

Consolidated Financial Statements
and Report of Independent
Certified Public Accountants

**Experimental Aircraft
Association, Inc. and EAA
Aviation Foundation, Inc.**

February 28, 2019 and 2018

Contents

Report of Independent Certified Public Accountants	Page 3
Consolidated Financial Statements	
Statements of financial position	5
Statements of activities	7
Statements of cash flows	9
Notes to consolidated financial statements	10
Supplementary Information	
Consolidating statement of financial position - February 28, 2019	29
Consolidating statement of activities - year ended February 28, 2019	31
Consolidating statement of financial position - February 28, 2018	32
Consolidating statement of activities - year ended February 28, 2018	34
Experimental Aircraft Association, Inc.	
Consolidated statements of financial position - February 28, 2019 and 2018	35
Consolidated statement of activities - year ended February 28, 2019	37
Consolidated statement of activities - year ended February 28, 2018	38
EAA Aviation Foundation, Inc.	
Statements of financial position - February 28, 2019 and 2018	39
Statement of activities - year ended February 28, 2019	41
Statement of activities - year ended February 28, 2018	42

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Experimental Aircraft Association, Inc.

Board of Trustees
EAA Aviation Foundation, Inc.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc. (collectively, the "Entity"), which comprise the consolidated statements of financial position as of February 28, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc. as of February 28, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position as of February 28, 2019 and 2018; consolidating statements of activities for the years ended February 28, 2019 and 2018; Experimental Aircraft Association, Inc.'s consolidated statements of financial position as of February 28, 2019 and 2018; Experimental Aircraft Association, Inc.'s consolidated statements of activities for the years ended February 28, 2019 and 2018; EAA Aviation Foundation, Inc.'s statements of financial position as of February 28, 2019 and 2018; and EAA Aviation Foundation, Inc.'s statements of activities for the years ended February 28, 2019 and 2018, are presented for purposes of additional analysis, rather than to present the financial position and results of operations of the individual organizations and are not a required part of the consolidated financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 consolidating and supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Appleton, Wisconsin
July 15, 2019

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
February 28, 2019 and 2018

	ASSETS	2019	2018
CURRENT ASSETS			
Cash and cash equivalents		\$ 2,923,848	\$ 10,782,630
Accounts receivable, less allowance for doubtful accounts of \$12,411 in 2019 and \$80,754 in 2018		660,713	596,921
Current portion of pledges receivable, less allowance for uncollectible pledges of \$14,560 in 2019 and \$15,683 in 2018		204,334	64,271
Inventories		972,621	768,104
Prepaid expenses		<u>1,252,793</u>	<u>1,049,258</u>
Total current assets		6,014,309	13,261,184
PLEDGES RECEIVABLE, less current portion, unamortized discount and allowance		29,303	37,970
INVESTMENTS - AT FAIR VALUE		53,947,275	43,071,612
PROPERTY AND EQUIPMENT			
Land improvements		5,870,683	5,825,672
Buildings		20,070,808	20,164,849
Leasehold improvements		20,542,786	20,246,288
Office furniture and fixtures		2,450,603	2,523,360
Computer equipment and software		8,821,955	9,010,276
Transportation and maintenance equipment		2,964,321	2,847,010
Museum display equipment		3,338,905	3,338,905
Aircraft parts and equipment		259,779	106,453
Film library		152,574	152,574
Flyable aircraft		1,479,923	991,616
Intangible assets		<u>20,000</u>	<u>-</u>
Total property and equipment		65,972,337	65,207,003
Less accumulated depreciation and amortization		<u>39,582,359</u>	<u>38,921,304</u>
		26,389,978	26,285,699
Land		3,311,511	3,311,511
Capital addition projects in progress		<u>1,824,466</u>	<u>986,296</u>
Net property and equipment		31,525,955	30,583,506
OTHER ASSETS			
Collections		11,168,680	10,566,585
Beneficial interest in perpetual trust		3,175,295	3,234,819
Beneficial interest in split-interest agreements		202,600	214,840
Cash value of life insurance		<u>182,572</u>	<u>208,938</u>
Total other assets		<u>14,729,147</u>	<u>14,225,182</u>
TOTAL ASSETS		<u>\$106,245,989</u>	<u>\$101,179,454</u>

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED
February 28, 2019 and 2018

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 600,000	\$ 600,000
Current portion of gift annuity liability	11,028	11,028
Current portion of deferred compensation	78,471	78,471
Accounts payable	1,209,846	1,248,682
Accounts payable - related parties	281,883	221,932
Accrued expenses and other payables	1,985,350	1,970,352
Current portion of unearned income	<u>8,173,176</u>	<u>7,634,246</u>
Total current liabilities	12,339,754	11,764,711
GIFT ANNUITY LIABILITY , less current portion	148,017	149,394
DEFERRED COMPENSATION , less current portion	174,289	213,695
LONG-TERM DEBT , less current maturities	5,200,000	5,800,000
UNEARNED INCOME , less current portion	<u>5,739,260</u>	<u>4,936,957</u>
Total liabilities	23,601,320	22,864,757
NET ASSETS		
Without donor restrictions	58,446,914	55,793,768
With donor restrictions	<u>24,197,755</u>	<u>22,520,929</u>
Total net assets	<u>82,644,669</u>	<u>78,314,697</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$106,245,989</u>	<u>\$101,179,454</u>

The accompanying notes are an integral part of this consolidated financial statement.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended February 28, 2019

	Without donor restrictions	With donor restrictions	Total
Revenues, gains and other support			
Membership dues and subscriptions	\$ 6,027,689	\$ -	\$ 6,027,689
Donations, cash and pledges	3,269,853	3,556,042	6,825,895
Donations, contributed services and property	3,023,844	21,096	3,044,940
Advertising	2,520,533	-	2,520,533
Rentals	5,735,143	-	5,735,143
Admissions and registrations	13,163,606	-	13,163,606
Merchandise sales	2,820,068	-	2,820,068
Commissions and royalties	1,886,784	-	1,886,784
Investment return, net	575,485	631,314	1,206,799
Change in beneficial interests	-	(71,763)	(71,763)
Administrative fees	1,359,586	-	1,359,586
Sponsorship income	2,373,784	-	2,373,784
Gain on deferred compensation	39,406	-	39,406
Loss on disposal of property and equipment	(291,281)	-	(291,281)
Miscellaneous	435,807	-	435,807
Net assets released from restrictions	<u>2,459,863</u>	<u>(2,459,863)</u>	<u>-</u>
Total revenues, gains and other support	45,400,170	1,676,826	47,076,996
Expenses			
AirVenture expenses	12,461,167	-	12,461,167
Membership services	5,636,551	-	5,636,551
Other program expenses	14,964,063	-	14,964,063
Management and general	6,959,723	-	6,959,723
Fundraising	<u>2,725,520</u>	<u>-</u>	<u>2,725,520</u>
Total expenses	<u>42,747,024</u>	<u>-</u>	<u>42,747,024</u>
Change in net assets	2,653,146	1,676,826	4,329,972
Net assets at beginning of year	<u>55,793,768</u>	<u>22,520,929</u>	<u>78,314,697</u>
Net assets at end of year	<u>\$58,446,914</u>	<u>\$24,197,755</u>	<u>\$82,644,669</u>

The accompanying notes are an integral part of this consolidated financial statement.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended February 28, 2018

	Without donor restrictions	With donor restrictions	Total
Revenues, gains and other support			
Membership dues and subscriptions	\$ 5,932,962	\$ -	\$ 5,932,962
Donations, cash and pledges	1,316,530	5,097,574	6,414,104
Donations, contributed services and property	1,696,029	10,827	1,706,856
Advertising	2,497,655	-	2,497,655
Rentals	5,707,968	-	5,707,968
Admissions and registrations	13,336,814	-	13,336,814
Merchandise sales	2,843,300	-	2,843,300
Commissions and royalties	1,822,703	-	1,822,703
Investment return, net	2,727,345	1,353,398	4,080,743
Change in beneficial interests	-	163,134	163,134
Administrative fees	857,098	-	857,098
Sponsorship income	2,354,132	-	2,354,132
Gain on deferred compensation	36,192	-	36,192
Loss on disposal of property and equipment	(216,173)	-	(216,173)
Miscellaneous	509,222	-	509,222
Net assets released from restrictions	<u>3,692,147</u>	<u>(3,692,147)</u>	<u>-</u>
Total revenues, gains and other support	45,113,924	2,932,786	48,046,710
Expenses			
AirVenture expenses	14,824,227	-	14,824,227
Membership services	6,229,942	-	6,229,942
Other program expenses	11,596,314	-	11,596,314
Management and general	4,779,143	-	4,779,143
Cost of merchandise sales	2,428,289	-	2,428,289
Fundraising	<u>1,893,508</u>	<u>-</u>	<u>1,893,508</u>
Total expenses	<u>41,751,423</u>	<u>-</u>	<u>41,751,423</u>
Change in net assets	3,362,501	2,932,786	6,295,287
Net assets at beginning of year	<u>52,431,267</u>	<u>19,588,143</u>	<u>72,019,410</u>
Net assets at end of year	<u>\$55,793,768</u>	<u>\$22,520,929</u>	<u>\$78,314,697</u>

The accompanying notes are an integral part of this consolidated financial statement.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended February 28, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 4,329,972	\$ 6,295,287
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	2,486,187	2,367,578
Loss on disposal of property and equipment	291,281	216,173
Change in value of deferred compensation agreement	39,065	42,279
Donations of collections	(542,133)	(137,693)
Donations of property and equipment	(983,032)	(42,987)
Donations of investments	(60,191)	(64,651)
Loss (gain) on investments	46,843	(3,273,101)
Change in beneficial interests	71,764	(163,134)
Changes in operating assets and liabilities		
Accounts receivable	(63,792)	(85,965)
Pledges receivable	(131,396)	(99,372)
Inventories	(200,813)	(27,804)
Prepaid expenses	(203,535)	(21,776)
Accounts payable	(38,836)	38,748
Accounts payable - related parties	59,951	(26,977)
Accrued expenses and other payables	14,988	413,687
Unearned income	1,341,233	996,398
Gift annuity liability	(1,377)	(10,588)
Deferred compensation	(78,471)	(78,471)
Net cash provided by operating activities	6,377,708	6,337,631
Cash flows from investing activities		
Proceeds from sale of investments	10,927,858	2,387,927
Purchases of investments	(21,790,173)	(3,460,105)
Proceeds from disposal of property and equipment	35,000	697
Purchases of property and equipment	(2,835,541)	(2,538,858)
Decrease in cash value of life insurance	26,366	21,277
Net cash used in investing activities	(13,636,490)	(3,589,062)
Cash flows from financing activities		
Payments of long-term debt	(600,000)	(600,000)
Net cash used in financing activities	(600,000)	(600,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,858,782)	2,148,569
Cash and cash equivalents at beginning of year	10,782,630	8,634,061
Cash and cash equivalents at end of year	\$ 2,923,848	\$10,782,630
Supplemental disclosure of cash flow information		
Interest paid	\$ 162,193	\$ 131,887

The accompanying notes are an integral part of this consolidated financial statement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Experimental Aircraft Association, Inc. (the Association) is a membership organization dedicated to growing participation in aviation by promoting the “Spirit of Aviation”; cooperating with and assisting governmental agencies in the development of programs related to aviation activities; promoting and encouraging aviation safety in the design, construction and operation of all types of aircraft; and promoting and encouraging grass roots efforts relating to aviation research and development. The Association accomplishes its mission by providing aviation-related education programs and services, encouraging and supporting clear pathways that ignite and nurture interest, providing a welcoming and supportive environment, creating opportunities to participate in all aspects of aviation, fostering the camaraderie and community of aviators and enthusiasts, and making aviation more accessible. Each year the Association holds its annual convention and fly-in, AirVenture, in Oshkosh, Wisconsin. AirVenture’s primary purpose is aviation-oriented education. AirVenture hosts approximately 850 exhibitors, and more than 1,500 workshops, forums and special events during the weeklong event in pursuit of that goal.

The purpose of the EAA Aviation Foundation, Inc. (the Foundation) is to receive, hold and invest endowment funds, and remit earnings therefrom to support the Association in promoting aviation education, safety and technology. The Foundation also owns and maintains certain buildings and museum assets to benefit the educational, charitable and scientific purpose of the Association.

A summary of the Association’s and Foundation’s significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

Principles of Consolidation

The consolidated financial statements as of and for the years ended February 28, 2019 and 2018, include the accounts of the Association and the Foundation, and the Association’s affiliates, EAA IMC, LLC and EAA STC, LLC. EAA IMC, LLC had no activity to report for the years ended February 28, 2019 and 2018. All significant intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, shall be applied retrospectively. The Association and the Foundation have adopted this guidance beginning March 1, 2018 and as such, changes to the information as of and for the year ended February 28, 2018, has been adjusted to conform to the new guidance. There was no impact on the Association’s and the Foundation’s previously reported net assets or change in net assets.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Association and the Foundation consider all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Receivables are stated net of any allowance for doubtful accounts. The allowance for doubtful accounts is determined by considering the number of days past due, collection history and any specific circumstances related to an individual account. Accounts receivable are written off when they become uncollectible and payments subsequently received are credited to the allowance for doubtful accounts.

Pledges Receivable

Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the estimated risk-free interest rate applicable to the years in which the amounts promised are expected to be received. Amortization of these discounts is included in donations revenue.

Inventories

Inventories consist of merchandise goods, print shop materials, office supplies and aircraft spare parts. Merchandise goods, print shop materials and office supplies are determined by the average cost method. Aircraft spare parts are valued at cost.

Investments

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management fees are classified as a reduction in investment return for financial reporting purposes.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

Property and Equipment

Property and equipment are recorded at cost, or if donated at the estimated fair value at the date of donation, and are depreciated and amortized using straight-line methods for book purposes over estimated useful lives. The lives used for depreciation and amortization purposes are as follows:

Land improvements	12 to 40 years
Buildings	15 to 40 years
Office furniture and fixtures	7 to 12 years
Computer equipment and software	3 to 5 years
Transportation and maintenance equipment	3 to 12 years
Museum display equipment	5 to 12 years
Aircraft parts	Dependent on aircraft flight hours
Aircraft equipment	5 to 7 years
Film library	8 to 12 years
Flyable aircraft	35 years
Intangible assets	4 to 5 years

Leasehold improvements are depreciated over the lesser of their useful life or lease term.

Collections

The Foundation, together with the Association, maintain a collection of historic artifacts and archival materials related to the history of recreational aviation including aircraft, engines, aircraft components, books, periodicals, photographs, video and other artifacts. Collections are held for public exhibition, education or research. The Foundation and Association acquire its collections by purchase or by donation.

Costs to acquire or restore collections are accumulated. Donated items are recorded at the estimated fair value as of the date of donation. Such values are meant to represent the intrinsic value of the item. Library items are recorded at cost when purchased or at fair value when donated. In accordance with U.S. GAAP, inexhaustible collections are not depreciated. Adjustments are recorded as required to reduce the collection to the lower of cost or fair value.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and report as follows.

Net assets without donor restrictions

Net assets available for general use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of a trust created by one donor. The assets of the trust are not now and are never intended to be the property of the Foundation. The Foundation has an irrevocable right to a portion of the net income of the trust. The Foundation has no right pursuant to the terms of the governing trust instrument to determine or affect trust instruments, to remove or appoint the trustee(s), or to request distributions of income or principal. As required under U.S. GAAP, the Foundation is required to record its interest in the trust at fair value and classify it as net assets with donor restrictions. Distributions received from the trust are recorded as investment return within net assets with donor restrictions and the change in fair value is recorded as gains or losses within net assets with donor restriction. Distributions from the trust totaled \$150,146 and \$123,442 for the years ended February 28, 2019 and 2018, respectively.

Revenue Recognition

Membership income is recognized on a straight-line ratable basis over the terms of the various memberships.

Events (including AirVenture) benefiting the Association have various revenue streams, including admissions and registrations, sponsorship income and rental income. Receipts from these events are

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

recognized as revenue when the event occurs. The receipts for future events are deferred until the time of the event.

Advertising revenue is recognized when production costs are incurred for the related publication.

Merchandise revenue is recognized when the sale occurs at the point of purchase.

Donated Services and Property

The Association and Foundation receive significant donations of professional services and property at no cost. The estimated value of the donated services and property received was \$3,044,941 and \$1,706,856 for the years ended February 28, 2019 and 2018, respectively. These amounts have been included in revenues, gains and other support, and expenses have been increased by a like amount in the consolidated statements of activities. In addition, volunteers have donated significant amounts of time to the Association in various capacities, which have not been reflected in the consolidated financial statements since they do not meet the criteria for recognition.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Advertising (marketing) Costs

The Association and the Foundation expense advertising costs as they are incurred.

Income Taxes

As required by the uncertain tax position guidance, the Association and the Foundation recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Association and the Foundation applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of February 28, 2019 and 2018.

There were no interest or penalties related to income tax that have been accrued or recognized as of and for the years ended February 28, 2019 and 2018.

On December 22, 2017, tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the Act) was passed; resulting in significant modifications to existing tax law. While there were no material effects on the consolidated financial statements as a result of the Act, management is still evaluating the ongoing impact of the Act on the Association and the Foundation.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to conform to the 2019 presentation.

New Accounting Pronouncement

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which amends the accounting for revenue recognition. The amendments are intended to provide a more robust framework for addressing revenues issues, improve comparability of revenue recognition practices, and improve

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

disclosure requirements. Subsequent to ASU No. 2014-09, the FASB issued subsequent updates. The subsequent updates extended the effective date of ASU No. 2014-09 and added clarification to the new revenue recognition framework. The above standards are effective for all annual reporting periods beginning after December 15, 2018. The Association and Foundation are currently evaluating the impact on the consolidated financial statements, and have not determined the impact on its consolidated financial statements at this time.

In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU No. 2016-02 requires that lease arrangements longer than 12 months results in a company recognizing an asset and liability. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2019, although early adoption is permitted. The Association and Foundation are currently evaluating the impact and have not determined the impact on the consolidated financial statements at this time.

NOTE B - CONCENTRATION OF CREDIT RISK

The Association and the Foundation have cash deposited in financial institutions in which the balance may exceed the federal government agency insured limit. The Association and the Foundation have not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

NOTE C - DONOR CONCENTRATIONS

There were no donors with significant contributions for the year ended February 28, 2019. Contributions from one donor bequest represents 22% of the Association and Foundation's donations at February 28, 2018.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable are summarized as follows as of February 28:

	<u>2019</u>	<u>2018</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges receivable	\$251,227	\$120,954
Less amortized discount	<u>3,030</u>	<u>3,030</u>
	248,197	117,924
Less allowance for uncollectible pledges receivable	<u>14,560</u>	<u>15,683</u>
	<u>\$233,637</u>	<u>\$102,241</u>
Amounts due in		
Less than one year	\$218,894	\$ 79,954
One to five years	<u>32,333</u>	<u>41,000</u>
	251,227	120,954
Less unamortized discount and allowance	<u>17,590</u>	<u>18,713</u>
	<u>\$233,637</u>	<u>\$102,241</u>

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

NOTE E - INVESTMENTS

Investments at fair value consisted of the following as of February 28:

	2019	2018
Money market funds	\$ 4,870,319	\$ 1,091,357
Common stocks	2,569,174	2,048,692
Bond funds	16,986,865	8,659,505
Equity funds	27,262,627	28,957,548
Hedge fund	<u>2,258,290</u>	<u>2,314,510</u>
	<u>\$53,947,275</u>	<u>\$43,071,612</u>

Investment return consists of the following for the years ended February 28:

	2019	2018
Investment fees	\$ (139,184)	\$ (102,525)
Interest and dividends	1,393,872	910,167
Realized loss on investments	(1,576,230)	(536,898)
Unrealized gain on investments	<u>1,528,341</u>	<u>3,809,999</u>
	<u>\$1,206,799</u>	<u>\$4,080,743</u>

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following as of February 28:

	2019	2018
\$10,000,000 Town of Nekimi, Wisconsin Industrial Development Revenue Bonds, Series 2008; interest only payments through 2014 with annual principal payment of \$600,000 beginning in 2015, final payment due September 2028; interest at 72.5% of both the 30-day LIBOR rate plus 150 basis points (effective rate of 3.23% and 2.50% at February 28, 2019 and 2018, respectively); secured by all equipment and fixtures acquired with the proceeds of the bonds	\$5,800,000	\$6,400,000
	5,800,000	6,400,000
Less current maturities	<u>600,000</u>	<u>600,000</u>
	<u>\$5,200,000</u>	<u>\$5,800,000</u>

A standby letter of credit to satisfy Wisconsin unemployment tax requirements is provided by the Association through U.S. Bank, N.A. in the amount of \$140,000. In addition, a supporting letter of credit is provided for \$200,000. The letter of credit and line of credit expire December 31, 2021. As of February 28, 2019 and 2018, there were no amounts outstanding. Interest on the line of credit is the prime rate plus 150 basis points.

U.S. Bank, N.A. provides the Association a line of credit in the amount of \$3,000,000, which has an expiration date of December 31, 2020. There were no outstanding balances at February 28, 2019 and 2018, on this line of credit. Interest on the line of credit is the 30-day LIBOR rate plus 150 basis points.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

The line of credit agreements and industrial development revenue bond contain a number of restrictive covenants, with which the Association was in compliance at February 28, 2019 and 2018.

Future maturities of long-term debt as of February 28, 2018, are as follows for the years ending:

2020	\$ 600,000
2021	600,000
2022	600,000
2023	600,000
2024	600,000
Thereafter	<u>2,800,000</u>
	<u>\$5,800,000</u>

NOTE G - UNEARNED INCOME

Unearned income consists of the following items as of February 28:

	2019	2018
Unearned membership dues	\$ 9,506,789	\$ 8,527,590
Exhibits	2,967,513	2,853,150
Other	<u>1,438,134</u>	<u>1,190,463</u>
Total	13,912,436	12,571,203
Less current portion	<u>8,173,176</u>	<u>7,634,246</u>
Long-term unearned income	<u>\$ 5,739,260</u>	<u>\$ 4,936,957</u>

NOTE H - GIFT ANNUITIES

Assets held under a contractual obligation that provide a lifetime annuity to a non-charitable beneficiary are included in investments and are recorded at their fair value. The actuarially determined present value of the future annuity cash flows required to be paid to the donors or their beneficiaries is recorded as a liability in the consolidated statements of financial position. The discount rate used by the actuary was 6% as of February 28, 2019 and 2018. The difference between the fair value of the gift annuity assets and the actuarially determined present value of future annuity cash flows is recorded as donation revenue in the year the gift annuity is received. Subsequent changes are recorded in the consolidated statements of activities within investment return, net.

NOTE I - RETIREMENT PLANS

The Association sponsors a money purchase pension plan for its employees. The plan provides a participant, at retirement, with his or her share of the investment account balance. Contributions are based on employee annual compensation. The Association contributes an amount equal to 7.14% of the employees' annual compensation plus 5.70% of employees' compensation in excess of the Social Security Taxable Wage Base. The total provision for pension costs were approximately \$708,000 and \$661,000 for the years ended February 28, 2019 and 2018, respectively.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

The Association also sponsors a 403(b) retirement plan which permits employees to defer a portion of their compensation, subject to annual Internal Revenue Service limitations. There were no employer contributions to the 403(b) retirement plan for the years ended February 28, 2019 and 2018.

NOTE J - DEFERRED COMPENSATION

Under a deferred compensation agreement with a former president, the Association was making monthly payments. In 2014, the former president passed away and bi-weekly payments began being made to his spouse. In accordance with the terms of the agreement, these payments are to be made for 10 years or until her death, whichever occurs first. The present value of these payments discounted at 4.05% and 3.98% at February 28, 2019 and 2018, was \$252,760 and \$292,166, respectively, and is included in the current and long-term portion of deferred compensation liability shown in the consolidated statements of financial position.

NOTE K - LEASE COMMITMENTS

The Association has various leases for its office space and certain premises located at Wittman Regional Airport. Future minimum rentals for non-cancelable leases as of February 28, 2019, are approximately as follows:

2020	\$ 308,900
2021	250,400
2022	181,600
2023	145,600
2024	145,600
Thereafter	<u>326,100</u>
	<u>\$1,358,200</u>

For the years ended February 28, 2019 and 2018, expenses under these leases were approximately \$293,000 and \$271,000, respectively.

NOTE L - RELATED-PARTY TRANSACTIONS

Contributions include donations received from various related parties, including board members and trustees. The Association and Foundation recognized cash and non-cash contributions from related parties of approximately \$477,000 and \$356,000 during the years ended February 28, 2019 and 2018, respectively.

The Association has three related parties, International Aerobatic Club, Inc., Warbirds of America, Inc. and EAA Vintage Association, Inc. (collectively, the Entities). The Entities are separate corporations, but no person may become a member of any of the Entities without first being a member of the Association. Each of the Entities pays an administrative fee to the Association for clerical services rendered to them. As part of these clerical services, the Association receives cash on behalf of the Entities, which result in accounts payable to these related parties. The tax exempt purposes of the Entities are similar to the Association's tax-exempt purpose. These Entities are independent corporations who report their own income and expenses. Other than the fees charged to the Entities, no other financial transactions of the Entities are included in these consolidated financial statements.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

Related-party transactions and year-end balances are as follows as of and for the years ended February 28:

	2019	2018
Payments from the Entities for data processing and other administrative services	\$538,746	\$478,584
Accounts payable to the Entities	281,883	221,932

NOTE M - CONTINGENT LIABILITIES AND COMMITMENTS

The Association self-funds employees' medical expenses through a program under which it is responsible for the first \$60,000 of covered medical expenses per incident at February 28, 2019 and 2018. Claims of any incident in excess of these amounts are covered by an excess loss insurance policy. Claims expense and insurance costs under this program, including administrative expenses, net of employee contributions and any stop loss recoveries, totaled approximately \$1,135,000 and \$1,202,000 for the years ended February 28, 2019 and 2018, respectively. The claims liability totaled approximately \$98,000 and \$137,000 as of February 28, 2019 and 2018, respectively.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date.

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. However, if quoted market prices are not available, other valuation techniques that place greater reliance on market data (observable inputs) or other estimates and assumptions (unobservable inputs) are used. The hierarchy consists of three broad levels as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable (other market data), and may include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs developed using the Association's and the Foundation's estimates and assumptions, which reflect those that market participants would use.

The determination of where an asset or liability falls in the hierarchy requires significant judgment and depends on the lowest level input that is significant to the fair value measurement as a whole. The Association and the Foundation evaluate the hierarchy disclosures annually and, based on various factors, it is possible that an asset or liability may be classified differently from year to year. However, the Association and Foundation expect that changes in classification between different levels will be rare.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There have been no changes to the valuation methodologies used at February 28, 2019 and 2018. There were no transfers into or out of each level during the years ended February 28, 2019 and 2018.

Investments

When quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. The fair value of money market funds, common stocks, bond, equity and commodity funds with a readily determinable fair value are based on quotes obtained from national securities exchanges. The hedge fund does not have a readily determinable fair value and is valued at the February 28, 2019 and 2018, net asset value (NAV) per share as provided by the fund administrator.

Beneficial Interest in Perpetual Trust and Split-interest Agreement

Beneficial interests in perpetual trust and split-interest agreements are valued using the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests.

Other Assets and Liabilities

The carrying amount of the Association's and the Foundation's financial instruments, which include accounts receivable, pledges receivable, accounts payable and accrued expenses, approximate their fair values at February 28, 2019 and 2018, due to their short maturities. The carrying value of long-term debt, including the current portion, approximates fair value because the interest rate approximates the current market rate of interest available to the Association and Foundation.

The following summarizes the valuation of financial instruments measured at fair value in the consolidated statement of financial position as of February 28:

	2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Money market funds	\$ 4,870,319	\$ 4,870,319	\$ -	\$ -
Common stocks	2,569,174	2,569,174	-	-
Bond funds	16,986,865	16,986,865	-	-
Equity funds	<u>27,262,627</u>	<u>27,262,627</u>	-	-
	51,688,985	<u>\$51,688,985</u>	\$ -	\$ -
Investments measured at NAV				
Hedge fund (a)	<u>2,258,290</u>			
	<u>\$53,947,275</u>			
Other assets				
Beneficial interest in perpetual trust	\$ 3,175,295	\$ -	\$ -	\$3,175,295
Beneficial interest in split-interest agreements	202,600	-	-	202,600

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

	2018			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Money market funds	\$ 1,091,357	\$ 1,091,357	\$ -	\$ -
Common stocks	2,048,692	2,048,692	-	-
Bond funds	8,659,505	8,659,505	-	-
Equity funds	<u>28,957,548</u>	<u>28,957,548</u>	-	-
	40,757,102	<u>\$40,757,102</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV				
Hedge fund (a)	<u>2,314,510</u>			
	<u>\$43,071,612</u>			
Other assets				
Beneficial interest in perpetual trust	\$ 3,234,819	\$ -	\$ -	\$3,234,819
Beneficial interest in split-interest agreements	214,840	-	-	214,840

(a) Hedge fund - The investment strategy of this category is to exceed S&P Index performance during difficult periods of equity performance. Redemption from these funds is permitted quarterly with a 20-day notice; however, there may be additional restrictions on the redemption of underlying funds. At its discretion, the fund may make quarterly tender offers in minimum amounts of \$100,000.

NOTE O - NET ASSETS

Without donor restriction

This portion of net assets is not restricted by donor-imposed stipulations or the passage of time.

Board-designated Endowment Funds

The Foundation board of trustees has designated a portion of the Foundation's net assets without donor restriction as funds functioning as endowment funds and they have been invested as such. The total amount of funds so designated totaled \$11,515,433 and \$12,460,073 at February 28, 2019 and 2018, respectively.

It is management's view that the applicable principles for categorization of the board-designated endowment fund should not be viewed as an indication that donations made over time to the Association or the Foundation to ensure the continuing availability of funds for education and preservation, including support of the operating costs of the Association, are available to the creditors of the Association.

Other Board-designated Funds

The Foundation board of trustees has directed management to designate funds received from the sale of artifacts as unavailable for general operations. As of February 28, 2019 and 2018, funds so designated totaled \$1,104,952.

With donor restrictions

Net assets with donor restrictions are those net assets subject to donor-imposed stipulations that will be met by actions of the Association, the Foundation, the passage of time or a combination thereof.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

Net assets with donor restrictions are restricted for the following purpose or periods as of February 28:

	2019	2018
Subject to expenditure for specified purpose:		
Scholarships	\$ 2,039,503	\$ 754,664
Internships	98,414	90,885
Operations	27,115	9,314
Museum Exhibits	1,040,174	1,056,527
Programs	920,589	932,222
Young Eagles	135,598	160,417
Aircraft Preservation	138,519	334,670
Museum Operations	<u>6,118</u>	<u>-</u>
	4,406,030	3,338,699
Subject to passage of time:		
Assets held under split-interest agreements	202,601	214,840
Endowments:		
Subject to appropriation and expenditure for specified purpose:		
Scholarships	674,967	671,463
Internships	40,890	45,213
Operations	189,512	208,523
Museum Exhibits	7,945	8,838
Air Academy	163,509	177,069
Programs	6,548	5,918
Young Eagles	17,995	39,050
Museum Operations	22,219	27,475
Underwater funds	<u>(145,454)</u>	<u>(97,553)</u>
	978,131	1,085,996
Subject to endowment spending policy and appropriation:		
Scholarships	6,031,496	5,822,662
Internships	329,193	329,193
Operations	1,365,022	1,365,022
Museum Exhibits	65,000	65,000
Air Academy	2,021,068	2,021,068
Programs	61,981	61,981
Young Eagles	5,153,333	4,574,044
Museum Operations	<u>408,605</u>	<u>407,605</u>
	15,435,698	14,646,575
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trusts - donor restricted for programs	<u>3,175,295</u>	<u>3,234,819</u>
	<u>19,589,124</u>	<u>18,967,390</u>
	<u>\$24,197,755</u>	<u>\$22,520,929</u>

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

Net assets released from donor restrictions are as follows for the years ended February 28:

	2019	2018
Expiration of time restriction	\$ 21,956	\$ 86,899
Satisfaction of purpose restrictions:		
Scholarships	121,754	53,280
Young Eagles	427,348	275,435
Museum Exhibits	4,145	17,888
Museum Operations	5,030	-
Operations	646,052	52,050
Aircraft Preservation	329,618	205,845
Other programs	<u>206,801</u>	<u>2,274,856</u>
	1,740,748	2,879,354
Restricted purpose distributions:		
Beneficial interest in perpetual trust	95,921	115,399
Restricted-purpose spending policy distributions and appropriations:		
Scholarships	184,772	127,588
Internships	15,184	14,662
Young Eagles	187,145	191,994
Museum Exhibits	44,260	42,794
Museum Operations	17,760	17,216
Operations	64,233	62,280
Air Academy	86,132	148,369
Other programs	<u>1,752</u>	<u>5,592</u>
	<u>601,238</u>	<u>610,495</u>
	<u>\$2,459,863</u>	<u>\$3,692,147</u>

Endowment Net Assets

The Foundation endowment consists of individual funds established for a variety of educational, preservation and operational purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted and enacted by the Wisconsin legislature, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the net assets with donor restrictions is classified as such until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the state of Wisconsin in its enacted version of UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment funds; (2) the purposes of the Foundation and the donor restricted endowment fund; (3) general economic conditions; (4) the

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Foundation; and (7) the investment policy of the Foundation.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in net assets with donor restrictions were \$145,454 and \$97,553 as of February 28, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions with donor restrictions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

The Foundation has adopted investment and spending policies for endowment assets, both board-designated endowment and other board-designated funds and net assets with donor restrictions, which attempt to provide a predictable stream of funding to support the Association programs while seeking to maintain the purchasing power of endowment assets. The Foundation has a spending policy of appropriating for distribution each year a percentage of its endowment funds average fair value over the prior three calendar year-ends preceding the fiscal year in which the distribution is planned. The Foundation has adopted a spending policy percentage of 4% for 2019 and 2018. The Foundation Trustees meet regularly with investment managers to evaluate investment performance and monitor investment policies.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

Changes in endowment net assets for the years ended February 28, 2019 and 2018 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, February 28, 2017	\$11,810,486	\$15,910,397	\$27,720,883
Investment return, net	1,025,223	1,612,370	2,637,593
New additions			
Contributions	438,817	1,884,855	2,323,672
Fund transfers	85,450	-	85,450
Other income	<u>1,023,588</u>	<u>-</u>	<u>1,023,588</u>
Total new additions	1,547,855	1,884,855	3,432,710
Appropriation of endowment assets for expenditures	(1,923,491)	(596,500)	(2,519,991)
Change in beneficial interest in perpetual trust	<u>-</u>	<u>156,268</u>	<u>156,268</u>
Endowment net assets, February 28, 2018	12,460,073	18,967,390	31,427,463
Investment return, net	358,083	602,276	960,359
New additions			
Contributions	94,530	789,121	883,651
Fund transfers	(386,856)	-	(386,856)
Other income	<u>1,009,703</u>	<u>-</u>	<u>1,009,703</u>
Total new additions	717,377	789,121	1,506,498
Appropriation of endowment assets for expenditures	(2,020,100)	(710,139)	(2,730,239)
Change in beneficial interest in perpetual trust	<u>-</u>	<u>(59,524)</u>	<u>(59,524)</u>
Endowment net assets, February 28, 2019	<u>\$11,515,433</u>	<u>\$19,589,124</u>	<u>\$31,104,557</u>

NOTE P - FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Expenses are presented by functional classification in accordance with the overall service mission of the Association and Foundation. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include wages, benefits, professional services, administrative expenses, information technology, marketing, postage, printing, equipment rental, insurance, maintenance, occupancy, depreciation and others. These expenses are allocated on the basis of headcounts, time and effort, activity based metrics, and square footage.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

For the year ended February 28, 2019, functional expense consists of the following:

	Program Services				Supporting Services			
	AirVenture	Membership Services	Other program services	Total program services	Management & General	Fundraising	Total supporting services	Total
Personnel	\$ 2,539,760	\$2,473,087	\$ 6,122,157	\$11,135,004	\$3,104,378	\$1,140,398	\$4,244,776	\$15,379,780
Cost of Goods Sold	104,536	3,865	1,487,633	1,596,034	4,984	18,294	23,278	1,619,312
Postage & Printing	29,309	1,743,263	294,553	2,067,125	332,744	134,832	467,576	2,543,701
Marketing	513,850	45,004	454,643	1,013,497	250,439	181,116	431,555	1,445,052
Fees for Services	3,475,220	415,375	905,354	4,795,949	1,064,491	497,730	1,562,221	6,358,170
Meetings & Travel	547,960	123,872	657,106	1,328,938	83,677	65,808	149,485	1,478,423
Equipment Rental	2,076,707	64,269	260,523	2,401,499	37,093	140,478	177,571	2,579,070
Fulfillment & Support	277,557	47,185	966,741	1,291,483	146,947	160,615	307,562	1,599,045
Office & Administrative	842,630	127,861	385,418	1,355,909	848,470	101,260	949,730	2,305,639
Aircraft Expenses	329,105	151	807,884	1,137,140	7,679	65	7,744	1,144,884
Maintenance & Occupancy	959,826	267,387	665,998	1,893,211	296,540	126,127	422,667	2,315,878
Insurance	294,571	25,037	1,087,726	1,407,334	81,568	11,980	93,548	1,500,882
Depreciation	<u>470,136</u>	<u>300,195</u>	<u>868,327</u>	<u>1,638,658</u>	<u>700,713</u>	<u>146,817</u>	<u>847,530</u>	<u>2,486,188</u>
Total expenses	<u>\$12,461,167</u>	<u>\$5,636,551</u>	<u>\$14,964,063</u>	<u>\$33,061,781</u>	<u>\$6,959,723</u>	<u>\$2,725,520</u>	<u>\$9,685,243</u>	<u>\$42,747,024</u>

NOTE Q - INCOME TAXES

The Association has received a determination letter from the Internal Revenue Service (IRS), dated November 3, 1993, stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation has received a determination letter from the IRS, dated October 30, 1964, stating that it is exempt from federal income tax under Section 501(c)(3) of the IRC. The Association and Foundation pay unrelated business income tax on certain of its activities, which are deemed to be unrelated to its exempt purpose.

NOTE R - LIQUIDITY

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds according to an approved investment policy that invests funds based on operational, short term and long term needs. The Association invests in liquid investments with no or limited redemption limitations. The Association has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and lines of credit. See Note F for information about the Association's lines of credit and Note N for information on investment instruments.

In addition to financial assets available to meet general expenditures over the next 12 months, the Association operates with a budget that anticipates collecting sufficient revenue to cover general expenditures, debt service requirements and capital expenditures.

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2019 and 2018

The following table reflects the Association's financial assets as of February 28, 2019 reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual or donor restrictions and board designations.

Cash and cash equivalents	\$ 2,423,848
Investments	23,938,245
Accounts receivable	635,228
Accounts receivable from Foundation at year end	442,150
Pledges receivable, current	204,334
Total financial assets	27,643,805
Less: Amounts not available to be used within one year	
Funds subject to time and purpose restrictions	<u>(3,407,802)</u>
Financial assets available to meet general expenditures within one year	<u>\$24,236,003</u>

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated endowments, contributions without donor restrictions and contributions with donor restrictions for use in supporting the Association's current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and Association support commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation board of trustees meets annually to review and approve the Association's support commitments. See Note O for more information on the Foundation's endowments and spending policy. Due to this timing, the Foundation strives to maintain investment instruments available to meet annual general expenditures as noted above. See Note N for more information on investment instruments held by the Foundation and limitation on redemptions as noted.

The Foundation board of trustees has designated its unrestricted resources for endowment and other purposes. Those amounts are identified as board-designated. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board. Therefore, these funds are included financial assets available to meet general expenditures within one year as noted in the table below.

Cash and cash equivalents	\$ 500,000
Investments	30,009,030
Accounts receivable	25,485
Total financial assets	30,534,515
Less: Amounts not available to be used within one year	
Endowments to be kept in perpetuity	(15,435,698)
Funds subject to time and purpose restrictions	<u>(1,976,359)</u>
	<u>(17,412,057)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 13,122,458</u>

NOTE S - SUBSEQUENT EVENTS

The Association and Foundation evaluated their February 28, 2019, consolidated financial statements for subsequent events through July 15, 2019, the date the consolidated financial statements were available to be issued. The Association and Foundation are not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.