



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

Consolidated Financial Statements and
Supplemental Information

Years Ended June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page(s)
Independent Auditors' Report	1-3
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-37
Supplemental Information	
Schedule of Financial Responsibility Composite Ratio Score	38
Schedule of Financial Responsibility Data	39
Notes to Schedule of Financial Responsibility Composite Ratio Score	40-42



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Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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, 2023 and 2022, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are



considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Financial Responsibility Composite Ratio Score and Schedule of Financial Responsibility Data are presented for purposes of additional analysis as required by the U.S. Department of Education, and are not a required part of the consolidated financial statements. Such information 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. 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 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 November 17, 2023 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 the effectiveness of the University's 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
November 17, 2023

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

Consolidated Statements of Financial Position

June 30, 2023 and 2022

(In thousands)

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 229,787	201,809
Short-term investments (note 4)	233,949	199,469
Accounts and notes receivable, less allowance for doubtful accounts of \$1,754 and \$1,521, respectively	19,218	20,690
Student loans receivable, net, current portion (note 7)	907	1,169
Contributions receivable, net, current portion (note 8)	13,431	12,837
Inventories	6,412	4,895
Prepaid expenses and other current assets	17,154	14,256
Total current assets	520,858	455,125
Noncurrent assets:		
Deposits and investments held with trustees	3,366	10,024
Long-term accounts and notes receivables, net	934	1,350
Student loans receivable, less current portion and allowance for doubtful accounts of \$337 and \$463, respectively (note 7)	3,200	4,031
Contributions receivable, net, less current portion (note 8)	5,644	12,549
Other assets	304	304
Long-term investments (note 4)	274,605	228,836
Right-of-use lease assets (note 10)	37,177	27,623
Land, land improvements, buildings and equipment, net (note 9)	598,400	586,583
Total noncurrent assets	923,630	871,300
Total assets	\$ 1,444,488	1,326,425
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses, current portion	\$ 45,967	42,340
Advances for student loans and financial aid	6,631	4,703
Student deposits and advance payments	14,727	13,812
Deferred revenue, current portion	20,891	13,848
Right-of-use lease liability, current portion (note 10)	2,909	3,577
Long-term debt, current portion (note 11)	18,953	17,660
Total current liabilities	110,078	95,940
Noncurrent liabilities:		
Accounts payable and accrued expenses, less current portion	—	4,367
Deferred revenue, less current portion	15,018	17,026
Right-of-use lease liability, less current portion (note 10)	34,540	24,047
Long-term debt, net, less current portion (note 11)	284,513	303,466
Other liabilities	116	88
Total noncurrent liabilities	334,187	348,994
Total liabilities	444,265	444,934
Net assets (note 17):		
Without donor restrictions	871,412	768,006
With donor restrictions:		
Time or purpose	57,174	49,291
Perpetual	71,637	64,194
Total net assets	1,000,223	881,491
Total liabilities and net assets	\$ 1,444,488	1,326,425

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Activities

Year ended June 30, 2023

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and other additions:			
Tuition, net of institutionally funded scholarships of \$142,815	\$ 361,642	—	361,642
Flight fees	53,435	—	53,435
Other fees	26,245	—	26,245
Grants and contracts	31,766	—	31,766
Private gifts – cash and financial assets	438	—	438
Sales and services-educational	361	—	361
Auxiliary enterprises	46,620	—	46,620
Investment income, net	9,420	—	9,420
Other revenue	13,395	—	13,395
Investment earnings distributed	2,721	2,518	5,239
Total operating revenue and other additions	546,043	2,518	548,561
Net assets released from restrictions	4,277	(4,277)	—
Total operating revenue and other additions	550,320	(1,759)	548,561
Expenses (note 16):			
Salaries and wages	219,912	—	219,912
Fringe benefits	63,770	—	63,770
Other operating expenses	107,494	—	107,494
Insurance	8,062	—	8,062
Utilities	10,093	—	10,093
Interest	10,183	—	10,183
Depreciation and amortization	41,987	—	41,987
Total operating expenses	461,501	—	461,501
Excess (deficiency) of revenue and other additions over expenses from operating activities	88,819	(1,759)	87,060
Nonoperating activities:			
Private gifts – cash and financial assets	31	11,584	11,615
Private gifts – nonfinancial assets	238	—	238
Investment return, net	16,771	8,037	24,808
Distribution of prior year investment earnings for spending	(2,721)	(2,518)	(5,239)
Other nonoperating activities	268	(18)	250
Total nonoperating activities	14,587	17,085	31,672
Changes in net assets	103,406	15,326	118,732
Net assets, beginning of year	768,006	113,485	881,491
Net assets, end of year	\$ 871,412	128,811	1,000,223

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Activities

Year ended June 30, 2022

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and other additions:			
Tuition, net of institutionally funded scholarships of \$134,143	\$ 344,040	—	344,040
Flight fees	47,842	—	47,842
Other fees	24,557	—	24,557
Grants and contracts	60,260	—	60,260
Private gifts – cash and financial assets	391	—	391
Private gifts – nonfinancial assets	41	—	41
Sales and services-educational	206	—	206
Auxiliary enterprises	42,178	—	42,178
Investment income, net	1,381	5	1,386
Other revenue	6,458	—	6,458
Investment earnings distributed	1,777	2,342	4,119
	529,131	2,347	531,478
Net assets released from restrictions	3,839	(3,839)	—
	532,970	(1,492)	531,478
Expenses (note 16):			
Salaries and wages	207,079	—	207,079
Fringe benefits	58,662	—	58,662
Other operating expenses	109,280	—	109,280
Insurance	6,537	—	6,537
Utilities	9,185	—	9,185
Interest	9,749	—	9,749
Depreciation and amortization	39,246	—	39,246
	439,738	—	439,738
Excess (deficiency) of revenue and other additions over expenses from operating activities	93,232	(1,492)	91,740
Nonoperating activities:			
Private gifts – cash and financial assets	—	27,902	27,902
Private gifts – nonfinancial assets	19	4,680	4,699
Investment return, net	(27,844)	(10,717)	(38,561)
Distribution of prior year investment earnings for spending	(1,777)	(2,342)	(4,119)
Other nonoperating activities	564	(12)	552
	(29,038)	19,511	(9,527)
Changes in net assets	64,194	18,019	82,213
Net assets, beginning of year	703,812	95,466	799,278
Net assets, end of year	\$ 768,006	113,485	881,491

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Increase in net assets	\$ 118,732	82,213
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,987	39,246
Realized and unrealized (gains)/losses on investments	(15,789)	47,534
Net amortization of bond premium and debt issuance costs	(1,278)	(1,288)
(Gain) loss on disposal of equipment	(3,745)	1,692
Amortization of right-of-use lease assets	271	(328)
Contribution of nonfinancial assets	(238)	(19)
Contributions restricted for long-term investment	(7,887)	(18,929)
Changes in operating assets and liabilities:		
Accounts and notes receivable	1,888	5,017
Contributions receivable	6,311	(19,973)
Inventories	(1,517)	(1,011)
Prepaid expenses and other assets	(2,898)	(3,722)
Accounts payable and accrued expenses	319	(10,306)
Advances for student loans and financial aid	1,928	(2,556)
Deferred revenue	5,035	1,942
Other liabilities	28	(4)
Student deposits and advance payments	915	2,933
Net cash provided by operating activities	<u>144,062</u>	<u>122,441</u>
Cash flows from investing activities:		
Purchase of investments	(552,753)	(483,438)
Sale of investments	489,298	392,517
Principal received on student loan receivables	1,195	1,997
Loans made to students	(102)	(23)
Proceeds from sale of land, land improvements, buildings, and equipment	6,476	59
Capital expenditures	(57,356)	(71,101)
Net cash used in investing activities	<u>(113,242)</u>	<u>(159,989)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(16,382)	(15,405)
Decrease in deposits and investments with trustees	6,658	20,251
Proceeds from contributions restricted for:		
Investment in endowment	7,443	18,920
Investment in plant	444	9
Net cash (used in) provided by financing activities	<u>(1,837)</u>	<u>23,775</u>
Change in cash, cash equivalents and restricted cash	28,983	(13,773)
Cash, cash equivalents and restricted cash, beginning of year	<u>205,611</u>	<u>219,384</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 234,594</u>	<u>205,611</u>
Reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position:		
Cash and cash equivalents	\$ 229,787	201,809
Cash and cash equivalents, restricted	<u>4,807</u>	<u>3,802</u>
Total cash, cash equivalents and restricted cash	<u>\$ 234,594</u>	<u>205,611</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 11,678	11,983
Change in capital asset acquisitions in accounts payable	(1,059)	1,527

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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 approximately 110 locations throughout 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) and certain other programmatic accrediting bodies.

(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 U.S. generally accepted accounting principles (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.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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 subsidiaries, Embry-Riddle Aeronautical University, Asia Ltd. (ERAU Asia) and ERAU Asia Institute, Ltd. (ERAU Asia Institute), are companies limited by guarantee and incorporated in Singapore. The principal activities of ERAU Asia and ERAU Asia Institute 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-term investment managers. Cash equivalents exclude deposits and investments held with 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.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(g) Concentration of Risks

Financial instruments, which potentially subject the University to significant concentration 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 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 covenants of the University and are limited to use on authorized projects.

(k) Long-Term Investments

The majority of the University's long-term investments are held in marketable equity and debt securities, including mutual funds, and 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) reported by the investment fund managers as a practical expedient. 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.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Investment income is recorded on the accrual basis.

(l) 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.

(m) 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.

(n) 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 is subsequently 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

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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.

(o) Capitalized Interest

The University capitalizes interest costs incurred on long-term debt during the construction of major projects exceeding one year. During fiscal years 2023 and 2022, the amount of interest capitalized was \$146 and \$1,031, respectively.

(p) 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 11).

(q) Unamortized Bond Issuance Costs

Costs incurred in connection with bond issuances are generally amortized on the effective-interest 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 11).

(r) 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, net, 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 of the lease 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 statements of financial position, and lease expense is recognized in accordance with the terms of the arrangement over the lease term on a straight-line basis.

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.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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.

(s) *Deferred Revenue*

The University has \$17,181 and \$19,069 in deferred revenue recorded as of June 30, 2023 and 2022, 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.

(t) *Federal 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 2023 and 2022, and there are no uncertain tax positions considered to be material.

(u) *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.

(v) *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 the gift. Unconditional promises to give are stated at the estimated net present value and 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 position. Included in deferred revenue at June 30, 2023 and 2022 are \$5,731 and \$545, respectively, of private grant and contract receipts that have not been expended.

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/or expenses of the University.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(w) 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 contributions receivable, fair value measurement of alternative investments, carrying value of land, land improvements, buildings and equipment, self-insurance reserves, and asset retirement obligations. Actual results could differ materially, in the near term, from amounts reported.

(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, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Total assets	\$ 1,444,488	1,318,644
Less nonfinancial assets:		
Land, land improvements, buildings and equipment, net	(598,400)	(586,583)
Right-of-use lease assets	(37,177)	(27,623)
Inventories	(6,412)	(4,895)
Prepaid expenses and other current assets	(17,154)	(6,475)
Other assets	(304)	(304)
Total financial assets	<u>785,041</u>	<u>692,764</u>
Less amounts not available for general expenditures within one year:		
Other long-term accounts and notes receivable	(934)	(1,350)
Restricted by donor with time or purpose restrictions	(28,851)	(26,287)
Board-designated endowment funds	(181,601)	(153,878)
Donor-restricted endowment funds	(106,414)	(75,198)
Other contractual restrictions	(25,993)	(39,733)
Total financial assets not available to meet general expenditures within one year	<u>(343,793)</u>	<u>(296,446)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 441,248</u>	<u>396,318</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

As of June 30, 2023, \$441,248 of financial assets consisting primarily of cash and cash equivalents, \$229,787; cash and cash equivalents, restricted, \$4,807; investments, net of time or purpose restrictions, \$186,529; and accounts and notes receivable, net, \$20,125, is available within one year of the balance sheet date to meet cash needs for general expenditures.

As of June 30, 2022, \$396,318 of financial assets consisting primarily of cash and cash equivalents, \$201,809; cash and cash equivalents, restricted, \$3,802; investments, net of time or purpose restrictions, \$168,848; and accounts and notes receivable, net, \$21,859, is 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 Board-designated funds functioning as endowment, which could be available for general expenditures with Board of Trustees' (Board) approval. These funds totaled \$181,601 and \$153,878 for the years ended June 30, 2023 and 2022, respectively.

(4) Investments

Investments at June 30, 2023 and 2022 are comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents, restricted	\$ 4,807	3,802
U.S. equity	122,474	103,849
International equity	41,110	35,639
Fixed income	281,743	237,029
Real asset	13,785	14,211
Hedge funds:		
Multi-strategy	16,151	15,413
Private partnerships:		
Private equity:		
Buyout	977	570
Real estate	15,510	15,216
Private credit:		
Distressed debt	2,945	1,803
Senior direct lending	9,052	773
Total investments	<u>\$ 508,554</u>	<u>428,305</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

	2023	2022
Short-term investments	\$ 233,949	199,469
Investments, held for long-term purposes	274,605	228,836
Total investments	\$ 508,554	428,305

(a) Fair Value Hierarchy of Investments

The fair value hierarchy of investments as of June 30, 2023 is as follows:

	Level 1	Total	Redemption terms	Redemption notice period	Redemption restrictions and terms period
Cash and cash equivalents, restricted	\$ 4,807	4,807	Daily	N/A	
U.S. equity	122,474	122,474	Daily	N/A	
International equity	41,110	41,110	Daily	N/A	
Fixed income	281,743	281,743	Daily	N/A	
Real asset	13,785	13,785	Daily	N/A	
	\$ 463,919	463,919			
Investments measured at net asset value (NAV):					
Hedge funds: (a)					
Multi-strategy		16,151	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
Private partnerships:					
Private equity: (b)					
Buyout		977	Not permitted	N/A	N/A; redemptions not permitted
Real estate		15,510	Monthly	30 days	None
Private credit: (c)					
Distressed debt		2,945	Not permitted	N/A	N/A; redemptions not permitted
Senior direct lending		9,052	Not permitted	N/A	N/A; redemptions not permitted
Total investments measured at NAV		44,635			
Total investments at fair value		508,554			

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

The fair value hierarchy of investments as of June 30, 2022 is as follows:

	<u>Level 1</u>	<u>Total</u>	<u>Redemption terms</u>	<u>Redemption notice period</u>	<u>Redemption restrictions and terms period</u>
Cash and cash equivalents, restricted	\$ 3,802	3,802	Daily	N/A	
U.S. equity	103,849	103,849	Daily	N/A	
International equity	35,639	35,639	Daily	N/A	
Fixed income	237,029	237,029	Daily	N/A	
Real asset	14,211	14,211	Daily	N/A	
	<u>\$ 394,530</u>	<u>394,530</u>			
Investments measured at net asset value (NAV):					
Hedge funds: (a)					
Multi-strategy		15,413	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
Private partnerships:					
Private equity: (b)					
Buyout		570	Not permitted	N/A	N/A; redemptions not permitted
Real estate		15,216	Monthly	30 days	None
Private credit: (c)					
Distressed debt		1,803	Not permitted	N/A	N/A; redemptions not permitted
Senior direct lending		773	Not permitted	N/A	N/A; redemptions not permitted
Total investments measured at NAV		<u>33,775</u>			
Total investments at fair value		<u>\$ 428,305</u>			

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

- (a) Generate long-term capital appreciation with relatively low volatility and a low correlation with traditional equity and fixed-income markets.
- (b) Earn higher returns than the public equity markets over the long term and take advantage of the illiquidity premium.
- (c) Earn higher returns than the public debt markets over the long term by taking advantage of preferential yields, terms and characteristics available through private transactions.

Private equity and private credit investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital is called by managers. These partnerships have a limited existence, generally between 10 and 15 years, and provide for annual one-year extensions after the initial contract period for the purpose of systematically liquidating portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

or reduce the term of a fund from that which was originally anticipated. As a result, the timing and amount of future capital calls expected to be exercised in any particular future year is uncertain. The aggregate amount of the unfunded commitments associated with the private equity and credit investments as of June 30, 2023 and 2022 were \$21,550 and \$13,902, respectively.

The total investment return, net, is summarized as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Income from interest and dividends	\$ 20,151	12,072
Net realized and unrealized gains/(losses)	15,909	(47,461)
Investment fees	(1,832)	(1,786)
Total investment return, net	\$ 34,228	(37,175)

Investment return, net is included in the consolidated statements of activities as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Operating	\$ 9,420	1,386
Nonoperating	24,808	(38,561)
Total investment return, net	\$ 34,228	(37,175)

(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 endowment funds.

The University classifies as net assets with donor restrictions the historical value of donor-restricted endowment funds including (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 endowment funds that is

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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 net assets by type of fund were as follows for the year ended June 30, 2023:

	2023		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 153,878	87,198	241,076
Investment return, net	15,444	7,987	23,431
Appropriation for expenditure	(2,721)	(2,668)	(5,389)
Endowment return, net of appropriation	<u>12,723</u>	<u>5,319</u>	<u>18,042</u>
Other changes in endowment investments:			
Contributions	—	7,443	7,443
Transfers to create funds functioning as endowment	<u>15,000</u>	<u>—</u>	<u>15,000</u>
Total other changes in endowment investments	<u>15,000</u>	<u>7,443</u>	<u>22,443</u>
Endowment net assets, end of year	<u>\$ 181,601</u>	<u>99,960</u>	<u>281,561</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Changes in the fair value of the University's endowment net assets by type of fund were as follows for the year ended June 30, 2022:

	2022		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 162,120	80,700	242,820
Investment return, net	(21,465)	(10,696)	(32,161)
Appropriation for expenditure	(1,777)	(1,726)	(3,503)
Endowment return, net of appropriation	(23,242)	(12,422)	(35,664)
Other changes in endowment investments:			
Contributions	—	18,920	18,920
Transfers to create funds functioning as endowment	15,000	—	15,000
Total other changes in endowment investments	15,000	18,920	33,920
Endowment net assets, end of year	\$ <u>153,878</u>	<u>87,198</u>	<u>241,076</u>

Endowment net assets as of June 30, 2023 and 2022 are classified as follows:

	Without donor restrictions	With donor restrictions	Total
2023:			
Donor-restricted endowment funds	\$ —	99,960	99,960
Board-designated funds functioning as endowment funds	181,601	—	181,601
Total	\$ <u>181,601</u>	<u>99,960</u>	<u>281,561</u>
2022:			
Donor-restricted endowment funds	\$ —	87,198	87,198
Board-designated funds functioning as endowment funds	153,878	—	153,878
Total	\$ <u>153,878</u>	<u>87,198</u>	<u>241,076</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(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, 2023 and 2022, funds with an original gift value \$6,210 and \$35,139 were underwater by \$88 and \$2,424, 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) Contributed Nonfinancial Assets

The University occasionally receives contributed nonfinancial assets from its donors. Such assets are recorded at fair value based on independent appraisals and current values for similar goods and services.

Contributions of nonfinancial assets included in the consolidated statements of activities for the years ended June 30, 2023 and 2022 are as follows:

<u>Nonfinancial asset</u>	<u>2023</u>	<u>Utilization in programs/activities</u>	<u>Donor restriction</u>	<u>Fair value techniques</u>
Art and collectibles	\$ 6	Institutional support	No associated donor restriction	Estimated prices of identical or similar products
Boats and planes	5	Academic instruction	No associated donor restriction	Estimated prices of identical or similar products
Clothing and household goods	6	Student services	No associated donor restriction	Estimated prices of identical or similar products
Equipment	216	Academic instruction and student services	No associated donor restriction	Estimated prices of identical or similar products
Other	5	Institutional support	No associated donor restriction	Estimated prices of identical or similar products
Total	<u>\$ 238</u>			

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

<u>Nonfinancial asset</u>	<u>2022</u>	<u>Utilization in programs/activities</u>	<u>Donor restriction</u>	<u>Fair value techniques</u>
Art and collectibles	\$ 9	Institutional support	No associated donor restriction	Estimated prices of identical or similar products
Boats and planes	3	Academic instruction	No associated donor restriction	Estimated prices of identical or similar products
Clothing and household goods	1	Student services	No associated donor restriction	Estimated prices of identical or similar products
Equipment	20	Academic instruction and student services	No associated donor restriction	Estimated prices of identical or similar products
Real estate	4,680	Scholarships	Scholarships (endowed)	Total consideration/sale price; appraisal
Other	27	Institutional support	No associated donor restriction	Estimated prices of identical or similar products
Total	<u>\$ 4,740</u>			

(7) Student Loans Receivable

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

	<u>2023</u>	<u>2022</u>
Federal Perkins Loan Program	\$ 3,671	4,820
Other student loans	773	843
Less allowance for doubtful accounts	<u>(337)</u>	<u>(463)</u>
Total student loans receivable, net	4,107	5,200
Current portion	<u>907</u>	<u>1,169</u>
Long-term portion	<u>\$ 3,200</u>	<u>4,031</u>

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 was \$4,255 and \$5,409 at June 30, 2023 and 2022, respectively, and is included as a component of advances for student loans and financial aid in the consolidated statements of financial position.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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.

(8) Contributions Receivable

Contributions receivable, net, at June 30 are as follows:

	2023	2022
Unconditional promises expected to be collected in:		
Less than one year	\$ 13,534	12,903
One year to five years	6,374	13,935
More than five years	215	215
	20,123	27,053
Less:		
Allowance for uncollectible pledges	291	426
Discount for present value (ranging from 3.49% and 4.50% at June 30, 2023 and 2022)	757	1,241
Contributions receivable, net	\$ 19,075	25,386

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

	2023	2022
Current portion	\$ 13,431	12,837
Long-term portion	5,644	12,549
Contributions receivable, net	\$ 19,075	25,386

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(9) Land, Land Improvements, Buildings and Equipment

Components of land, land improvements, buildings and equipment at June 30, 2023 and 2022 are as follows:

	2023	2022
Land and land improvements	\$ 79,711	79,492
Buildings	682,117	666,499
Equipment	284,830	261,046
Construction in progress	37,843	27,265
Total	1,084,501	1,034,302
Less accumulated depreciation and amortization	(486,101)	(447,719)
Land, land improvements, buildings, and equipment, net	\$ 598,400	586,583

Depreciation and amortization expense for the years ended June 30, 2023 and 2022 was \$41,987 and \$39,246, respectively. At June 30, 2023, the University had commitments of approximately \$215,970 related to various capital projects.

(10) 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 45 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

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

lease 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 are as follows:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 5,364	4,422
Finance lease cost:		
Amortization of ROU assets	1,576	1,624
Interest on lease liabilities	<u>49</u>	<u>106</u>
Total finance lease cost	1,625	1,730
Short-term lease cost	154	530
Variable and nonlease cost	<u>1,083</u>	<u>818</u>
Total lease cost	<u>\$ 8,226</u>	<u>7,500</u>

(b) Other Lease Information

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

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 4,797	4,457
Operating cash flows from finance leases	49	106
Financing cash flows from finance leases	1,452	2,855
Gain on operating lease modifications	—	(11)
Loss on finance lease disposals	2,836	264
Noncash impacts:		
Noncash impacts on operating lease modifications	(1,732)	(524)
Noncash impacts on finance lease modifications	—	(61)
Noncash impacts on new operating leases initiated	13,571	3,233
Noncash impacts on operating lease amortization	139	168

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(c) Lease Position

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

	<u>2023</u>	<u>2022</u>
Operating leases:		
Operating lease ROU assets	\$ 37,177	27,623
Total operating lease liabilities	\$ 37,449	27,624
Current portion	2,909	3,577
Long-term portion	34,540	24,047
Finance leases:		
Land, land improvements, buildings and equipment	\$ 22,709	27,643
Less accumulated amortization	<u>(11,504)</u>	<u>(12,721)</u>
Finance lease assets, net	<u>\$ 11,205</u>	<u>14,922</u>
Total finance lease liabilities	\$ 645	2,096
Current portion	205	1,452
Long-term portion	440	644

(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:

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term (years):		
Operating leases	21.99	12.95
Finance leases	2.75	2.39
Discount rate:		
Operating leases (weighted average)	3.91 %	4.14 %
Finance leases	4.67	3.23

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(e) Maturities

The maturities of lease liabilities at June 30, 2023 are as follows:

	Operating leases	Finance leases
2024	\$ 4,321	229
2025	3,855	191
2026	3,329	275
2027	3,151	—
2028	3,113	—
Thereafter	43,617	—
Total future undiscounted lease payments	61,386	695
Less interest	(23,937)	(50)
Present value of lease liabilities	\$ 37,449	645

(11) Long-Term Debt

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

	Interest%	Maturity	2023	2022
Finance lease obligations:				
Land – 501 S. Clyde Morris Blvd.	4.82 %	2026	\$ 606	763
Aircraft – Banc of America Leasing	2.28%–3.02%	2023	39	1,333
Total finance lease obligations			645	2,096
Notes payable:				
Promissory note – PNC Bank	3.03 %	2037	16,171	18,546
Promissory note – Truist Bank	1.68 %	2028	29,500	35,105
Total notes payable			45,671	53,651

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

	Interest%	Maturity	2023	2022
Bonds payable:				
Volusia County Educational:				
Facilities revenue bonds:				
Series 2015A	2.91 %	2031	\$ 28,720	31,870
Series 2015B	3.00%–5.00%	2035	40,935	41,010
Series 2015C	2.28 %	2027	11,295	13,885
Series 2017	5.00 %	2048	46,355	46,355
Series 2020A	4.00%–5.00%	2050	96,855	97,990
Series 2020B (taxable)	3.43 %	2037	10,000	10,000
Total bonds payable – principal			234,160	241,110
Bond premium:				
Series 2015B			2,546	2,954
Series 2017			6,055	6,413
Series 2020A			15,854	16,483
Total premium			24,455	25,850
Bond issuance costs:				
Series 2015A			62	79
Series 2015B			313	341
Series 2015C			11	17
Series 2017			283	309
Series 2020A			663	689
Series 2020B			55	60
Promissory note – PNC Bank			78	86
Total bond issuance costs			1,465	1,581
Total long-term debt, net			303,466	321,126
Current portion			18,953	17,660
Long-term portion			\$ 284,513	303,466

(a) Finance Lease Obligations

In March 2000, 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.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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 expire 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 Computershare Trust Company, National Association, as master trustee. The master notes issued under the Master Indenture are secured by a lien on tuition revenues of the University.

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 trustees of \$3,366 and \$10,024 are included in deposits and investments held with trustees on the consolidated statements of financial position as of June 30, 2023 and 2022, respectively.

Series 2015A bond was 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 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. The effective interest rate of the bond issue is 3.74%.

Series 2015C bond was 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 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

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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.

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 bond was 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 in February 2020 with BBVA USA, which was acquired by PNC Bank in 2021, in the amount of \$19,291 to legally defease \$16,205 of its outstanding Series 2015B bonds. The obligation of the University under the promissory note is 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 was legally defeased and neither the indebtedness nor the assets of the irrevocable trust are included on the consolidated statements of financial position.

The University entered into a promissory note obligation with Truist Bank during May 2021 in the amount of \$40,000 to fund the acquisition of flight training aircraft and flight training devices at the Daytona Beach and Prescott campuses. The obligation of the University under the promissory note is secured by a master note issued under the Master Indenture. The effective interest rate on the promissory note is 1.68%.

(d) Annual Debt Service

The University's debt service, including principal and interest payments made during the fiscal years ended June 30, 2023 and 2022, amounted to \$28,060 and \$27,388, respectively.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Maturities of long-term debt in each of the next five years, and thereafter at June 30, 2023, are as follows:

Year ending June 30:			
2024	\$		17,669
2025			18,189
2026			18,742
2027			19,060
2028			17,885
Thereafter			188,931
Unamortized bond premium			24,455
Unamortized bond issue costs			<u>(1,465)</u>
Total long-term debt, net	\$		<u><u>303,466</u></u>

(12) 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.

The length of academic terms are determined by regulatory requirements mandated by the federal government and/or an institutional 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

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

University after add/drop are eligible for a pro rata refund of tuition and fees based on their last day of attendance. At the Worldwide campus, students are entitled to receive a refund of 100% of tuition and fees if they officially withdraw within the first four days of class; Worldwide campus students are not eligible to receive a pro rata refund of tuition and fees thereafter, unless required by the student's state of residency.

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. 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.

(13) 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:

	<u>2023</u>	<u>2022</u>
Federal	\$ 25,917	54,562
State	3,654	5,039
Private	2,186	609
Foreign	<u>9</u>	<u>50</u>
Total grants and contracts revenue	<u>\$ 31,766</u>	<u>60,260</u>

Foreign grants and contracts revenue for the year ended June 30, 2023 and 2022 includes \$9 and \$50, respectively, in grants provided by the Singapore government to ERAU Asia Ltd.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(14) Retirement

Retirement benefits are provided through a defined contribution plan (Plan) covering all qualified employees. The Plan is administered through the Teachers Insurance and Annuity Association (TIAA), a national organization used to fund pension benefits for educational institutions. Retirement plan expenses for the years ended June 30, 2023 and 2022 were \$17,412 and \$16,242, respectively.

(15) Commitments and Contingencies

(a) Unionized Labor Force

The University employs, on average, 181 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, 2025.

(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) 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, 2023 and 2022, self-insurance reserves amounted to approximately \$1,536 and \$1,267, respectively, which are included in accounts payable and accrued expenses in the consolidated statements of financial position.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(16) Functional Classification of Expenses

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

	2023							
	Academic instruction	Research	Academic support	Student services	Institutional support	Scholarships	Auxiliary	Total
Salaries and wages	\$ 118,411	10,376	16,956	31,017	39,704	149	3,299	219,912
Fringe benefits	30,292	1,556	4,681	8,830	17,615	—	796	63,770
Other operating expenses	29,567	14,149	7,448	16,834	29,820	3,204	6,472	107,494
Insurance	2,641	12	—	229	4,350	—	830	8,062
Utilities	1,161	405	415	891	1,192	—	6,029	10,093
Interest	1,523	45	192	2,254	1,242	—	4,927	10,183
Depreciation and amortization	14,649	4,343	1,009	7,779	2,963	—	11,244	41,987
Total	<u>\$ 198,244</u>	<u>30,886</u>	<u>30,701</u>	<u>67,834</u>	<u>96,886</u>	<u>3,353</u>	<u>33,597</u>	<u>461,501</u>

	2022							
	Academic instruction	Research	Academic support	Student services	Institutional support	Scholarships	Auxiliary	Total
Salaries and wages	\$ 114,372	10,149	15,472	27,833	36,367	138	2,748	207,079
Fringe benefits	26,833	1,603	3,890	7,252	18,481	—	603	58,662
Other operating expenses	25,620	14,808	6,342	14,879	25,432	17,207	4,992	109,280
Insurance	1,993	22	—	228	3,749	—	545	6,537
Utilities	1,231	424	441	950	1,165	—	4,974	9,185
Interest	1,682	46	195	2,079	1,230	—	4,517	9,749
Depreciation and amortization	15,745	4,411	1,673	5,364	3,115	—	8,938	39,246
Total	<u>\$ 187,476</u>	<u>31,463</u>	<u>28,013</u>	<u>58,585</u>	<u>89,539</u>	<u>17,345</u>	<u>27,317</u>	<u>439,738</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, amortization 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 and amortization 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.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(17) Net Assets

Net assets consisted of the following at June 30:

	2023	2022
Without donor restrictions:		
Board-designated endowment funds	\$ 181,601	153,878
Net investment in plant	298,299	275,480
Undesignated	391,512	338,648
Total net assets without donor restriction	871,412	768,006
With donor restrictions:		
Time or purpose restricted	44,274	35,392
Time or purpose restricted pledges	12,621	13,679
Split interest agreements	279	220
Donor-restricted endowment funds	65,183	52,194
Donor-restricted endowment funds pledges	6,454	12,000
Total net assets with donor restrictions	128,811	113,485
Total net assets	\$ 1,000,223	881,491

Net assets released from donor restrictions met by incurring expenses satisfying the restricted purpose or by occurrence of other events for the years ended June 30 include:

	2023	2022
Donations restricted for capital asset construction or acquisition	\$ —	(26)
Donations restricted for scholarships	3,304	2,590
Donations restricted for noncapital programs or acquisitions	973	1,275
Net assets released from restrictions	\$ 4,277	3,839

(18) Financial Responsibility Standards

The University participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education, as set forth in 34 CFR Subpart 668.171. The criteria for private institutions includes the annual calculation by the U.S. Department of Education of a financial responsibility composite score, as further outlined in 34 CFR Subpart 668.172, using audited financial statements submitted through the U.S. Department of Education's eZ-Audit system. The composite score is based on three ratios: Primary Reserve, Equity and Net Income. These ratios utilize the following financial data of the University, which are not otherwise

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

presented in the consolidated financial statements or other notes to the consolidated financial statements, as of and for the year ended June 30, 2023.

Total long-term debt consists of (1) pre-implementation debt, defined as the amounts reported in the University's consolidated financial statements for the fiscal year ended June 30, 2020, less any payments or other reductions after June 30, 2020, and not to exceed land, land improvements, buildings and equipment, net; and (2) post-implementation debt, defined as debt used to obtain land, land improvements, buildings and equipment, net, after the fiscal year ended June 30, 2020, less any payments or other reductions.

<u>Data element</u>	<u>Direct input to ratio</u>	<u>Amount</u>
Composition of long-term debt:		
Pre-implementation obligations under finance lease obligations used for capital	Primary reserve \$	645
Pre-implementation obligations under notes payable used for capital	Primary reserve	16,171
Pre-implementation obligations under bonds payable used for capital	Primary reserve	234,160
Post-implementation obligations under notes payable used for capital	Primary reserve	<u>29,500</u>
Total long-term debt		<u>\$ 280,476</u>
Composition of land, land improvements, buildings and equipment, net:		
Pre-implementation land, land improvements, buildings and equipment, net	Primary reserve \$	517,182
Pre-implementation construction in progress	Primary reserve	15,607
Post-implementation land, land improvements, buildings and equipment, net with long-term debt	Primary reserve	35,423
Post-implementation land, land improvements, buildings and equipment, net without long-term debt	Primary reserve	7,952
Post-implementation construction in progress with long-term debt	Primary reserve	69
Post-implementation construction in progress without long-term debt	Primary reserve	<u>22,167</u>
Total land, land improvements, buildings and equipment, net		<u>\$ 598,400</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(19) Related Party Transactions

Several members of the Board of Trustees are employed by organizations that provide services to the University, primarily banking and insurance services. All members of the Board of Trustees or Officers of the University are required to disclose annually any information about possible conflicts of interests affecting the University including interests or family members and organizations in which the Board member or Officer (or member of his or her family) has significant management function or a significant ownership interest. Payments to organizations that employ related parties during the years ending June 30, 2023 and 2022 totaled \$859 and \$775, respectively. Certain gifts and pledges to the University are received annually by Board members and are not material to the financial statements. All such business activity is conducted in accordance with the University's normal business practices.

(20) Subsequent Events

Management of the University has reviewed subsequent events from June 30, 2023, through November 17, 2023 (the date the accompanying consolidated financial statements were issued), and determined there were no items to disclose.

SUPPLEMENTAL INFORMATION

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

Schedule of Financial Responsibility Composite Ratio Score

June 30, 2023

(In thousands)

Primary Reserve Ratio				
Expendable net assets		\$	<u>607,289</u>	
Total expenses		\$	461,501	<u>1.3159</u>
Equity Ratio				
Modified net assets		\$	<u>1,000,223</u>	
Modified assets		\$	1,444,488	<u>0.6924</u>
Net Income Ratio				
Change in net assets without donor restrictions		\$	<u>103,406</u>	
Total revenues without donor restrictions		\$	550,320	<u>0.1879</u>
Primary reserve	1.3159	3.0000	40 %	1.2000
Equity	0.6924	3.0000	40 %	1.2000
Net income	0.1879	10.3951	20 %	<u>0.6000</u>
Composite score				<u><u>3.00</u></u>

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

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

Schedule of Financial Responsibility Data

Year ended June 30, 2023

(In thousands)

Location in audited financial statements	Financial element	Amount used as ratio input
Primary reserve ratio – expendable net assets:		
Statement of financial position	Net assets without donor restrictions	\$ 871,412
Statement of financial position	Net assets with donor restrictions	128,811
Statement of financial position	Net assets with donor restrictions – perpetual	(71,637)
Note 17, net assets	Annuities with donor restrictions – time/purpose investments under split interest agreements	(279)
Note 18, financial responsibility standards	Pre-implementation land, land improvements, buildings and equipment, net	(517,182)
Note 18, financial responsibility standards	Pre-implementation construction in progress	(15,607)
Note 18, financial responsibility standards	Post-implementation land, land improvements, buildings and equipment, net with long-term debt	(35,423)
Note 18, financial responsibility standards	Post-implementation land, land improvements, buildings and equipment, net without long-term debt	(7,952)
Note 18, financial responsibility standards	Post-implementation construction in progress with long-term debt	(69)
Note 18, financial responsibility standards	Post-implementation construction in progress without long-term debt	(22,167)
Statement of financial position	Right-of-use lease assets	(37,177)
Statement of financial position	Deposits and investments held with trustees under debt agreements – unexpended project funds	(3,366)
Statement of financial position	Right-of-use lease liabilities	37,449
Note 18, financial responsibility standards	Pre-implementation obligations under finance lease obligations	645
Note 18, financial responsibility standards	Pre-implementation obligations under notes payable	16,171
Note 18, financial responsibility standards	Post-implementation obligations under notes payable	29,500
Note 18, financial responsibility standards	Pre-implementation obligations under bonds payable	234,160
Primary reserve ratio – expenses and losses:		
Statement of activities	Total operating expenses without donor restrictions	\$ 461,501
Equity ratio: modified net asset:		
Statement of financial position	Net assets without donor restrictions	\$ 871,412
Statement of financial position	Net assets with donor restrictions	128,811
Equity ratio: modified assets:		
Statement of financial position	Total assets	\$ 1,444,488
Net income ratio:		
Statement of activities	Change in net assets without donor restrictions	\$ 103,406
Statement of activities	Total operating revenues without donor restrictions	550,320

See accompanying independent auditors' report.

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

Notes to Schedule of Financial Responsibility Composite Ratio Score

June 30, 2023

(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 U.S. Department of Education to demonstrate they are maintaining the standards of financial responsibility necessary to participate in Title IV programs. One of many standards, which the U.S. Department of Education 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 as of and for the year ended June 30, 2023, in accordance with U.S. GAAP.

(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.

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.
AND SUBSIDIARIES**

Notes to Schedule of Financial Responsibility Composite Ratio Score

June 30, 2023

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 nonoperating item without restrictions). Accordingly, these two amounts are aggregated to determine if there is a net investment gain or 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.
AND SUBSIDIARIES**

Notes to Schedule of Financial Responsibility Composite Ratio Score

June 30, 2023

(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%