



**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements and
Supplemental Information

Years Ended June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

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Independent Auditors' Report

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

Report on the Financial Statements

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, 2020 and 2019, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 2(y) to the consolidated financial statements, in fiscal year 2020, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Net Assets Class Disaggregation Schedule, Schedule of Financial Responsibility Composite Ratio Score, and Schedule of Financial Responsibility Data (required by the U.S. Department of Education) are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The Net Assets Class Disaggregation Schedule, Schedule of Financial Responsibility Composite Ratio Score, and Schedule of Financial Responsibility Data are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit 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, Schedule of Financial Responsibility Composite Ratio Score, and Schedule of Financial Responsibility Data are 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 22, 2020 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 solely 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.

KPMG LLP

Tampa, Florida
October 22, 2020

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Statements of Financial Position

June 30, 2020 and 2019

(In thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 151,535	84,652
Short-term investments (note 4)	113,269	101,496
Accounts and notes receivable, less allowance for doubtful accounts of \$1,723 and \$1,070, respectively	14,023	11,602
Current portion of student loans receivable, net (note 6)	1,437	1,332
Current portion of contributions receivable, net (note 7)	1,679	4,215
Inventories	3,942	3,562
Prepaid expenses and other current assets	8,328	7,471
Total current assets	294,213	214,330
Deposits and investments held with trustees	71,679	1,772
Long-term accounts and notes receivables, net	1,963	2,200
Student loans receivable, less current portion and allowance for doubtful accounts of \$1,148 and \$814, respectively (note 6)	7,141	9,390
Contributions receivable, net, less current portion (note 7)	3,763	1,884
Other assets	303	329
Long-term investments (note 4)	172,693	159,623
Right-of-use lease assets (note 9)	30,255	—
Land, land improvements, buildings and equipment, net (note 8)	515,924	497,141
Total assets	\$ 1,097,934	886,669
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 49,100	36,361
Advances for student loans and financial aid	8,347	9,851
Student deposits and advance payments	14,362	10,151
Deferred revenue – current portion	16,835	12,013
Current portion of right-of-use lease liability (note 9)	3,644	—
Current portion of long-term debt (note 10)	12,409	11,436
Total current liabilities	104,697	79,812
Deferred revenue, less current portion	16,624	10,607
Right-of-use lease liability, less current portion (note 9)	26,810	—
Long-term debt, net (note 10)	297,594	209,318
Other liabilities	95	93
Total liabilities	445,820	299,830
Net assets (note 16):		
Without donor restrictions	574,441	515,579
With donor restrictions:		
Time or purpose	33,037	31,001
Perpetual	44,636	40,259
Total net assets	652,114	586,839
Total liabilities and net assets	\$ 1,097,934	886,669

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Statements of Activities

Year ended June 30, 2020

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating activities:			
Revenue and other additions:			
Tuition, net of institutionally funded scholarships of \$114,166	\$ 318,890	—	318,890
Flight fees	32,327	—	32,327
Other fees	20,276	—	20,276
Grants and contracts	27,209	—	27,209
Private gifts	443	—	443
Sales and services-educational	124	—	124
Auxiliary enterprises	29,406	—	29,406
Investment income, net	3,334	12	3,346
Other revenue	7,261	—	7,261
Investment earnings distributed	—	1,735	1,735
	<u>439,270</u>	<u>1,747</u>	<u>441,017</u>
Total operating revenue and other additions			
Net assets released from restrictions	3,155	(3,155)	—
	<u>442,425</u>	<u>(1,408)</u>	<u>441,017</u>
Total operating revenue and other additions			
Expenses (note 15):			
Salaries and wages	191,899	—	191,899
Fringe benefits	55,366	—	55,366
Other operating expenses	82,632	—	82,632
Insurance	4,413	—	4,413
Utilities	7,077	—	7,077
Interest	7,950	—	7,950
Depreciation	37,278	—	37,278
	<u>386,615</u>	<u>—</u>	<u>386,615</u>
Total operating expenses			
Excess (deficiency) of revenue and other additions over expenses from operating activities	55,810	(1,408)	54,402
	<u>55,810</u>	<u>(1,408)</u>	<u>54,402</u>
Nonoperating activities:			
Private gifts	135	8,309	8,444
Investment return, net	3,425	1,263	4,688
Distribution of prior year investment earnings for spending	—	(1,735)	(1,735)
Loss on extinguishment of debt	(812)	—	(812)
Other nonoperating activities	304	(16)	288
	<u>3,052</u>	<u>7,821</u>	<u>10,873</u>
Total nonoperating activities			
Changes in net assets	58,862	6,413	65,275
Net assets, beginning of year	515,579	71,260	586,839
Net assets, end of year	<u>\$ 574,441</u>	<u>77,673</u>	<u>652,114</u>

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Statements of Activities

Year ended June 30, 2019

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and other additions:			
Tuition, net of institutionally funded scholarships of \$103,019	\$ 300,219	—	300,219
Flight fees	37,052	—	37,052
Other fees	21,192	—	21,192
Grants and contracts	18,929	—	18,929
Private gifts	499	—	499
Sales and services-educational	219	—	219
Auxiliary enterprises	28,889	—	28,889
Investment income, net	3,253	26	3,279
Other revenue	5,887	—	5,887
Investment earnings distributed	—	1,384	1,384
	<u>416,139</u>	<u>1,410</u>	<u>417,549</u>
Total operating revenue and other additions			
Net assets released from restrictions	4,110	(4,110)	—
	<u>420,249</u>	<u>(2,700)</u>	<u>417,549</u>
Total operating revenue and other additions			
Expenses (note 15):			
Salaries and wages	183,539	—	183,539
Fringe benefits	52,797	—	52,797
Other operating expenses	81,744	—	81,744
Insurance	4,234	—	4,234
Utilities	7,243	—	7,243
Interest	6,249	—	6,249
Depreciation and amortization	35,340	—	35,340
	<u>371,146</u>	<u>—</u>	<u>371,146</u>
Total operating expenses			
Excess (deficiency) of revenue and other additions over expenses from operating activities	49,103	(2,700)	46,403
	<u>49,103</u>	<u>(2,700)</u>	<u>46,403</u>
Nonoperating activities:			
Private gifts	1,405	16,074	17,479
Investment return, net	3,813	3,113	6,926
Distribution of prior year investment earnings for spending	—	(1,384)	(1,384)
Other nonoperating activities	1,354	(10)	1,344
	<u>6,572</u>	<u>17,793</u>	<u>24,365</u>
Total nonoperating activities			
Changes in net assets	55,675	15,093	70,768
Net assets, beginning of year	459,904	56,167	516,071
Net assets, end of year	<u>\$ 515,579</u>	<u>71,260</u>	<u>586,839</u>

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 65,275	70,768
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	37,278	35,340
Realized and unrealized gains on investments	(1,570)	(3,794)
Net amortization of bond premium and debt issuance costs	(740)	61
Loss on disposal of equipment	2,615	2,227
Loss on extinguishment of debt	812	—
Amortization of right-of-use lease assets	40	—
Contributed land and equipment	(135)	(1,404)
Contributions restricted for long-term investment	(5,917)	(12,498)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(2,184)	(3,026)
Contributions receivable	657	(4,317)
Inventories	(380)	(227)
Prepaid expenses and other assets	(831)	(878)
Accounts payable and accrued expenses	11,137	(14,654)
Advances for student loans and financial aid	(1,504)	309
Deferred revenue	10,839	6,569
Other liabilities	2	93
Student deposits and advance payments	4,211	3,048
Net cash provided by operating activities	119,605	77,617
Cash flows from investing activities:		
Purchase of Investments	(29,192)	(92,128)
Sale of Investments	8,537	49,122
Principal received on student loan receivable	2,279	1,426
Loans made to students	(135)	(131)
Proceeds from sale of land, land improvements, buildings, and equipment	1,055	374
Capital expenditures	(57,835)	(66,738)
Net cash used in investing activities	(75,291)	(108,075)
Cash flows from financing activities:		
Long-term debt proceeds	147,379	—
Principal payments on long-term debt	(57,270)	(10,337)
Payment of bond issuance costs	(932)	—
Decrease (increase) in deposits and investments with trustees	(69,907)	23,688
Proceeds from contributions restricted for:		
Investment in endowment	4,377	12,463
Investment in plant	1,540	35
Net cash provided by financing activities	25,187	25,849
Change in cash, cash equivalents and restricted cash	69,501	(4,609)
Cash, cash equivalents and restricted cash, beginning of year	87,111	91,720
Cash, cash equivalents and restricted cash, end of year	\$ 156,612	87,111
Reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position:		
Cash and cash equivalents	\$ 151,535	84,652
Cash and cash equivalents, restricted	5,077	2,459
Total cash, cash equivalents and restricted cash	\$ 156,612	87,111
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 9,040	8,353
Capital asset acquisitions in accounts payable	1,602	1,193

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

(1) Nature of Operations

Embry-Riddle Aeronautical University, Inc. and Subsidiaries (the University), is an independent, nonprofit culturally diverse institution providing quality education and research in aviation, aerospace, engineering, and other related fields with residential campuses in Daytona Beach, Florida, and Prescott, Arizona. The University's Worldwide campus provides educational opportunities online and at locations at approximately 130 locations through the United States, Asia, Europe, and Central/South America. Additionally, the flexibility and accessibility of the multi-modal teaching platforms link students and faculty across the globe, enabling the development and delivery of learning whenever and wherever students and faculty reside. The University offers programs in seven primary fields of study including applied science; aviation; business; computers and technology; engineering; safety, security, and intelligence; and space.

The University is accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

(b) Classification of Net Assets

Financial statements of not-for-profit organizations measure aggregate net assets and net asset activity based on the absence or existence of donor-imposed restrictions. Net assets are reported as without donor restrictions and with donor restrictions and serve as the foundation of the accompanying consolidated financial statements. Descriptions of the two net asset categories follow:

Net assets without donor restrictions – Net assets derived from tuition, fees and other institutional resources and related expenses associated with the core activities of the University that are not subject to explicit donor-imposed restrictions. Net assets without donor restrictions also include Board-designated funds functioning as endowment, restricted gifts whose donor-imposed restrictions were met during the same fiscal year as received, as well as previously restricted gifts and grants for capital assets that have been placed in service.

Net assets with donor restrictions – Net assets that are subject to explicit donor-imposed restrictions on the expenditures of contributions or income and gains on contributed assets and net assets from endowments not yet appropriated for spending by the University. The University records as net assets with donor restrictions the original amounts of gifts which donors have given to be maintained in perpetuity. Restrictions primarily include support of specific colleges or departments of the University for scholarships, research, and faculty support. The expiration of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for capital assets when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

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Notes to Consolidated Financial Statements

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(In thousands)

(c) Principles of Consolidation

The consolidated financial statements include the assets, liabilities, revenue, and expenses of all significant subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation. The University's wholly-owned subsidiary, Embry-Riddle Aeronautical University, Asia Ltd. (ERAU Asia), is a company limited by guarantee and incorporated in Singapore. The principal activities of ERAU Asia are to provide teaching and research in the area of aeronautics and aerospace and related fields.

(d) Translation of Accounts of Foreign Subsidiaries

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

- monetary and nonmonetary assets and liabilities at the year-end rate of exchange
- 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.

(e) Cash and Cash Equivalents

Cash and cash equivalents are liquid instruments having original maturities at the time of purchase of three months or less, or funds invested primarily in such instruments. The University has cash equivalents held for reinvestment that are highly liquid in nature and have original maturities at the time of purchase of three months or less. Cash equivalents include cash held in money market accounts and certificates of deposit for operating and reinvestment purposes held by short- and long-term investment managers. Cash equivalents exclude deposits held with bond trustees for capital projects.

(f) Short-Term Investments

Short-term investments include liquid securities and funds whose maturities and duration extend beyond those of cash and cash equivalents (3 months) and may assume a degree of credit risk, but are not considered long-term investments. Short-term investments are limited to a maximum average duration of 18 months with no individual fund investment having an average maturity of greater than 3 years and an average credit rating of AA- or higher. Short-term investments are recorded at fair value and are generally priced and available on a daily basis.

Investment income is recorded on the accrual basis; purchases and sales of short-term investment securities are recorded on a trade-date basis.

(g) 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

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(In thousands)

bank deposit accounts which, at times, may exceed federally insured limits. The University has not experienced any losses in such accounts. The University believes it is not exposed to any significant credit risk on cash and cash equivalents or concentration risk on investments.

(h) Pledges Receivable

An unconditional promise to give is recognized initially at fair value as private gift revenue in the period the promise is made by a donor. The fair value of the pledge is estimated based on anticipated future cash receipts (net of an allowance for uncollectible amounts) and discounted using a risk-adjusted rate commensurate with expected future payments.

(i) Inventories

Inventories, consisting primarily of spare parts for aircraft, flight training devices and consignment inventories, are stated using the lower of cost (determined on first in, first out (FIFO) method of inventory valuation) or estimated market value (specific identification or average cost method) based on the type of inventory item, and, in some cases, Federal Aviation Administration (FAA) requirements.

(j) Deposits and Investments Held with Trustees

Deposits and investments held with trustees are restricted cash and short-term investments consisting of proceeds from the Volusia County Educational Facilities Authority, Educational Facilities Revenue Bonds. These funds are subject to restrictions imposed by bond covenants and limited to use on authorized bond projects.

(k) Long-Term Investments

Long-term investments in marketable equity and debt securities, including mutual funds, are recorded at their estimated fair values, which are based on quoted market prices or recognized pricing services. Alternative investments are stated at fair value as established by using the net asset value (NAV) of each investment provided by the investment fund manager. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Values may be based on historical cost, appraisals or other estimates that require varying degrees of judgment. Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at date of gift. Purchases and sales of investments are recorded on a trade-date basis.

The University invests in a combination of investment securities, which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the University's investment balance reported in the consolidated statements of financial position.

Investment income is recorded on the accrual basis.

(l) Split-Interest Agreements

Split-interest agreements with donors consist of gift annuity contracts. Assets associated with split-interest agreements are included in long-term investments. A liability for split-interest obligations is

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(In thousands)

recorded when the agreement is established based on the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. In subsequent periods, the discount rate is unchanged. At June 30, 2020 and 2019, the University had liabilities of \$95 and \$93, respectively, associated with its gift annuity contracts.

(m) Fair Value of Financial Instruments

Authoritative guidance on fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the University. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about how market participants would value an asset based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments as of the measurement date. An active market is one in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Market price data is generally obtained from exchanges or dealer markets.

Level 2 – Pricing inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Level 3 – Model-derived pricing valuations in which one or more significant inputs are unobservable.

(n) Land, Land Improvements, Buildings and Equipment

Land, land improvements, buildings and equipment are generally stated at cost or, if contributed, at estimated fair value at the date of the gift, less accumulated depreciation. Depreciation is computed on a straight-line method over the estimated useful lives of the assets, ranging from 7 years for land improvements, 5 to 40 years for buildings and building improvements, and 2 to 10 years for equipment.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When such events or changes in circumstances indicate an asset may not be recoverable, the impairment loss recognized is the amount by which the asset's net carrying value exceeds its estimated fair value.

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(In thousands)

(o) Asset Retirement Obligations

The University has asset retirement obligations (AROs) arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings and/or equipment are disposed of or renovated. The liability was initially measured at fair value and subsequently is adjusted for accretion expenses and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The University revalues asset retirement obligations as remediation costs are incurred or as additional cost information becomes available.

(p) Capitalized Interest

The University capitalizes interest costs incurred on long-term debt during the construction of major projects exceeding one year. During fiscal years 2020 and 2019, the amount of interest capitalized was \$1,136 and \$1,806, respectively.

(q) Unamortized Bond Premium

Bond premium associated with bond issuances are deferred and amortized on the effective-yield method over the lives of the respective bond issues (see Note 10).

(r) Unamortized Bond Issuance Costs

Costs incurred in connection with bond issuances are generally amortized on the effective-yield method over the lives of the respective bond issues, and unamortized balances are presented as a direct deduction from the related debt in the consolidated statements of financial position (see Note 10).

(s) Leases

The University determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset and the University has the right to control the asset. Operating lease right-of-use (ROU) assets are separately disclosed on the consolidated statements of financial position. Current and noncurrent portions of operating lease liabilities are also separately disclosed on the consolidated statements of financial position. Finance lease ROU assets are included in land, land improvements, buildings and equipment, net, and the corresponding portions of finance lease liabilities are included in long-term debt on the consolidated statements of financial position.

ROU assets represent the University's right to use an underlying asset for the lease term, and lease liabilities represent the University's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Lease agreements may include options to extend or terminate the lease. When it is reasonably certain that the University will exercise an extension option, the terms of the extension are included in the recognized values of ROU assets and lease liabilities. As most of the University's leases do not provide the lessor's implicit rate, the University uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. Leases with an initial term of 12 months or less are not recorded on the consolidated

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(In thousands)

statements of financial position, and lease expense is recognized in accordance with the terms of the arrangement over the lease term.

The University has lease agreements with lease and non-lease components which are accounted for as separate lease components for all asset classes. In the consolidated statements of activities, lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Payments for non-lease components are expensed in the period in which the obligation for the payment was incurred. For finance leases, interest expense is recognized on the lease liability, and the ROU asset is amortized over the lease term.

(t) *Deferred Revenue*

The University has approximately \$18,409 and \$11,881 in deferred revenue recorded as of June 30, 2020 and 2019, respectively, related to food service arrangements to provide and manage the University's dining 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 agreements prior to expiration; the amount of the reimbursement is proportionate to the unamortized portion of the terms. Accordingly, the University recorded the unamortized portion of certain advances received as deferred revenue.

(u) *Federal and State Income Taxes*

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for unrelated business income, is exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2020 and 2019, and there are no uncertain tax positions considered to be material.

(v) *Tuition and Fees*

Student tuition and fees are recorded as revenue during the year in which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

(w) *Gifts, Grants and Contracts*

Gifts, including unconditional pledges, are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value on the date of gift. Unconditional promises to give are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

A portion of the University's revenue is derived from cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Revenue from government and private grants and contract agreements is recognized as it is earned through expenditures in accordance with the related agreements. Any funding received in advance of expenditures is recorded as deferred revenue on the consolidated statements of financial

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position. Included in deferred revenue at June 30, 2020 and 2019 are \$826 and \$1,028, respectively, of private grant and contract receipts, that have not been expended.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided budgetary relief to higher education institutions through the Higher Education Emergency Relief Fund (HEERF). Under the legislation, no less than 50% of the funds are to be used for emergency financial aid grants to students. The remaining portion of the funding is to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. The University received and recognized \$3,664 of HEERF funds as government grants and contracts revenue during the year ended June 30, 2020. Emergency financial aid grants of \$1,832 were expended and reported as scholarship expenses and the institutional portion of the funding of \$1,832 was expended on costs related to the disruption of campus operations due to the coronavirus. Revenue was reported as changes in net assets without donor restrictions.

Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University.

(x) Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Significant items subject to such estimates and assumptions include collectability of accounts receivable and contribution receivables, fair value measurement of alternative investments, carrying value of land, land improvements, buildings and equipment, contingency reserves, self-insurance reserves, and asset retirement obligations. Actual results could differ materially, in the near term, from amounts reported.

(y) Accounting Pronouncements

(i) Revenue Recognition

During fiscal year 2019, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As a result, enhanced disclosures related to contracts are now presented in these notes to the consolidated financial statements (see Note 11). The University elected the retrospective method of adoption and applied the adoption to its tuition, fees, and auxiliary student contracts; however, no transition adjustment was required as a result of adopting the standard.

(ii) Accounting for Leases

During fiscal year 2020, the University early adopted FASB ASU 2016-02, *Leases (Topic 842)*. The University adopted the new standard as of July 1, 2019, and elected to apply the transition requirements as of that date, allowing for a cumulative effect adjustment in the period of adoption with prior periods continuing to be reported in accordance with historic accounting under Accounting Standards Codification (ASC) 840, *Leases*. In addition, the University elected the

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package of practical expedients permitted under the transition guidance within the new standard which does not require reassessment of prior conclusions related to contracts containing a lease, lease classification and initial direct lease costs. As an accounting policy election, the University chose not to apply the standard to certain existing land easements, excluded short-term leases (terms of 12 months or less) from the consolidated statements of financial position and accounts for lease and non-lease components in a contract as separate components for all asset classes. Right-of-use lease assets and related lease obligations of \$32,168 were recognized on July 1, 2019 and are included in the consolidated statements of financial position. The guidance did not materially impact the University's results of operations.

(iii) *Statement of Cash Flows*

During fiscal year 2020, the University adopted FASB ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning period and end-of-period total amounts shown on the statement of cash flows. The University adopted ASU 2016-18 on a retrospective basis. As a result, the University reclassified certain amounts previously reported on its consolidated statement of cash flows for the year ending June 30, 2019 to conform to the requirements of the new standard. The adoption increased beginning of year cash, cash equivalents and restricted cash by \$441, end of year cash, cash equivalents and restricted cash by \$2,459 and net cash used in investing activities by \$2,018. The adoption of this standard had no impact on the University's consolidated statements of financial position and consolidated statements of activities.

(iv) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*

During fiscal year 2020, the University adopted FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions or exchange transactions and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes one or more barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The University's adoption of the ASU on a modified prospective basis did not have a material effect on its consolidated financial statements. The University has provided expanded disclosures pertaining to revenue recognition within Note 2.

(v) *Implementation Costs Incurred in a Cloud Computing Arrangement*

During fiscal year 2020, the University adopted FASB ASU No. 2018-15, *Intangibles-Goodwill and Other – Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 requires that implementation costs of a cloud computing arrangement be deferred or expensed in accordance with Subtopic 350-40. ASU 2018-15 also requires deferred implementation costs to be expensed

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over the term of the hosting arrangement, which is the non-cancelable period of the cloud computing arrangement and any optional renewal periods that are reasonably certain to be exercised by the customer or for which exercise of the option is controlled by the supplier. The adoption of ASU 2018-15 on a prospective basis did not have a material impact on the University's consolidated financial statements.

(z) Reclassifications

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

(3) Financial Assets and Liquidity Resources

The University actively monitors liquidity required to meet its general expenditures. General expenditures include operating expenses, debt service payments and internally funded capital projects.

The University's financial assets available within one year of the consolidated statements of financial position for general expenditures as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Total assets	\$ 1,097,934	886,669
Less nonfinancial assets:		
Land, land improvements, buildings and equipment, net	(515,924)	(497,141)
Right-of-use lease assets	(30,255)	—
Inventories	(3,942)	(3,562)
Prepaid and other current assets	(8,328)	(7,471)
Other assets	(303)	(329)
Total financial assets	<u>539,182</u>	<u>378,166</u>
Less amounts not available for general expenditures within one year:		
Other long-term notes receivable	(1,963)	(2,200)
Restricted by donor with time or purpose restrictions	(13,952)	(11,691)
Board-designated endowment funds	(108,653)	(101,836)
Donor restricted endowment funds	(61,410)	(55,117)
Other contractual restrictions	(84,551)	(17,557)
Total financial assets not available to meet general expenditures within one year	<u>(270,529)</u>	<u>(188,401)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 268,653</u>	<u>189,765</u>

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As of June 30, 2020, \$268,653 of financial assets consisting primarily of cash and cash equivalents, \$151,535; cash and cash equivalents, restricted, \$5,077; investments, net of time or purpose restrictions, \$96,581; and accounts and notes receivable, \$15,460, are available within one year of the balance sheet date to meet cash needs for general expenditures.

As of June 30, 2019, \$189,765 of financial assets consisting primarily of cash and cash equivalents, \$84,652; cash and cash equivalents, restricted, \$2,459; investments, net of time or purpose restrictions, \$89,720; and accounts and notes receivable, \$12,934, are available within one year of the balance sheet date to meet cash needs for general expenditures.

In addition to these available financial assets, for the years presented, the University's annual expenditures have been funded by current year operating revenues including tuition and related fees. The University has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. In addition, as part of its liquidity management, the University invests cash in excess of average monthly requirements in various short-term investments.

Further, the University had additional funds functioning as endowment, which could be available for general expenditures with Board approval. These funds totaled \$108,653 and \$101,836 for the years ended June 30, 2020 and 2019, respectively.

(4) Investments

Investments at June 30, 2020 and 2019 are comprised of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents, restricted	\$ 5,077	2,459
U.S. equity	80,074	67,640
International equity	25,356	29,780
Fixed income	151,241	137,518
Real asset	7,661	7,956
Private partnerships:		
Real estate	8,113	7,859
Hedge funds:		
Multi-strategy	<u>8,440</u>	<u>7,907</u>
Total investments	<u>\$ 285,962</u>	<u>261,119</u>
Short-term investments	\$ 113,269	101,496
Investments, held for long-term purposes	<u>172,693</u>	<u>159,623</u>
Total investments	<u>\$ 285,962</u>	<u>261,119</u>

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(a) Fair Value Hierarchy of Investments

The fair value hierarchy of investments as of June 30, 2020 is as follows:

	Level 1	Total
Cash and cash equivalents, restricted	\$ 5,077	5,077
U.S. equity	80,074	80,074
International equity	25,356	25,356
Fixed income	151,241	151,241
Real asset	7,661	7,661
	\$ 269,409	269,409
Investments measured at NAV as a practical expedient		16,553
Total investments at fair value		\$ 285,962

The fair value hierarchy of investments as of June 30, 2019 is as follows:

	Level 1	Total
Cash and cash equivalents, restricted	\$ 2,459	2,459
U.S. equity	67,640	67,640
International equity	29,780	29,780
Fixed income	137,518	137,518
Real asset	7,956	7,956
	\$ 245,353	245,353
Investments measured at NAV as a practical expedient		15,766
Total investments at fair value		\$ 261,119

The University had no investments in Levels 2 and 3, and there were no transfers between fair value hierarchy levels for the years ended June 30, 2020 and 2019.

The University had no unfunded commitments as of June 30, 2020 and 2019.

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Fair value estimates and redemption information for investment funds valued at NAV (or its equivalent) as a practical expedient at June 30, 2020 and 2019 are as follows:

Investment type	Fair value at June 30, 2020	Fair value at June 30, 2019	Redemption frequency	Redemption notice period	Other redemption restrictions
Private equity – real estate (a)	\$ 8,113	7,859	Quarterly	90 days	None
Hedge fund – multi-strategy (b)	8,440	7,907	Semi-annual	95 days	Various initial lockup periods for each capital contribution, limits on redeemable proportion of outstanding balances and provisions allowing partial redemptions despite lockups
Total	<u>\$ 16,553</u>	<u>15,766</u>			

The objective for these investments, measured using the net asset or unit value, are as follows:

- (a) Pursues a nationally diversified portfolio of high-quality assets through an “enhanced” or “core plus” investment strategy
- (b) Capital appreciation with limited variability of returns

Investment return is summarized as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Income from interest and dividends	\$ 7,523	7,006
Net realized and unrealized gains on investments	1,569	3,949
Investment fees	<u>(1,058)</u>	<u>(750)</u>
Total investment return	<u>\$ 8,034</u>	<u>10,205</u>

Investment return is included in the consolidated statements of activities as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Operating	\$ 3,346	3,279
Nonoperating	<u>4,688</u>	<u>6,926</u>
Total investment return	<u>\$ 8,034</u>	<u>10,205</u>

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(5) Endowment

The University's endowment consists of hundreds of individual funds established for a variety of purposes supporting University operations. The endowment includes both donor-restricted endowment funds and funds designated by the University's Board to function as endowments (funds functioning as endowment). Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was enacted in the state of Florida on July 1, 2012, does not preclude the University from spending below the original gift value of donor-restricted "true" endowment funds.

For accounting and reporting purposes, the University classifies as net assets with donor restrictions the historical value of donor-restricted "true" endowment funds which includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted "true" endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift.

Changes in the fair value of the University's endowment investments and net assets by type of fund were as follows for the year ended June 30, 2020:

	2020		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 101,836	59,569	161,405
Investment return, net	1,817	1,257	3,074
Appropriation for expenditure	—	(1,482)	(1,482)
Endowment return, net of appropriation	1,817	(225)	1,592
Other changes in endowment investments:			
Contributions	—	4,377	4,377
Transfers to create funds functioning as endowment	5,000	—	5,000
Total other changes in endowment investments	5,000	4,377	9,377
Endowment net assets, end of year	\$ 108,653	63,721	172,374

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Changes in the fair value of the University's endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2019:

	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 89,140	45,358	134,498
Investment return, net	2,678	3,102	5,780
Appropriation for expenditure	—	(1,354)	(1,354)
Endowment return, net of appropriation	<u>2,678</u>	<u>1,748</u>	<u>4,426</u>
Other changes in endowment investments:			
Contributions	—	12,463	12,463
Transfers to create funds functioning as endowment	<u>10,018</u>	<u>—</u>	<u>10,018</u>
Total other changes in endowment investments	<u>10,018</u>	<u>12,463</u>	<u>22,481</u>
Endowment net assets, end of year	<u>\$ 101,836</u>	<u>59,569</u>	<u>161,405</u>

Endowment net assets as of June 30, 2020 and 2019 are classified as follows:

	Without donor restrictions	With donor restrictions	Total
2020:			
Donor-restricted endowment funds	\$ —	63,721	63,721
Board-designated funds functioning as endowment funds	<u>108,653</u>	<u>—</u>	<u>108,653</u>
Total	<u>\$ 108,653</u>	<u>63,721</u>	<u>172,374</u>
2019:			
Donor-restricted endowment funds	\$ —	59,569	59,569
Board-designated funds functioning as endowment funds	<u>101,836</u>	<u>—</u>	<u>101,836</u>
Total	<u>\$ 101,836</u>	<u>59,569</u>	<u>161,405</u>

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(a) 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 UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature, referred to as underwater endowments, are reported in net assets with donor restrictions. At June 30, 2020 and 2019, funds with an original gift value of \$1,003 and \$50 were underwater by \$31 and \$1, respectively.

(b) Endowment Appropriation

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 Board, based on various factors, authorizes a spending rate in the form of an endowment distribution. 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 conditions.

If endowment income received is not sufficient to support the total return objective, the balance is provided from capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment.

(6) Student Loans Receivable

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

	2020	2019
Federal Perkins Loan Program	\$ 8,455	10,156
Other student loans	1,271	1,380
Less allowance for doubtful accounts	(1,148)	(814)
Total student loans receivable, net	8,578	10,722
Current portion	1,437	1,332
Long-term portion	\$ 7,141	9,390

The Federal Perkins Loan Program expired on September 30, 2017 with final loan disbursements permitted through June 30, 2018. Although no new Perkins loans are permitted, recipients of the Perkins loans have an obligation to repay the University, which in turn pays the federal government. The liability for refundable federal government loans, as reported in the consolidated statements of financial position, was \$8,227 and \$9,731 at June 30, 2020 and 2019, respectively, and is included as a component of advances for student loans and financial aid in the consolidated statements of financial position.

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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.

(7) Contributions Receivable

Contributions receivable at June 30 are as follows:

	2020	2019
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,744	4,376
One year to five years	3,093	1,004
More than five years	1,750	1,625
	6,587	7,005
Less:		
Allowance for uncollectible pledges	359	386
Discount for present value (3.57% and 4.46% at June 30, 2020 and 2019, respectively)	786	520
Contribution receivable, net	\$ 5,442	6,099

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

	2020	2019
Current portion	\$ 1,679	4,215
Long-term portion	3,763	1,884
Contribution receivable, net	\$ 5,442	6,099

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(8) Land, Land Improvements, Buildings and Equipment

Components of land, land improvements, buildings and equipment at June 30, 2020 and 2019 are as follows:

	2020	2019
Land and land improvements	\$ 75,140	69,670
Buildings	581,161	543,082
Equipment	233,839	217,502
Construction in progress	29,820	41,245
Total	919,960	871,499
Less accumulated depreciation	(404,036)	(374,358)
Land, land improvements, buildings, and equipment, net	\$ 515,924	497,141

At June 30, 2020, the University had commitments of \$77,395 related to various capital projects.

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(9) Leases

The University has operating and finance leases primarily for parcels of land, educational facilities, administrative offices, and equipment. Remaining lease terms range from 1 to 26 years. For purposes of calculating operating lease ROU assets and liabilities, certain lease terms are deemed to include options to extend the lease when it is reasonably certain that the University will exercise the options. Certain lease agreements require variable payments that are dependent on usage of the underlying asset and related costs. These variable payments and non-lease components are not presented as part of the initial ROU assets or lease liabilities. The University's lease agreements do not contain any material restrictive covenants.

(a) Lease Cost

The components of lease cost for operating and finance leases for the year ended June 30, 2020 is as follows:

Operating lease cost	\$	5,163
Finance lease cost:		
Amortization of ROU assets		2,005
Interest on lease liabilities		329
Total finance lease cost		2,334
Short-term lease cost		769
Variable and nonlease cost		705
Total lease cost	\$	8,971

Operating lease expense for the year ended June 30, 2019 was \$6,832.

Land, land improvements, buildings and equipment accounted for under ASC 840, *Leases*, include assets held under capital leases at June 30, 2019, as follows:

		2019
Land and land improvements	\$	1,235
Equipment		28,646
Less accumulated depreciation		(8,059)
Assets under capital leases, net	\$	21,822

The net minimum lease payments accounted for under ASC 840, *Leases*, are reflected in the consolidated statements of financial position as a component of current and noncurrent long-term debt in the amounts of \$4,788 and \$9,142, respectively, for the year ended June 30, 2019.

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(b) Other Lease Information

Supplemental cash flow information related to leases for the year ended June 30, 2020 is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$	4,973
Operating cash flows from finance leases		329
Financing cash flows from finance leases		4,236
Noncash impacts on lease modification		1,897

(c) Lease Position

Lease-related assets and liabilities recorded in the consolidated statements of financial position at June 30 are as follows:

	<u>2020</u>
Operating leases:	
Operating lease ROU assets	\$ 30,255
Total operating lease liabilities	\$ 30,454
Current portion	3,644
Long-term portion	26,810
Finance leases:	
Land, land improvements, buildings and equipment	\$ 29,881
Less accumulated depreciation	<u>(10,064)</u>
Finance lease assets, net	<u>\$ 19,817</u>
Total finance lease liabilities	\$ 9,143
Current portion	4,355
Long-term portion	4,788

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(d) Lease Terms and Discount Rates

The University utilizes its incremental borrowing rate in determining the present value of lease payments unless the implicit rate is readily determinable. Lease terms and discount rates for June 30 are as follows:

	2020
Weighted average remaining lease term (years):	
Operating leases	13.76
Finance leases	2.56
Discount rate:	
Operating leases (weighted average)	4.40 %
Finance leases	2.89 %

(e) Maturities

The maturities of lease liabilities at June 30 are as follows:

	2020	
	Operating leases	Finance leases
2021	\$ 5,018	4,564
2022	4,142	2,985
2023	3,841	1,453
2024	2,967	182
2025	2,551	143
Thereafter	22,444	239
Total future undiscounted lease payments	40,963	9,566
Less interest	(10,509)	(423)
Present value of lease liabilities	\$ 30,454	9,143

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Future minimum lease payments for operating leases accounted for under ASC 840, *Leases*, with remaining non-cancelable terms in excess of one year at June 30, 2019, were as follows:

	Amount
Year ending June 30:	
2020	\$ 5,166
2021	4,844
2022	4,516
2023	4,520
2024	4,246
Thereafter	8,029
Total	\$ 31,321

(10) Long-Term Debt

Long-term obligations at June 30 are summarized as follows:

	Interest %	Maturity	2020	2019
Finance lease obligations:				
Land – 501 S. Clyde Morris Blvd.	2.87%	2026	\$ 773	862
Aircraft – Banc of America Leasing	2.28%–3.03%	2023	8,370	12,517
			9,143	13,379
Notes payable:				
Promissory note	3.03%	2037	19,291	—
Bonds payable:				
Volusia County Educational:				
Facilities revenue bonds:				
Series 2013	3.55%	2028	—	18,189
Series 2015A	2.91%	2031	37,905	40,795
Series 2015B	2.00%–5.00%	2046	41,605	68,220
Series 2015C	2.28%	2027	18,900	21,325
Series 2017	5.00%	2048	46,355	46,355
Series 2020A	3.00%–5.00%	2050	100,135	—
Series 2020B (taxable)	3.43%	2037	10,000	—
Total long-term debt – principal			254,900	194,884

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	<u>Interest %</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
Bond premium:				
Series 2015B			\$ 3,721	6,427
Series 2017			7,091	7,411
Series 2020A			17,689	—
Total premium			<u>28,501</u>	<u>13,838</u>
Bond issuance costs:				
Series 2013			—	82
Series 2015A			119	142
Series 2015B			396	679
Series 2015C			34	45
Series 2017			368	399
Series 2020A			741	—
Series 2020B			68	—
Promissory note			106	—
Total bond issuance costs			<u>1,832</u>	<u>1,347</u>
Total long-term debt, net			310,003	220,754
Current portion			<u>12,409</u>	<u>11,436</u>
Long-term portion			<u>\$ 297,594</u>	<u>209,318</u>

(a) Finance Lease Obligations

The University entered into a finance lease obligation with Volusia County for land leased in the amount of \$2,157. 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, for a building located on the land under lease, along with the assumption of the land lease.

The University entered into a finance lease obligation for \$28,205 with Banc of America Leasing for flight training aircraft. Under the terms of the lease, which expires September 2023, the University has the option to pay \$1 and acquire title to the aircraft.

(b) Tax-Exempt and Taxable Revenue Bonds

The University's tax-exempt and taxable bonds are issued through the Volusia County Educational Facilities Authority (VCEFA), an instrumentality of Volusia County, Florida, serving as a conduit issuer of the debt. The University's obligations under the loan agreements between VCEFA and the University are secured by master notes issued under a Master Trust Indenture (the Master Indenture) by and between the University and Wells Fargo Bank, as master trustee. The master notes issued under the Master Indenture are secured by a lien on tuition revenues of the University.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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(In thousands)

The Master Indenture contains additional covenants relating to, among others, the maintenance of the University's property, corporate existence, the maintenance of insurance, and financial covenants including a minimum debt service coverage ratio, limitation on the incurrence of debt, the sale or lease of certain property, and permitted liens.

Deposits with bond trustees consist of debt service funds and unexpended proceeds of certain debt. These funds will be used for capital projects, or payment of, debt service on certain facilities. Deposits with bond trustees of \$71,679 and \$1,772 are included in deposits and investments held with trustees on the consolidated statements of financial position as of June 30, 2020 and 2019, respectively.

Series 2013 bonds were issued at par in the original amount of \$25,820 to refund outstanding Series 2003 bonds. In January 2020 the University current refunded the outstanding Series 2013 bonds at a redemption price of 100% of the principal amount plus accrued interest to the redemption date. The transaction was accounted for as an extinguishment of debt with remaining deferred financing fees and other costs recorded as a loss on extinguishment of debt.

Series 2015A bonds were issued at par in the original amount of \$50,740 to partially refund Series 2005 bonds. This transaction was accounted for as an extinguishment of debt. The associated remaining Series 2005 deferred financing fees and other costs were recorded as a gain on extinguishment of debt. The effective interest rate of the bond issue is 2.91%.

Series 2015B bonds were issued at a premium of \$7,079 to the original amount of \$69,195 to fund various capital projects on the Daytona Beach and Prescott campuses. During January 2020 the University current refunded \$10,060 of the principal amount plus accrued interest to the redemption date. During February 2020 the University legally defeased \$16,205 of the principal amount plus accrued interest to the redemption date. These transactions were accounted for as extinguishments of debt with remaining deferred financing fees and other costs recorded as a loss on extinguishment of debt. The effective interest rate of the bond issue is 3.74%.

Series 2015C bonds were issued at par in the original amount of \$26,535 to refund outstanding Series 2005 bonds. This transaction was accounted for as an extinguishment of debt. The associated remaining Series 2005 deferred financing fees and other costs were recorded as a loss on extinguishment of debt. The effective interest rate of the bond issue is 2.28%.

Series 2017 bonds were issued at a premium of \$7,981 to the original issue amount of \$46,355 to fund various capital projects on the Daytona Beach and Prescott campuses and to advance refund outstanding Series 2011 bonds. The effective interest rate of the bond issue is 3.72%.

The portion of the proceeds from the Series 2017 bonds (\$11,982) and other sources of funds (\$22,236) were placed in an irrevocable escrow account to provide for debt service payments and redemption of the bonds as of the call date on October 15, 2021. Accordingly, the refunded Series 2011 bonds were legally defeased and neither the indebtedness nor the assets of the irrevocable trust are included on the consolidated statements of financial position.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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(In thousands)

Series 2020A bonds were issued during January 2020 at a premium of \$17,953 to the original issue amount of \$100,135 to fund various capital projects at the Daytona Beach and Prescott campuses and to current refund outstanding Series 2013 bonds and \$10,060 of the outstanding principal of the Series 2015B bonds. The effective interest rate of the bond issue is 3.51%.

The portion of the proceeds from the Series 2020A bonds to current refund \$10,060 of the Series 2015B bonds (\$10,172) were placed in an irrevocable escrow account to provide for the debt service payment and redemption of the bonds as of the call date on April 15, 2020.

Series 2020B taxable bonds were issued during January 2020 at par in the original amount of \$10,000 to fund flight training aircraft and other capital improvements at the Daytona Beach and Prescott campuses. The effective interest rate of the bond issue is 3.50%.

(c) Note Payable

The University entered into a promissory note obligation during February 2020 in the amount of \$19,291 to legally defease \$16,205 of its outstanding Series 2015B bonds. The obligations of the University under the promissory note are secured by a master note issued under the Master Indenture. The effective interest rate on the promissory note is 3.10%.

The proceeds from the promissory note were placed in an irrevocable escrow account to provide for debt service payments and redemption of the bonds as of the call date on April 15, 2025. Accordingly, this portion of the Series 2015B bonds were legally defeased and neither the indebtedness nor the assets of the irrevocable trust are included on the consolidated statements of financial position.

(d) Annual Debt Service

The University's debt service, including principal and interest payments made during the fiscal years ended June 30, 2020, and 2019, amounted to \$20,061 and \$18,690, respectively.

Maturities of long-term debt in each of the next five years and thereafter at June 30, 2020, are as follows:

Year ending June 30:		
2021	\$	11,235
2022		10,533
2023		10,728
2024		11,920
2025		12,339
Thereafter		226,579
Unamortized bond premium		28,501
Unamortized bond issue costs		(1,832)
Total long-term debt, net	\$	<u>310,003</u>

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June 30, 2020 and 2019

(In thousands)

(11) Revenue from Contracts with Customers

Revenue from contracts with customers comprises revenue from students for tuition, fees, and auxiliary enterprises.

The University's operating revenue is primarily derived from academic programs provided to students, including undergraduate, graduate and professional degree programs. Tuition and fees revenue is earned by the University for these educational services delivered during an academic term. Tuition is charged at different rates depending on the program in which the student is enrolled. As part of a student's course of instruction, certain fees, such as technology fees and laboratory fees, are billed to students. Tuition and fees are earned over the applicable academic term and are not considered separate performance obligations.

Tuition scholarships awarded by the University represent a reduction of the tuition transaction price. Institutional financial aid awards vary by student based on merit, need, or other qualifications. Scholarships are generally awarded for the academic year and are applied to the student's account during each academic term. Revenue is recognized and presented in the consolidated financial statements net of any such tuition discounts.

Academic terms are determined by regulatory requirements mandated by the federal government and/or applicable accrediting body. Academic terms are determined by start dates, which vary by program and are generally 9-16 weeks in length. Except for online programs and certain programs delivered during the summer, the academic terms generally have start and end dates that fall within the University's fiscal year.

The University bills tuition and fees in advance of each academic term and recognizes the tuition and fees revenue on a straight-line basis, as the educational services are performed, over the academic term or program. Students that withdraw by the last day of add/drop receive a full refund for the academic term. Per University policy, during the fall and spring terms, residential students who officially withdraw from the University are eligible for a pro rata refund based on their last day of attendance.

Flight instruction fees are due at the time of each flight completion. Nonpayment results in the student being restricted from flying until the account and charges are brought current. Prepaid fees are recorded in student deposits and advance payments on the consolidated statements of financial position.

Auxiliary enterprises revenue includes student housing, dining services commissions, health fees and other miscellaneous income. Room fees are charged at different rates depending on the residence hall and room accommodations. Room fees are billed in advance of each academic term and recognized as revenue on a straight-line basis over the period housing is provided.

Grants for basic research and other sponsored programs are generally subject to restrictions and conditions that must be met before the University is entitled to funding. Accordingly, advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed. The University recognizes revenues on grants for basic research and other sponsored programs as the awards for such programs are expended, since expenditure in accordance with award terms typically results in the simultaneous release of restrictions and conditions imposed by the grantor.

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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

Revenue from exchange contracts for applied research is recognized as the University's contractual performance obligations are substantially met. Indirect cost recovery by the University on U.S. government grants and contracts is based upon a predetermined negotiated rate and is recorded as grants and contracts revenue.

(12) Grants and Contracts Revenue

Grants and contracts revenue included in the consolidated statements of activities for the years ended June 30 consists of the following:

	2020	2019
Federal	\$ 18,506	12,382
State	5,916	5,144
Private	2,787	1,403
Total grants and contract revenue	\$ 27,209	18,929

(13) 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 Equities Fund (TIAA-CREF), a national organization used to fund pension benefits for educational institutions for the year June 30, 2020 and 2019. Retirement plan expenses for the years ended June 30, 2020 and 2019 were \$14,608 and \$13,886, respectively.

(14) Commitments and Contingencies

(a) Unionized Labor Force

The University employs approximately 140 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 on June 30, 2022.

(b) 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 management, are expected to have a material adverse effect on the University's consolidated financial statements.

(c) 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 a student defaults. At June 30, 2020, the maximum potential amount of future payments under this program is \$457, undiscounted. At June 30, 2020, the University established a liability of \$152 to estimate student loan defaults under this program.

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June 30, 2020 and 2019

(In thousands)

(d) 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 plans. The vision and dental plans are fully insured. To assist with administering the self-insured plan, the University uses a Third-Party Administrator (TPA) under an Administrative Services Only (ASO) arrangement. Blue Cross Blue Shield (BCBS) is the administrator of the medical benefits. The University contracts directly with BCBS, the ASO administrator, to access the nationwide network of medical providers for the self-insured medical plan.

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. There are limits with both specific claims and aggregate for the entire plan.

Self-insurance reserves are based on estimates of historical claims experience, and while management believes the reserves are adequate, aggregate liabilities may be more or less than the amounts provided. As of June 30, 2020 and 2019, self-insurance reserves amounted to approximately \$1,221 and \$1,367, respectively, which are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

(e) Other

In March 2020, the World Health Organization declared the global 2019 Novel Coronavirus (COVID-19) outbreak a pandemic. Management has since taken precautionary measures in accordance with federal and state guidelines. Although scope and duration of the pandemic is still unknown, management has determined that, to date, COVID-19 has not had a significant impact on the University's financial position, results of operations, or cash flows. Management will continue strong oversight of the University's performance outlook and has taken necessary steps to ensure a comprehensive contingency plan is in place.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

(15) Functional Classification of Expenses

Operating expenses presented by natural and functional classification are summarized as follows for the year ended June 30:

		2020							
		Academic instruction	Research	Academic support	Student services	Institutional support	Scholarships	Auxiliary	Total
Salaries and wages	\$	109,814	7,316	13,851	24,063	34,003	191	2,661	191,899
Fringe benefits		28,104	1,261	3,937	6,946	14,465	—	653	55,366
Other operating expenses		24,066	8,327	6,262	12,567	21,573	4,273	5,564	82,632
Insurance		1,072	13	—	173	2,683	—	472	4,413
Utilities		1,093	342	295	744	744	—	3,859	7,077
Interest		796	14	61	2,159	654	—	4,266	7,950
Depreciation		14,791	3,397	1,791	5,833	4,377	—	7,089	37,278
Total	\$	<u>179,736</u>	<u>20,670</u>	<u>26,197</u>	<u>52,485</u>	<u>78,499</u>	<u>4,464</u>	<u>24,564</u>	<u>386,615</u>

		2019							
		Academic instruction	Research	Academic support	Student services	Institutional support	Scholarships	Auxiliary	Total
Salaries and wages	\$	106,663	5,613	12,237	23,320	32,945	132	2,629	183,539
Fringe benefits		29,117	1,171	3,724	7,270	10,783	—	732	52,797
Other operating expenses		26,592	5,189	6,885	14,497	21,270	1,872	5,439	81,744
Insurance		1,018	13	—	167	2,643	—	393	4,234
Utilities		1,121	308	134	1,052	673	—	3,955	7,243
Interest		1,126	26	118	1,769	417	—	2,793	6,249
Depreciation		14,216	2,816	1,621	6,185	4,411	—	6,091	35,340
Total	\$	<u>179,853</u>	<u>15,136</u>	<u>24,719</u>	<u>54,260</u>	<u>73,142</u>	<u>2,004</u>	<u>22,032</u>	<u>371,146</u>

The University's primary program service is academic instruction and academic support. Expenses incurred in support of this primary program activity include general academic and flight instruction, research, student services, and auxiliary enterprises. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

The costs of depreciation and interest expense have been allocated to the functional expense categories to reflect the full cost of those activities. Costs are allocated using the following methods:

- Depreciation expense for buildings is allocated based on the square footage used to support each function. Depreciation expense on equipment is allocated to other functions based on the location of the equipment and the use of that space. These allocations are based on information obtained through a periodic inventory of space and equipment usage.
- Interest expense is allocated based on usage of debt-financed space.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

(16) Net Assets

Net assets consisted of the following at June 30:

	2020	2019
Without donor restrictions:		
Board-designated endowment funds	\$ 108,653	101,836
Net investment in plant	277,600	278,159
Undesignated	188,188	135,584
Total net assets without donor restriction	574,441	515,579
With donor restrictions:		
Time or purpose restricted	29,406	28,839
Time or purpose restricted pledges	3,420	1,942
Split interest agreements	211	220
Donor-restricted endowment funds	42,324	35,806
Donor-restricted endowment funds pledges	2,312	4,453
Total net assets with donor restrictions	77,673	71,260
Total net assets	\$ 652,114	586,839

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

	2020	2019
Donations restricted for capital asset construction or acquisition	\$ 124	1,351
Donations restricted for scholarships	2,335	1,785
Donations restricted for noncapital programs or acquisitions	696	974
Net assets released from restrictions	\$ 3,155	4,110

(17) Subsequent Events

Management of the University has reviewed subsequent events from June 30, 2020, through October 22, 2020 (the date the accompanying consolidated financial statements were issued). No material recognizable subsequent events were identified.

SUPPLEMENTAL INFORMATION

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Net Assets Class Disaggregation Schedule

June 30, 2020

(In thousands)

Assets	Without donor restrictions	With donor restrictions	Total
Current assets:			
Cash and cash equivalents	\$ 151,535	—	151,535
Short-term investments (note 4)	113,269	—	113,269
Accounts and notes receivable, less allowance for doubtful accounts of \$1,723	14,023	—	14,023
Current portion of student loans receivable, net (note 6)	1,437	—	1,437
Current portion of contributions receivable, net (note 7)	—	1,679	1,679
Inventories	3,942	—	3,942
Prepaid expenses and other current assets	8,328	—	8,328
Total current assets	292,534	1,679	294,213
Deposits and investments held with trustees	71,679	—	71,679
Long-term accounts and notes receivable, net	1,963	—	1,963
Student loans receivable, less current portion and allowance for doubtful accounts of \$1,148 (note 6)	7,141	—	7,141
Contributions receivable, net, less current portion (note 7)	—	3,763	3,763
Other assets	303	—	303
Long-term investments (note 4)	100,367	72,326	172,693
Operating lease right-of-use assets (note 9)	30,255	—	30,255
Land, land improvements, buildings and equipment, net (note 8)	515,924	—	515,924
Total assets	\$ 1,020,166	77,768	1,097,934
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 49,100	—	49,100
Advances for student loans and financial aid	8,347	—	8,347
Student deposits and advance payments	14,362	—	14,362
Deferred revenue – current portion	16,835	—	16,835
Current portion of operating lease liability (note 9)	3,644	—	3,644
Current portion of long-term debt (note 10)	12,409	—	12,409
Total current liabilities	104,697	—	104,697
Deferred revenue, less current portion	16,624	—	16,624
Operating lease liability (note 9)	26,810	—	26,810
Long-term debt (note 10)	297,594	—	297,594
Other liabilities	—	95	95
Total liabilities	445,725	95	445,820
Net assets (note 16):			
Without donor restrictions	574,441	—	574,441
With donor restrictions:			
Time or purpose	—	33,037	33,037
Perpetual	—	44,636	44,636
Total net assets	574,441	77,673	652,114
Total liabilities and net assets	\$ 1,020,166	77,768	1,097,934

See accompanying independent auditors' report.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Schedule of Financial Responsibility Composite Ratio Score

June 30, 2020

(In thousands)

Primary Reserve Ratio				
Expendable net assets		\$	303,197	
Total expenses		\$	386,615	0.7842
Equity Ratio				
Modified net assets		\$	652,114	
Modified assets		\$	1,097,934	0.5939
Net Income Ratio				
Change in unrestricted net assets		\$	58,862	
Total unrestricted revenues		\$	442,425	0.1330
Primary reserve	0.7842	3.0000	40%	1.20
Equity	0.5939	3.0000	40%	1.20
Net income	0.1330	3.0000	20%	0.60
Composite score				3.00

See accompanying independent auditors' report and notes to schedule of financial responsibility composite ratio score.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Supplementary Schedule of Financial Responsibility Data

Year ended June 30, 2020

(in thousands)

<u>Location in audited financial statements</u>	<u>Financial element</u>	<u>Amount used as ratio input</u>
Primary reserve ratio – expendable net assets:		
Statement of financial position	Net assets without donor restrictions	\$ 574,441
Statement of financial position	Net assets with donor restrictions	77,673
Statement of financial position	Net assets with donor restrictions – perpetual	(44,636)
Note 16, net assets	Annuities with donor restrictions – time/purpose investments under split interest agreements	(211)
Statement of financial position	Land, land improvements, buildings and equipment, net	(515,924)
Statement of financial position	Right-of-use lease assets	(30,255)
Statement of financial position	Deposits and investments held with trustees under debt agreements – unexpended project funds	(71,679)
Statement of financial position	Right-of-use lease liabilities	30,454
Note 10, long-term debt	Obligations under finance lease obligations	9,143
Note 10, long-term debt	Obligations under notes payable	19,291
Note 10, long-term debt	Obligations under bonds payable	254,900
Primary reserve ratio – expenses and losses:		
Statement of activities	Total operating expenses without donor restrictions	\$ 386,615
Equity ratio: modified net asset:		
Statement of financial position	Net assets without donor restrictions	\$ 574,441
Statement of financial position	Net assets with donor restrictions	77,673
Equity ratio: modified assets:		
Statement of financial position	Total assets	\$ 1,097,934
Net income ratio:		
Statement of activities	Change in net assets without donor restrictions	\$ 58,862
Statement of activities	Total operating revenues without donor restrictions	442,425

See accompanying independent auditors' report.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Schedule of Financial Responsibility Composite Ratio Score

June 30, 2020

(1) Background

Section 498(c) of the Higher Education Act of 1965, as amended, requires for-profit and nonprofit institutions to annually submit audited financial statements to the Department of Education (the Department) to demonstrate they are maintaining the standards of financial responsibility necessary to participate in Title IV programs. One of many standards, which the Department utilizes to gauge the financial responsibility of an institution, is a composite of three ratios derived from an institution's audited financial statements. The three ratios consist of a primary reserve ratio, an equity ratio, and a net income ratio. These ratios gauge the fundamental elements of the financial health of an institution, not the educational quality of an institution.

The Schedule of Financial Responsibility Composite Ratio Score (the Schedule) is prepared and submitted to the State of Florida Department of Education and U.S. Department of Education and is prepared pursuant to Appendix B of 34 CFR Part 668 – Subpart L, Ratio Methodology for Private Nonprofit Institutions (U.S. Department of Education) (the Code). The Schedule contains only the financial responsibility composite ratio scores required by the Code and are not intended to present the financial position or the results of operations of the University for the year ended June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

(2) Financial Responsibility Composite Ratio Score

The Schedule is prepared pursuant to the Code. The composite score calculated reflects the overall relative financial health of institutions along a scale from negative 1.0 to positive 3.0.

The composite score includes the following required ratios, strength factors, and weight factors:

(a) Ratios

(i) Primary Reserve Ratio

The Primary Reserve Ratio represents expendable net assets over total expenses.

Expendable net assets represent net assets without donor restrictions, plus net assets with donor restrictions, less net assets with donor restrictions restricted in perpetuity, less annuities, term endowments, and life income funds that are with donor restrictions related to purpose or passage of time, less intangible assets, less net property, plant, and equipment, plus post-employment and defined benefit pension liabilities, plus all debt obtained for long-term purposes, not to exceed total net property, plant and equipment, less unsecured related party receivables.

Total expenses represent all expenses and losses without donor restrictions from the statement of activities and changes in net assets less any losses without donor restrictions on investments, post-employment and defined benefit pensions plans, and annuities.

(ii) Equity Ratio

The Equity Ratio represents modified net assets over modified assets.

Modified net assets represent net assets without donor restrictions, plus net assets with donor restrictions, less intangible assets and unsecured related party receivables.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Schedule of Financial Responsibility Composite Ratio Score

June 30, 2020

Modified assets represent total assets less intangible assets and unsecured related party receivables.

(iii) Net Income Ratio

The Net Income Ratio represents the change in net assets without donor restrictions over total revenue without donor restrictions and gains without donor restrictions.

Change in net assets without donor restrictions represents the change in net assets without donor restrictions taken directly from the audited financial statements.

Total revenue without donor restrictions and gains without donor restrictions is taken directly from the audited financial statements and includes net assets released from restrictions during the fiscal year plus total gains. With regard to gains, investment returns are reported as a net amount (interest, dividends, unrealized and realized gains (losses), net of external and direct internal expenses (e.g. spending from funds functioning as endowment), and remaining net investment return as a non-operating item without restrictions). Accordingly, these two amounts are aggregated to determine if there is a net investment gain or a net investment loss.

(b) Strength Factors

The strength factor for each ratio is calculated as follows:

(i) Primary Reserve Ratio

10 x Primary Reserve Ratio result

(ii) Equity Ratio

6 x Equity Ratio Result

(iii) Net Income Ratio

1 + (50 x Net Income Ratio result) for positive Net Income Ratios

1 + (25 x Net Income Ratio result) for negative Net Income Ratios

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Schedule of Financial Responsibility Composite Ratio Score

June 30, 2020

(c) Weight Factors

The weight factor for each ratio is as follows:

(i) *Primary Reserve Ratio*

40%

(ii) *Equity Ratio*

40%

(iii) *Net Income Ratio*

20%