on sale of equipment	1,359	1,425
Loss on extinguishment of debt	-	3,340
Contributed equipment	(154)	(324)
Contributions restricted for long-term investment	(3,830)	(1,153)
Changes in operating assets and liabilities:		
Accounts and notes receivable	69	12
Contributions receivable	(88)	679
Inventories	(278)	1
Prepaid expenses and other assets	1,028	(1,813)
Accounts payable and accrued expenses	7,362	6,085
Advances for student loans and financial aid	306	(359)
Deferred revenue	2,551	4,038
Student deposits and advance payments	(1,128)	(1,472)
<b>Net cash provided by operating activities</b>	<b>103,328</b>	<b>68,074</b>
<b>Cash Flows From Investing Activities</b>		
Sale of investments	8,221	60,301
Purchase of investments	(22,772)	(60,592)
Principal received on student loan receivable	1,852	2,423
Loans made to students	(2,185)	(1,784)
Proceeds from sale of land and land improvements, buildings, and equipment	447	103
Capital expenditures	(87,917)	(67,658)
<b>Net cash used in investing activities</b>	<b>(102,354)</b>	<b>(67,207)</b>
<b>Cash Flows From Financing Activities</b>		
Long-term debt proceeds	-	26,535
Principal payments on long-term debt	(12,369)	(42,574)
Payment of bond issuance costs	-	(170)
Decrease in deposits with fiduciaries	60,534	3,266
Proceeds from contributions restricted for:		
Investment in endowment	3,108	671
Investment in plant	722	482
<b>Net cash provided by financing activities</b>	<b>51,995</b>	<b>(11,790)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>52,969</b>	<b>(10,923)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>123,450</b>	<b>134,373</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 176,419</b>	<b>\$ 123,450</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	\$ 8,312	\$ 6,370
Borrowings under a capital lease purchase	\$ 1,902	\$ 15,193

See accompanying notes to consolidated financial statements

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### 1. Nature of Operations and Summary of Significant Accounting Policies

#### *General*

Embry-Riddle Aeronautical University, Inc. and Subsidiaries (the University), is an independent, not-for-profit culturally diverse institution providing quality education and research in aviation, aerospace, engineering, and related fields leading to associate's, baccalaureate's, master's and doctoral degrees. The University has traditional, residential campuses in Daytona Beach, Florida, and Prescott, Arizona; the Worldwide campus provides educational opportunities to working adults at locations in the United States, Brazil, Europe, Asia, and the Middle East. Additionally, the University's proprietary online program, EagleVision, links students and faculty across the globe, enabling the development and delivery of learning whenever and wherever students and faculty reside. The University is accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC). The accreditation of the University includes all its units, wherever located.

#### *Basis of Presentation*

The consolidated financial statements of the University have been prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP) in the United States. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the source of authoritative GAAP. Revenues are recorded when earned and realized/realizable. 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 the following three separate categories as reflected in the accompanying consolidating financial statements:

- *Unrestricted* - Net assets that are free of external restrictions; all revenues, gains, and losses that are not changes in permanently or temporarily restricted net assets. This category includes investment returns on funds functioning as endowment (Board designated).
- *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 and funds donated to be applied to construction of 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 consolidated statements of activities, certain changes of which are further categorized as non-operating. 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.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *Endowment Net Asset Classification*

ASC 958-205, *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*, provides guidance on classifying net assets of donor restricted and board-designated endowment funds held by organizations as to whether or not they are subject to an enacted version of UPMIFA. The State of Florida adopted UPMIFA effective beginning fiscal year 2013. Refer to Note 13.

### *Principles of Consolidation*

The consolidated financial statements include the assets, liabilities, revenues, and expenses of all significant subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. The University's wholly-owned subsidiary, Embry-Riddle Aeronautical University, Asia Ltd. (the "Company") is a company limited by guarantee and incorporated in Singapore. The principal activities of the Company are to provide teaching and research in the area of aeronautics and aerospace to tertiary institutions, regulatory agencies, and airlines.

### *Translation of Accounts of Foreign Subsidiaries*

Accounts of foreign subsidiaries are translated into U.S. dollars using the temporal method as follows:

- monetary assets and liabilities at the year-end rate of exchange
- nonmonetary assets, liabilities, and capital stock at historical rates of exchange
- revenue and expenses at average rates for the year, except for amortization, which is translated at exchange rates used in the translation of the relevant asset accounts

All gains and losses arising from the translation of foreign currencies are included in the accompanying consolidated statements of activities.

### *Cash and Cash Equivalents*

The University considers all highly liquid instruments purchased with an original maturity date of three months or less to be cash equivalents. Securities and cash and cash equivalents maintained by the University's investment managers as part of the long-term investment portfolios are included in investments in the accompanying statements of financial position.

### *Investments and Deposits with Fiduciaries*

Investments and deposits with fiduciaries are recorded at their estimated fair value. Donated investments received by gift are recorded at estimated fair value at the date of acquisition. Net realized or unrealized gains and losses on investments are reported in the consolidated 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 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, as well as the interest earned on the deposits, are all classified as unrestricted.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *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 and presented as deferred revenue in the accompanying consolidated statements of financial position.

The allowance for accounts receivable is calculated on historical reserve percentages established for the various aging categories.

### *Student Loans Receivable*

The University participates in the Federal Perkins Loan Program (Program) and makes uncollateralized loans to students based on financial need as determined by Program eligibility requirements. Refer to Note 7.

### *Contributions*

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions to be received after one year are discounted at an approximate 4% discount rate commensurate as to reflect the fair value at the date of the gift. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Refer to Note 4.

### *Inventories*

Inventories, consisting of flight line parts, simulator parts, and consignment 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, Land Improvements, Buildings and Equipment and Depreciation Expense*

The University's capitalization policy is \$5,000 or greater per item or \$30,000 or greater for an aggregate purchase of similar items with an estimated useful life of more than one year. Land, land improvements, buildings, and equipment are stated at cost as of the date of acquisition (estimated fair value when received as a gift).

Interest associated with land, 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 \$5,387,000 and \$5,081,000, was expensed for the years ended June 30, 2017 and 2016, respectively. The University incurred approximately \$2,000,000 and \$2,508,000 of capitalized interest for the years ended June 30, 2017 and 2016, respectively.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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Depreciation 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):

	<i>Useful Lives</i>
Land improvements	7 years
Buildings	5-30 years
Equipment	2-10 years

For reporting purposes, land, 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 net assets released from restriction when the assets are placed into service.

### *Deferred Revenue*

The University has approximately \$10,900,000 and \$21,800,000 in deferred revenue recorded as of June 30, 2017 and 2016, respectively, related to student facility fees collected for the construction of a new student union at the Daytona Beach campus. The University commenced construction of the new student union as of June 30, 2016 and is recognizing the revenue ratably over the estimated construction period, which is expected to be completed in June 2018.

The University has approximately \$12,900,000 in deferred revenue recorded as of June 30, 2017 related to food service arrangements to provide and manage the University's food service program. As part of the agreements, the University received certain advances in the form of financial investments to improve dining facilities, guaranteed commissions and other concessions in exchange for the exclusive rights to use the University's facilities and equipment. These advances are refundable should the University terminate the agreement prior to its expiration; the amount of the refundable amount is proportionate to the unexpired portion of the terms. Accordingly, the University recorded the unamortized portion of certain advances received as deferred revenue.

### *Unamortized Bond Issuance Costs*

Costs incurred in connection with bond issuances are being amortized on the effective-yield method over the lives of the respective bond issues. Amortization expense for the years ended June 30, 2017 and 2016, was approximately \$140,000 and \$495,000, respectively.

### *Federal and State Income Taxes*

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The University recognizes the effects of income tax provisions only if those positions are more likely than not of being sustained. The University evaluates, on an annual basis, the effects of any uncertain tax positions on its consolidated financial statements. As of June 30, 2017 and 2016, the University has not identified or provided for any such positions. However, the University is still open to examination by taxing authorities from fiscal year 2014 forward. The income tax consequences, if any, are reflected in the financial statements, and do not have a material effect on the University's consolidated financial statements.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *Concentration of Risks*

Financial instruments, which potentially subject the University to significant concentrations of credit risk, consist principally of cash and cash equivalents, and investments. The University maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The University has not experienced any losses in such account. The University believes it is not exposed to any significant credit risk on cash and cash equivalents.

The University invests in a variety of publicly traded investment vehicles, including common stocks, government and money market funds totaling approximately \$126,389,000 and \$111,838,000 as of June 30, 2017 and 2016, respectively. Management seeks to mitigate risks inherent in the University's investment portfolio by investing primarily in highly-rated financial instruments and through regular monitoring of the University's investment portfolio.

### *Auxiliary Enterprise Operations*

Auxiliary enterprise operations consist primarily of student housing, dining services, book sales, and student center services.

### *Fair Value of Financial Instruments*

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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 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 marketable 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.

Investments are reported at fair value and net asset value (NAV) and are included in Note 12.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated 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. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *Fund Raising*

Revenues from special fund raising events, and the related expenses incurred in generating such revenues are recorded in the accompanying consolidated statements of activities.

### *Advertising Expense*

The University expenses advertising costs as incurred. Advertising expenses totaled approximately \$1,964,000 and \$1,930,000 for the years ended June 30, 2017 and 2016, respectively.

### *Accounting Pronouncements*

During the year ended June 30, 2016, the University adopted the provisions of ASU No. 2015-03, *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The adoption of ASU 2015-03 did not have a material impact on the University's net assets, statement of activities, or cash flows for the fiscal years ended June 30, 2017 or 2016. Unamortized bond issuance costs are presented in Note 6 to the consolidated financial statements.

During the year ended June 30, 2016, the University adopted the provisions of ASU No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirements to categorize within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at net asset value (NAV) as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the statement of financial position. The adoption resulted only in changes to the University's investment disclosures, and is included in the fair value hierarchy tables in Note 12 to the consolidated financial statements.

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# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### 2. Investments

Investments at June 30 were as follows:

	2017	2016
	<i>(in thousands)</i>	
Boston Partners All Cap Fund	\$ 17,421	\$ 12,722
Garcia Hamilton Fund	11,819	13,419
iShares Russell 1000 ETF	11,556	10,675
The London Company Portfolio	11,376	11,474
American Funds EuroPacific Growth Fund	7,755	5,305
Principal Enhanced Property Fund LP	6,597	5,759
Principal Diversified	6,507	6,197
Aberdeen Emerging Fund	5,671	1,804
iShares RS 2000 Growth	5,323	6,365
Deutsche X-Trackers MSCI Fund	4,652	4,896
Angel Oak Multi Strategy Fund	4,598	3,660
Guggenheim Floating Rate Fund	4,490	3,660
Oberweis Intl Fund	4,033	2,761
Chartwell Investments	3,890	3,116
Fuller & Thaler Portfolio	3,831	3,116
Templeton Global Total Return Fund	3,705	3,315
Templeton Foreign Fund	3,493	4,571
Ironwood International Ltd.	3,448	2,753
Guggenheim Total Return Fund	3,146	3,002
Permal Institutional Ltd.	2,793	2,640
Federated Security Money Fund	270	111
Coastal Access Ltd.	15	21
Commonfund Intermediate Fund	-	401
Retirement Forfeiture - TIAA/CREF	-	95
<b>Total investments</b>	<b>\$ 126,389</b>	<b>\$ 111,838</b>

Investment earnings and gains (losses) derived from investments and deposits with fiduciaries for the years ended June 30 were as follows:

	2017	2016
	<i>(in thousands)</i>	
Net realized and unrealized gains (losses)	\$ 12,597	\$ (1,922)
Investment income	3,422	2,102
<b>Total</b>	<b>\$ 16,019</b>	<b>\$ 180</b>



# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### 3. Deposits and Investments with Fiduciaries

Deposits and investments with fiduciaries include construction funds, debt service reserve funds, and expense funds as required by debt agreements and consist of money market accounts. As of June 30, 2017 and 2016, the balance of deposits and investments with fiduciaries was approximately \$19,215,000 and \$79,749,000, respectively.

### 4. Contributions Receivable

Contributions receivable at June 30 were as follows:

	2017	2016
	<i>(in thousands)</i>	
Unconditional Promises Expected to be Collected in:		
Less than one year	\$ 1,000	\$ 689
One year to five years	1,978	2,274
More than five years	5	15
	2,983	2,978
Less		
Unamortized discount	206	269
Allowance for uncollectible pledges	103	123
Contribution receivable, net	\$ 2,674	\$ 2,586

Contributions receivable, net, are reported in the accompanying consolidated statements of financial position as follows at June 30:

	2017	2016
	<i>(in thousands)</i>	
Current portion	\$ 973	\$ 669
Long-term portion	1,701	1,917
Contribution receivable, net	\$ 2,674	\$ 2,586

The contributions receivable balance as of June 30, 2017 contains pledges by four donors totaling approximately \$1,560,000. This amount represents approximately 52% of the gross contributions receivable balance.

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# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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

Land, land improvements, buildings and equipment consisted of the following at June 30:

	2017	2016
	<i>(in thousands)</i>	
Land and land improvements	\$ 59,898	\$ 53,451
Buildings	413,947	377,566
Equipment	208,344	196,253
Constructions-in-progress	66,743	40,396
Less accumulated depreciation and amortization	(344,939)	(318,662)
<b>Land, land improvements, buildings, and equipment, net</b>	<b>\$ 403,993</b>	<b>\$ 349,004</b>

Assets under capital leases, which are included in land, land improvements and equipment, at June 30 were as follows:

	2017	2016
	<i>(in thousands)</i>	
Land	\$ 1,079	\$ 1,057
Equipment (aircraft)	28,646	27,139
Less accumulated amortization	(4,383)	(1,407)
<b>Assets under capital lease, net</b>	<b>\$ 25,342</b>	<b>\$ 26,789</b>

The following is a schedule of future minimum lease payments (for the next five years and thereafter) under capital leases as of June 30, 2017:

<i>Year ended June 30,</i>	<b>Amount</b>
	<i>(in thousands)</i>
2018	\$ 4,548
2019	4,548
2020	4,548
2021	4,549
2022	2,963
Thereafter	1,950
Total minimum lease payments	23,106
Less amounts representing interest	(1,641)
<b>Net minimum lease payments</b>	<b>\$ 21,465</b>

The net minimum lease payments are reflected in the June 30, 2017 and 2016 consolidated statement of financial position as current and noncurrent long-term debt of \$4,029,000 and \$17,436,000 and \$2,921,000 and \$20,530,000, 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

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

of the transaction, the University recorded land under a capital lease of approximately \$1,200,000, along with a capital lease obligation for approximately \$850,000. In accordance with the lease agreement, every three years, in June, the land value is appraised. The University records the appraisal adjustment to the asset and associated liability to reflect the fair market value of both the asset and liability.

The University has commitments on existing construction-in-progress projects totaling approximately \$16,070,000 as of June 30, 2017.

### 6. Long-Term Debt

Long-term debt consists of the following at June 30:

	Interest Rate	Fiscal Years of Maturity	Principal Outstanding at June 30, 2017	Principal Outstanding at June 30, 2016	Reference to Note 6 (1)-(7) Below
<i>(in thousands)</i>					
<b>Capital Lease Obligations</b>					
Land - 501 S. Clyde Morris Blvd.	2.87%	2026	\$ 1,079	\$ 766	(1)
Aircraft - Banc of America Leasing Corp.	2.28%-3.03%		20,386	22,685	(4)
			21,465	23,451	
<b>Bonds Payable</b>					
Volusia County Educational Facilities Revenue Bonds:					
Series 2011	2.00%-5.25%	2030	30,620	33,240	(2)
Series 2013	3.55%	2028	20,315	21,324	(3)
Series 2015A	2.91%	2031	46,335	48,985	(5)
Series 2015B	2.00%-5.00%	2046	68,880	69,195	(6)
Series 2015C	2.28%	2027	24,935	26,535	(7)
Total Principal Debt			191,085	199,279	
Unamortized Premium - Series 2011			108	83	(2)
Unamortized Premium - Series 2015B			6,338	6,650	(6)
			197,531	206,012	
Less: Bond Issuance Costs					
Issuance Costs - Series 2011			726	808	(2)
Issuance Costs - Series 2013			24	(1)	(3)
Issuance Costs - Series 2015A			197	228	(5)
Issuance Costs - Series 2015B			608	645	(6)
Issuance Costs - Series 2015C			74	89	(7)
			195,902	204,243	
Total Long-Term Debt			217,367	227,694	
Current Portion			12,672	11,262	
Long-Term Portion			\$ 204,695	\$ 216,432	

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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- (1) The University entered into a capital lease obligation with Volusia County for land leased in the amount of \$2,157,000. The lease was entered into as part of a multiparty 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) The Series 2011 bonds were issued to refund all of the Volusia County Educational Facilities Authority's (VCEFA's) outstanding Series 1999A and 1999B bonds. This refunding transaction was accounted for as a modification of debt. The bonds were issued under an agreement whereby the VCEFA issued and sold revenue bonds in the original amount of \$41,855,000 and loaned the proceeds to the University. In accordance with generally accepted accounting principles (GAAP), under a debt modification, the unamortized discount on the 1999A and 1999B bonds of approximately \$388,000 was carried forward to the Series 2011 bonds. The balance of the discount was approximately \$108,000 at June 30, 2017. The effective interest rate of the bond issue is 4.82%. 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 2003 bonds, the Series 2005 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 Daytona Beach campus) to the Trustee.
- (3) During fiscal year 2018, the University redeemed its outstanding Series 2011 bonds at a redemption price of 100% of the principal amount of the bonds redeemed, plus accrued interest to the redemption date (see Note 14).
- (4) The Series 2013 bonds were issued to refund all of the Volusia County Educational Facilities Authority's (VCEFA's) outstanding Series 2003 bonds. The bonds were issued under an agreement whereby the VCEFA issued and sold revenue bonds in the original amount of \$25,820,000 and loaned the proceeds to the University to extinguish the Series 2003 bonds. This transaction was accounted for as an extinguishment of debt. The remaining 2003 deferred financing fees and other costs were recorded as a loss on extinguishment of debt. The Series 2013 bonds were issued at par. The effective interest rate of the bond issue is 3.55%. 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 2005 bonds, the Series 2011 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 Daytona Beach campus) to the Trustee.
- (5) The University entered into a capital lease obligation with Banc of America Leasing Corp. for 5 Piper PA28R, 10 Diamond DA42, and 57 Cessna 172S aircraft leased in the amount of \$28,205,000. Under the terms of the aircraft lease, which expires September 2023, the University has the option to pay \$1 and acquire title to the aircraft. As a result of the transaction, the University recorded the aircraft under capital lease obligations of approximately \$28,646,000 (see Note 5).

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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- (6) The Series 2015A bonds were issued to partially refund the Volusia County Educational Facilities Authority's (VCEFA's) outstanding Series 2005 bonds. The bonds were issued under an agreement whereby the VCEFA issued and sold revenue bonds in the original amount of \$50,740,000 and loaned the proceeds to the University to extinguish a portion of the Series 2005 bonds. This transaction was accounted for as an extinguishment of debt. The associated remaining 2005 deferred financing fees and other costs were recorded as a gain on extinguishment of debt. The Series 2015A bonds were issued at par. The effective interest rate of the bond issue is 2.91%. 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 2005 bonds, the Series 2011 bonds, the Series 2013 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 Daytona Beach campus) to the Trustee.
- (7) The Series 2015B bonds were issued to fund various construction projects on the Daytona Beach and Prescott campuses. The bonds were issued under an agreement whereby the Volusia County Educational Facilities Authority issued and sold revenue bonds in the original amount of \$69,195,000 and loaned the proceeds to the University. The balance of the premium was approximately \$6,338,000 at June 30, 2017. The effective interest rate of the bond issue is 3.97%. 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 2005 bonds, the Series 2011 bonds, the Series 2013 bonds, the Series 2015A bonds, the bonds and holders of additional indebtedness, the University has granted a mortgage lien and security interest in the mortgaged property (land, buildings, and fixtures located on the University's Daytona Beach campus) to the Trustee.
- (8) The Series 2015C bonds were issued to refund the Volusia County Educational Facilities Authority's (VCEFA's) outstanding Series 2005 bonds. The bonds were issued under an agreement whereby the VCEFA issued and sold revenue bonds in the original amount of \$26,535,000 and loaned the proceeds to the University to extinguish a portion of the Series 2005 bonds. This transaction was accounted for as an extinguishment of debt. The associated remaining 2005 deferred financing fees and other costs were recorded as a loss on extinguishment of debt. The Series 2015C bonds were issued at par. The effective interest rate of the bond issue is 2.28%. 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 2005 bonds, the Series 2011 bonds, the Series 2013 bonds, the Series 2015A bonds, the Series 2015B 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 Daytona Beach campus) to the Trustee.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

Maturities of long-term debt in each of the next five fiscal years and thereafter at June 30, 2017 are as follows:

<i>Year ended June 30,</i>	<i>Amount</i>
	<i>(in thousands)</i>
2018	\$ 12,408
2019	13,196
2020	14,031
2021	14,436
2022	13,226
Thereafter	145,253
Unamortized bond issue costs	(1,629)
Unamortized bond premium	6,446
<b>Total long-term debt, net</b>	<b>\$ 217,367</b>

### 7. Student Loans Receivable

At June 30, student loans included in the consolidated statements of financial position consist of the following:

	<i>2017</i>	<i>2016</i>
	<i>(in thousands)</i>	
Federal Perkins loan program	\$ 11,842	\$ 11,646
Other student loans	1,639	1,841
Less: allowance for doubtful accounts	(1,001)	(1,340)
<b>Total student loan receivable, net</b>	<b>12,480</b>	<b>12,147</b>
<b>Current portion</b>	<b>1,873</b>	<b>1,784</b>
<b>Long-term portion</b>	<b>\$ 10,607</b>	<b>\$ 10,363</b>

The Federal Perkins loan program ("Program") represents the amounts due from current and former students. The availability of funds for loans under the Program is dependent on reimbursements to the pool from repayment on outstanding loans. Loans disbursed under the Program are assigned to the federal government in certain non-repayment situations. Outstanding loans cancelled under the Program result in a reduction of the funds available and a decrease in the liability to the government.

Other student loans receivable consist of uncollateralized loans to current and former students of the University with various interest rates and repayment terms. The allowance for student loans receivable is determined based on estimated default rates.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### 8. Net Assets

Net assets consisted of the following at June 30:

	2017	2016
	<i>(in thousands)</i>	
<b>Unrestricted</b>		
Internally designated for student loans	\$ 1,744	\$ 1,688
Internally designated for future capital acquisitions	3,157	9,393
Board-designated endowment funds	82,336	72,189
Debt service funds	26,647	25,279
Invested in plant	221,752	165,575
Undesignated	66,319	73,705
<b>Total Unrestricted Net Assets</b>	<b>401,955</b>	<b>347,829</b>
<b>Temporarily Restricted</b>		
Donor restricted	24,071	18,801
Donor pledges	1,561	1,271
Annuity and living trusts	288	269
<b>Total Temporarily Restricted Net Assets</b>	<b>25,920</b>	<b>20,341</b>
<b>Permanently Restricted</b>		
Endowment	25,714	22,397
Endowment pledges	1,088	1,297
<b>Total Permanently Restricted</b>	<b>26,802</b>	<b>23,694</b>
<b>Total Net Assets</b>	<b>\$ 454,677</b>	<b>\$ 391,864</b>

Net assets released from restrictions met purpose restrictions in the following categories:

<i>Years ended June 30,</i>	2017	2016
	<i>(in thousands)</i>	
Donations restricted for capital asset construction or acquisition	\$ 277	\$ 100
Donations restricted for scholarships	1,524	1,423
Donations restricted for noncapital programs or acquisitions	455	1,021
<b>Net Assets Released From Restrictions</b>	<b>\$ 2,256</b>	<b>\$ 2,544</b>

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### 9. Interest Expense, Depreciation Expense, and Operation and Maintenance of Plant

Interest expense, depreciation expense, and operation and maintenance of plant, are allocated to the University's various functional areas as follows:

<i>Years ended June 30,</i>	2017	2016
	<i>(in thousands)</i>	
<b>Interest Expense</b>		
General academic instructions	\$ 1,714	\$ 1,818
Fight instructions	801	740
Research	6	4
Academic support	29	31
Student services	1,113	1,186
Institutional	533	564
Scholarships	2	4
Auxiliary enterprises	1,189	734
<b>Total Interest Expense</b>	<b>\$ 5,387</b>	<b>\$ 5,081</b>

<i>Years ended June 30,</i>	2017	2016
	<i>(in thousands)</i>	
<b>Depreciation</b>		
General academic instruction	\$ 9,338	\$ 8,895
Flight instruction	5,094	4,628
Research	397	297
Academic support	1,807	1,796
Student services	5,215	5,150
Institutional	5,261	5,568
Scholarships	115	194
Auxiliary enterprises	5,951	5,195
<b>Total Depreciation Expense</b>	<b>\$ 33,178</b>	<b>\$ 31,723</b>

<i>Years ended June 30,</i>	2017	2016
	<i>(in thousands)</i>	
<b>Operation and Maintenance of Plant</b>		
General academic instruction	\$ 2,348	\$ 2,389
Flight instruction	1,045	1,058
Research	320	330
Academic support	999	1,018
Student services	2,649	2,707
Institutional	889	908
Scholarships	6	7
Auxiliary enterprises	5,650	5,786
<b>Total Operation and Maintenance of Plant</b>	<b>\$ 13,906</b>	<b>\$ 14,203</b>



# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### 10. Retirement

Retirement benefits are provided through a noncontributory defined contribution plan (Plan) covering all qualified employees. The Plan is administered through the Teachers Insurance and Annuity Association College Retirement Equity Funds (TIAA-CREF), a national organization used to fund pension benefits for educational institutions for the year June 30, 2017 and 2016. Retirement plan expenses for the years ended June 30, 2017 and 2016 were approximately \$12,615,000 and \$11,607,000, respectively.

### 11. Commitments and Contingencies

#### *Operating Leases*

The University leases land, buildings, and equipment for its operations. Total rental expense for the years ended June 30, 2017 and 2016 was approximately \$7,113,000 and \$7,859,000, respectively. Future minimum rental payments required under operating leases for the next five years and thereafter at June 30, 2017, are as follows:

<i>Year ended June 30,</i>	<i>Amount</i>
	<i>(in thousands)</i>
2018	\$ 5,459
2019	5,054
2020	4,794
2021	4,295
2022	3,922
Thereafter	4,400
<b>Total</b>	<b>\$ 27,924</b>

#### *Unionized Labor Force*

The University employs approximately 134 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 (Union), AFL-CIO, whose contract expires June 30, 2019.

#### *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 management, are expected to have a material adverse effect on the University's consolidated financial statements.

#### *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, 2017, the maximum potential amount of future payments under this program is \$494,510 undiscounted. At June 30, 2017, the University has established a liability of \$174,133 to estimate student loan defaults under this program.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *Self-Insurance Reserves*

Since May, 1989, the University has been providing medical (including pharmacy), dental, and vision insurance benefits for its employees. Currently, the University has both fully-insured and self-insured medical and dental benefit plans. The vision plan is only self-insured. To assist with administering the self-insured plans, the University uses a Third Party Administrator (TPA) under an Administrative Services Only (ASO). Blue Cross Blue Shield is the administrator of the medical, dental and vision benefits. The University contracts directly with medical provider networks for the self-insured medical plans. Provider networks are not used for its self-insured dental or vision plans.

The University is fully liable for all financial and legal aspects of its self-insured employee benefits plan. To protect itself against unfunded financial liability, stop-loss insurance is purchased, under which the excess portion of claims that are above the agreed limit (stop-loss) would become the responsibility of the reinsurer. Stop loss protection is not purchased for the dental and vision plans since the risk of excessive claims for these benefits is negligible.

Self-insurance reserves are based on estimates of historical experience, and while management believes that the reserves are adequate, the ultimate liabilities may be more or less than the amounts provided. As of June 30, 2017 and 2016, self-insurance reserves amount to approximately \$1,392,000 and \$1,365,000, respectively.

### *Grant Revenue*

The grant revenue amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the University. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

## 12. Fair Value Measurements

The University complies with ASC 820, *Fair Value Measurements and Disclosures (ASC 820)*, 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.

ASC 820 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; or
- 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 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.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

Investments are reported at estimated fair value. If an investment security is owned directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds are generally reported at NAV reported by the fund managers, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. As of June 30, 2017 and 2016, the University had no plans or intentions to sell investments at amounts different from NAV.

The University's investments at June 30, 2017 are summarized in the following table by their redemption availability and fair value hierarchy classification or net asset value:

June 30, 2017	Redemption Availability	Level 1	Level 2	Level 3	Total
(in thousands)					
Investments measured at fair value					
U.S. equity	Daily	\$ 53,396	\$ -	\$ -	\$ 53,396
International equity	Daily	25,605	-	-	25,605
Fixed income	Daily	27,759	-	-	27,759
Cash and cash equivalents	Daily	270	-	-	270
Real asset	Daily	6,507	-	-	6,507
Total marketable securities		113,537	-	-	113,537
Funds held or administered by others	Not Applicable	-	-	-	-
Subtotal		113,537	-	-	113,537
Investments measured at net asset value					
Hedge funds:					
Long/short	Monthly				2,792
Multi-strategy	Semi-annual				3,448
Other	Currently illiquid				15
Private partnerships:					
Real estate	Quarterly				6,597
Subtotal		-	-	-	12,852
Total		\$ 113,537	\$ -	\$ -	\$ 126,389

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

The University's investments at June 30, 2016 are summarized in the following table by their redemption availability and fair value hierarchy classification or net asset value (in thousands of dollars):

<i>June 30, 2016</i>	<i>Redemption Availability</i>	Level 1	Level 2	Level 3	Total	
<i>(in thousands)</i>						
Investments measured at fair value						
U.S. equity	Daily	\$ 47,467	\$ -	\$ -	\$ 47,467	
International equity	Daily	19,336	-	-	19,336	
Fixed income	Daily	27,057	-	-	27,057	
Cash and cash equivalents	Daily	111	-	-	111	
Real asset	Daily	6,198	-	-	6,198	
Total marketable securities		100,169	-	-	100,169	
Funds held or administered by others		Not Applicable	-	496	-	496
Subtotal		100,169	496	-	100,665	
Investments measured at net asset value						
Hedge funds:						
Long/short	Monthly				2,640	
Multi-strategy	Semi-annual				2,753	
Other	Currently illiquid				21	
Private partnerships:						
Real estate	Quarterly				5,759	
Subtotal		-	-	-	11,173	
Total		\$ 100,169	\$ 496	\$ -	\$ 111,838	

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

**Funds Held or Administered by Others** - 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.

**Marketable 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.

**Fair of Cash Equivalents** - The carrying amounts of cash equivalents approximate fair value due to the short-term nature of these items.

As a practical expedient, the University relies on the NAVs of certain investments as their fair value. The NAVs that have been provided by investees are derived from their values of the underlying investments as of the reporting date. The tables above summarize, as of June 30, 2017 and 2016, the nature of these investments and any related liquidation restrictions or other factors, which may impact the ultimate value realized.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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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.

### 13. Endowment

The University's endowment consists of approximately 260 individual funds established for a variety of purposes. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. As required by GAAP, 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;
- 5) The expected total return from income and appreciation of investments;
- 6) Other resources of the organization; and
- 7) The investment policies of the organization

### *General Objectives*

The University's investment philosophy is based upon the recognition that over time, in all economic environments, there will be an inflationary loss of purchasing power. The endowment should be managed to achieve growth greater than the inflation rate and the spending rule. A further objective is to minimize risk, to the extent possible, given the rate of return of the asset pool. The portfolio will be maintained in a diversified pool of investments, which are invested using a "total return" philosophy, without direct consideration for the endowment's ability to generate current income.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

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### *Performance Objectives and Risk Parameters*

The performance results of the endowment's various segments will generally be measured over a three- to five-year period. However, given the volatility of the capital markets, performance is monitored on a quarterly basis as a means of identifying developing long-term trends. All investment results are evaluated on a net total return basis (after all management fees and transaction related expenses). 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%, earn an average annual rate of return that exceeds the return of the asset allocation target benchmark indices; and, rank above the median when compared to a representative universe of other, similarly managed portfolios.

### *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. On an annual basis the Investment Committee, based on various factors, will authorize a spending rate. The spending rate has typically been between 4% and 5% of the 3-year moving average market value of the endowed funds, but may vary based on factors such as economic condition. This amount will be distributed annually to the income accounts of the endowed sub-funds.

In the event that the annual realized earnings of the overall endowment fund result in "underwater" endowed sub-funds, the Committee will determine an appropriate course of action regarding the annual disbursement to the income accounts of the endowed sub-funds.

### *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, 2017 and 2016, the amount of permanently restricted endowments whose fair value of assets was less than the level required by donor stipulation totaled approximately \$0 and \$26,000, 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.

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### Changes in Endowment Net Assets

<i>Year ended June 30, 2017</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
		<i>(in thousands)</i>		
Endowment net assets, beginning of the year	\$ 72,189	\$ 11,424	\$ 23,694	\$ 107,307
Investment return:				
Net appreciation (realized and unrealized)	8,315	4,093	-	12,408
Investment income	1,903	949	-	2,852
Total in investment return	10,218	5,042	-	15,260
Contributions	-	-	3,140	3,140
Appropriation of endowment assets for expenditure	(95)	(1,036)	-	(1,131)
Transfers to create board- designated endowment funds	23	-	-	23
Transfers to temporarily restricted funds previously classified as permanently restricted	-	32	(32)	-
Endowment net assets, end of the year	\$ 82,335	\$ 15,462	\$ 26,802	\$ 124,599

### Endowment Net Assets Composition by Type of Fund

<i>As of June 30, 2017</i>	<i>Unrestricted</i>	<i>Restricted</i>	<i>Restricted</i>	<i>Total</i>
		<i>(in thousands)</i>		
Endowment Net Asset Composition by Type of Fund				
Donor-restricted endowment funds	\$ -	\$ 15,462	\$ 26,802	\$ 42,264
Board-designated endowment funds	82,335	-	-	82,335
Total	\$ 82,335	\$ 15,462	\$ 26,802	\$ 124,599

### Changes in Endowment Net Assets

<i>Year ended June 30, 2016</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
		<i>(in thousands)</i>		
Endowment net assets, beginning of the year	\$ 57,831	\$ 12,329	\$ 23,023	\$ 93,183
Investment return:				
Investment income	1,066	671	-	1,737
Net depreciation (realized and unrealized)	(1,235)	(635)	-	(1,870)
Total in investment return	(169)	36	-	(133)
Contributions	-	-	671	671
Appropriation of endowment assets for expenditure	(1,589)	(941)	-	(2,530)
Transfers to create board- designated endowment funds	16,116	-	-	16,116
Endowment net assets, end of the year	\$ 72,189	\$ 11,424	\$ 23,694	\$ 107,307

# Embry-Riddle Aeronautical University, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

### *Endowment Net Assets Composition by Type of Fund*

<i>As of June 30, 2016</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
<b>Endowment Net Asset Composition by Type of Fund</b>				
Donor-restricted endowment funds	\$ -	\$ 11,424	\$ 23,694	\$ 35,118
Board-designated endowment funds	72,189	-	-	72,189
<b>Total</b>	<b>\$ 72,189</b>	<b>\$ 11,424</b>	<b>\$ 23,694</b>	<b>\$ 107,307</b>

### 14. Subsequent Events

Management of the University has reviewed subsequent events from June 30, 2017, through October 9, 2017 (the date the accompanying consolidated financial statements are available to be issued). In August 2017, the University issued through the Volusia County Educational Facilities Authority (VCEFA) tax-exempt revenue and revenue refunding bonds (Series 2017 bonds) with a total par value of \$46,355,000 at a fixed interest rate maturing in 2037. The proceeds were used to redeem outstanding Series 2011 bonds, for capital projects and to pay the costs of issuance.



## Supplementary Information

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# Embry-Riddle Aeronautical University, Inc.

## Net Assets Class Disaggregation Schedule (in Thousands)

<i>June 30, 2017</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 176,419	\$ -	\$ -	\$ 176,419
Investments	76,315	24,360	25,714	126,389
Accounts and notes receivable, less allowance for doubtful accounts of \$728	6,946	-	-	6,946
Current portion of student loan receivables, net	1,873	-	-	1,873
Current portion of contributions receivables, net	26	513	434	973
Inventories	3,146	-	-	3,146
Prepaid expenses and other current assets	5,635	-	-	5,635
<b>Total Current Assets</b>	<b>270,360</b>	<b>24,873</b>	<b>26,148</b>	<b>321,381</b>
Deposits and investments with fiduciaries	19,215	-	-	19,215
Long-term accounts and noted receivable, net	2,284	-	-	2,284
Student loans receivable, less current portion and allowance for doubtful accounts of \$1,001	10,607	-	-	10,607
Contributions receivable, net, less current portion	-	1,047	654	1,701
Land and land improvements, buildings and equipment, net	403,993	-	-	403,993
Other assets	1,128	-	-	1,128
<b>Total Assets</b>	<b>\$ 707,587</b>	<b>\$ 25,920</b>	<b>\$ 26,802</b>	<b>\$ 760,309</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 44,420	\$ -	\$ -	\$ 44,420
Advances for student loans and financial aid	10,125	-	-	10,125
Student deposits and advance payments	6,498	-	-	6,498
Deferred revenue - current portion	15,719	-	-	15,719
Current portion of long-term debt	12,672	-	-	12,672
<b>Total Current Liabilities</b>	<b>89,434</b>	<b>-</b>	<b>-</b>	<b>89,434</b>
Deferred revenue, less current portion	11,503	-	-	11,503
Long-term debt	204,695	-	-	204,695
<b>Total Liabilities</b>	<b>305,632</b>	<b>-</b>	<b>-</b>	<b>305,632</b>
<b>Net Assets</b>				
Unrestricted	401,955	-	-	401,955
Temporarily restricted	-	25,920	-	25,920
Permanently restricted	-	-	26,802	26,802
<b>Total Net Assets</b>	<b>401,955</b>	<b>25,920</b>	<b>26,802</b>	<b>454,677</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 707,587</b>	<b>\$ 25,920</b>	<b>\$ 26,802</b>	<b>\$ 760,309</b>