

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

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

February 29, 2020 and February 28, 2019

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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 29, 2020 and February 28, 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 29, 2020 and February 28, 2019, 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.

Grant Thornton LLP

Appleton, Wisconsin
July 7, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

February 29, 2020 and February 28, 2019

ASSETS	February 29, 2020	February 28, 2019
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CURRENT ASSETS		
Cash and cash equivalents	\$ 2,043,373	\$ 2,923,848
Accounts receivable, less allowance for doubtful accounts of \$12,811 in 2020 and \$12,411 in 2019	697,427	660,713
Accounts receivable - related parties	49,283	-
Current portion of pledges receivable, less allowance for uncollectible pledges of \$18,423 in 2020 and \$14,560 in 2019	190,775	204,334
Inventories	988,395	972,621
Prepaid expenses	1,754,119	1,252,793
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Total current assets	5,723,372	6,014,309
PLEDGES RECEIVABLE, less current portion, unamortized discount and allowance for uncollectible pledges of \$3,030 in 2020 and 2019	53,472	29,303
INVESTMENTS - AT FAIR VALUE	58,526,336	53,947,275
PROPERTY AND EQUIPMENT		
Land improvements	6,086,331	5,870,683
Buildings	21,325,511	20,070,808
Leasehold improvements	21,696,166	20,542,786
Office furniture and fixtures	2,944,462	2,450,603
Computer equipment and software	9,253,373	8,841,955
Transportation and maintenance equipment	3,067,150	2,964,321
Museum display equipment	3,062,595	3,338,905
Aircraft parts and equipment	928,228	259,779
Film library	152,574	152,574
Flyable aircraft	3,037,521	1,479,923
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Total property and equipment	71,553,911	65,972,337
Less accumulated depreciation and amortization	41,725,051	39,582,359
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	29,828,860	26,389,978
Land	3,358,228	3,311,511
Capital addition projects in progress	1,106,596	1,824,466
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Net property and equipment	34,293,684	31,525,955
OTHER ASSETS		
Collections	12,170,209	11,168,680
Beneficial interest in perpetual trust	3,127,941	3,175,295
Beneficial interest in split-interest agreements	198,951	202,600
Cash value of life insurance	149,584	182,572
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Total other assets	15,646,685	14,729,147
	<hr/>	<hr/>
TOTAL ASSETS	\$ 114,243,549	\$ 106,245,989
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Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED

February 29, 2020 and February 28, 2019

LIABILITIES AND NET ASSETS	February 29, 2020	February 28, 2019
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 600,000	\$ 600,000
Current portion of gift annuity liability	10,124	11,028
Current portion of deferred compensation	78,471	78,471
Accounts payable	1,677,065	1,209,846
Accounts payable - related parties	95,489	281,883
Accrued expenses and other payables	1,993,843	1,985,350
Current portion of unearned income	8,614,244	8,173,176
Total current liabilities	13,069,236	12,339,754
LONG-TERM DEBT , less current maturities	4,600,000	5,200,000
GIFT ANNUITY LIABILITY , less current portion	135,802	148,017
DEFERRED COMPENSATION , less current portion	135,123	174,289
UNEARNED INCOME , less current portion	6,117,027	5,739,260
Total liabilities	24,057,188	23,601,320
NET ASSETS		
Without donor restrictions	63,051,842	58,446,914
With donor restriction	27,134,519	24,197,755
Total net assets	90,186,361	82,644,669
TOTAL LIABILITIES AND NET ASSETS	\$ 114,243,549	\$ 106,245,989

The accompanying notes are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended February 29, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues, gains and other support			
Membership dues and subscriptions	\$ 5,924,650	\$ -	\$ 5,924,650
Advertising	2,706,173	-	2,706,173
Rentals	5,793,554	-	5,793,554
Admissions and registrations	14,557,445	-	14,557,445
Merchandise sales	3,101,820	-	3,101,820
Commissions and royalties	2,121,192	-	2,121,192
Investment return	1,317,302	721,235	2,038,537
Change in beneficial interests	-	(51,003)	(51,003)
Administrative fees	1,283,149	-	1,283,149
Donations, cash and pledges	4,370,128	4,245,701	8,615,829
Donations, contributed services and property	3,023,422	120,125	3,143,547
Donations, sponsorship	2,464,656	557,034	3,021,690
Gain on deferred compensation	39,166	-	39,166
Gain on disposal of property and equipment	4,622	-	4,622
Miscellaneous	861,035	-	861,035
Net assets released from restrictions	<u>2,656,328</u>	<u>(2,656,328)</u>	<u>-</u>
 Total revenues, gains and other support	 50,224,642	 2,936,764	 53,161,406
 Expenses			
AirVenture expenses	13,544,995	-	13,544,995
Membership services	5,450,925	-	5,450,925
Other program expenses	16,474,397	-	16,474,397
Management and general	8,089,093	-	8,089,093
Fundraising	<u>2,060,304</u>	<u>-</u>	<u>2,060,304</u>
 Total expenses	 <u>45,619,714</u>	 <u>-</u>	 <u>45,619,714</u>
 Change in net assets	 <u>4,604,928</u>	 <u>2,936,764</u>	 <u>7,541,692</u>
 Net assets at beginning of year	 <u>58,446,914</u>	 <u>24,197,755</u>	 <u>82,644,669</u>
 Net assets at end of year	 <u>\$ 63,051,842</u>	 <u>\$ 27,134,519</u>	 <u>\$ 90,186,361</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 - CONTINUED

For the year ended February 28, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues, gains and other support			
Membership dues and subscriptions	\$ 5,840,782	\$ -	\$ 5,840,782
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	575,485	631,314	1,206,799
Change in beneficial interests	-	(71,763)	(71,763)
Administrative fees	1,359,586	-	1,359,586
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
Donations, sponsorship	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	622,714	-	622,714
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	 <u>2,653,146</u>	 <u>1,676,826</u>	 <u>4,329,972</u>
 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 STATEMENTS OF CASH FLOWS

February 29, 2020 and February 28, 2019

	<u>February 29, 2020</u>	<u>February 28, 2019</u>
Cash flows from operating activities		
Change in net assets	\$ 7,541,692	\$ 4,329,972
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	2,484,883	2,486,187
(Gain) loss on disposal of property and equipment	(4,622)	291,281
Change in value of deferred compensation agreement	39,305	39,065
Donations of collections	(1,001,529)	(542,133)
Donations of property and equipment	(517,764)	(983,032)
Donations of investments	(247,501)	(60,191)
(Gain) loss on investments	(611,625)	46,843
Change in beneficial interests	51,003	71,763
Changes in operating assets and liabilities		
Accounts receivable	(36,714)	(63,792)
Accounts receivable - related parties	(49,283)	-
Pledges receivable	(10,610)	(131,396)
Inventories	(15,774)	(200,813)
Prepaid expenses	(501,326)	(203,535)
Accounts payable	467,219	(38,836)
Accounts payable - related parties	(186,394)	59,951
Accrued expenses and other payables	8,493	14,988
Unearned income	818,835	1,341,233
Gift annuity liability	(13,119)	(1,377)
Deferred compensation	(78,471)	(78,471)
Net cash provided by operating activities	<u>8,136,698</u>	<u>6,377,707</u>
Cash flows from investing activities		
Proceeds from sale of investments	7,057,476	10,927,859
Purchases of investments	(10,777,411)	(21,790,173)
Proceeds from disposal of property and equipment	-	35,000
Purchases of property and equipment	(4,730,226)	(2,835,541)
Decrease in cash value of life insurance	32,988	26,366
Net cash used in investing activities	<u>(8,417,173)</u>	<u>(13,636,489)</u>
Cash flows from financing activities		
Payments of long-term debt	<u>(600,000)</u>	<u>(600,000)</u>
Net cash used in financing activities	<u>(600,000)</u>	<u>(600,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(880,475)	(7,858,782)
Cash and cash equivalents at beginning of year	<u>2,923,848</u>	<u>10,782,630</u>
Cash and cash equivalents at end of year	<u>\$ 2,043,373</u>	<u>\$ 2,923,848</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 151,975	\$ 162,193

The accompanying notes are an integral part of these consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 29, 2020 and February 28, 2019

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 860 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.

The Association and Foundation restructured their operations and personnel during the year. All fundraising is now handled by the Foundation, resulting in the majority of contributions and fundraising expenses being recorded within the Foundation.

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 29, 2020 and February 28, 2019, include the accounts of the Association and the Foundation, and the Association's subsidiaries, Blue Sky Holdings, LLC, EAA IMC, LLC and EAA STC, LLC. Blue Sky Holdings, LLC was formed during 2020, and EAA IMC, LLC was dissolved during 2020. All significant intercompany balances and transactions have been eliminated in consolidation.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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, 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	40 years
Buildings	40 years
Building equipment	20 years
Moveable structures	20 years
Office furniture and fixtures	7 years
Computer equipment and software	3 years
Transportation and maintenance equipment	5 to 7 years
Museum display equipment	12 years
Aircraft parts	Dependent on aircraft flight hours
Aircraft equipment	5 years
Film library	8 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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 \$131,252 and \$150,146 for the years ended February 29, 2020 and February 28, 2019, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

Revenue Recognition

Recognition prior to January 1, 2019

The Company recognized revenue as follows:

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

Events (including AirVenture) benefiting the Association had various revenue streams, including admissions and registrations, sponsorship income and rental income. Receipts from these events were recognized as revenue when the event occurred. The receipts for future events were deferred until the time of the event.

Advertising revenue was recognized when production costs were incurred for the related publication.

Merchandise revenue was recognized when the sale occurred at the point of purchase.

Recognition after January 1, 2019

Effective March 1, 2019, the Association and Foundation adopted ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606). The results of applying ASC 606 using the modified retrospective approach did not have a material impact on the consolidated financial position, changes in net assets, cash flows, business processes, controls or systems of the Association for the period ending February 29, 2020. The Association did not restate prior period information for the effects of the new standard, nor did the Association adjust the opening balance of net assets to account for the implementation of the new requirements of the standard.

The Association recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration the Association expects to be entitled to in exchange for those goods or services. The Association has identified membership dues and subscriptions, advertising fees, rentals, admissions and registrations, merchandise sales, commissions and royalties, and administrative fees as revenue categories subject to the adoption of ASC 606. Generally, advance receipts are deferred to the applicable period when performance obligations are met and receivables are generally due 30 days from the invoice date.

A description of the Association's revenue categories accounted for under ASC 606 follows:

Membership dues and subscription revenues are recognized on a straight-line ratable basis over the terms of the various memberships. Membership dues, which include subscriptions, are purchased on an annual basis, and amounts received in advance are deferred to the applicable period. Subscription revenue is allocated based on comparable aviation publications market pricing and frequency. Membership dues revenue is allocated based on membership benefits received.

Advertising fees are recognized in the period in which the production costs are incurred for the related publication.

Events (including AirVenture) benefiting the Association and Foundation have various revenue streams, including admissions, registrations and rentals. Revenue from these events are recognized when the event occurs. Advance receipts from these events are deferred until the time of the event.

Merchandise sales are recognized when the sale occurs at the point of purchase.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

Commissions and royalties are recognized over time as performance obligations are satisfied per each contract.

Administrative fees are recognized over time as performance obligations are satisfied per each contract.

Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Contributions

Effective March 1, 2019, the Association and Foundation adopted ASU 2018-08, *Not-For-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Contributions from third parties and sponsorship income that represents contributions are outside the scope of ASC 606.

Contributions are recognized when cash, securities, or other assets; unconditional promises to give; or a notification of a beneficial interest is received. The Association and Foundation report contributions, including promises to give, as restricted support if they are received with donor stipulations that restrict the use of the donated assets. Conditional promises to give are recognized when the conditions on which they depend have been substantially met. Contributions that have restrictions that are met during the same year the contributions are received are recorded as net assets without donor restriction donation revenue. Contributions receivable are recorded at the present value of future estimated cash flows and net of an allowance for uncollectible contributions.

Sponsorship income is recognized as contributions when the Association or Foundation has substantially met conditions in accordance with the terms of the sponsorship agreement. Sponsorships support many programs, including AirVenture, and are recorded in the applicable period when the program activity or event takes place. Advance receipts for a future activity or events taking place in a subsequent fiscal year are classified as donations with donor restrictions.

Special events revenue is recorded equal to the fair value of the direct benefits to donors, and contribution revenue is recognized for the excess received when the event takes place.

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 \$3,143,547 and \$3,044,941 for the years ended February 29, 2020 and February 28, 2019, 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 consolidated statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Such costs include maintenance and occupancy, depreciation and management and general expenses, which are allocated on the basis of square footage occupied or resources used, or on the basis of the total direct cost of the benefiting program. See Note P.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

Advertising Costs

The Association and the Foundation expense advertising costs as they are incurred. Advertising expense was \$1,274,000 and \$1,456,000 for the years ended February 29, 2020 and February 28, 2019, respectively.

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.

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 29, 2020 and February 28, 2019.

There were no interest or penalties related to income tax that have been accrued or recognized as of and for the years ended February 29, 2020 and February 28, 2019.

On December 20, 2019, tax reform legislation commonly known as the Taxpayer Certainty and Disaster Tax Relief Act was passed; resulting in modifications to existing tax law, particularly repealing the Federal taxation of transportation fringe benefits on exempt employers. 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 2019 financial statement presentation to conform to the 2020 presentation. There is no impact on net assets or change in net assets as previously reported.

New Accounting Pronouncement

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. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments-Credit Losses (Topic 326, Derivative and Hedging (Topic 815), and Leases (Topic 842)*, which deferred the effective date of ASU No. 2016-02 by one year. In May 2020, the FASB voted to defer the effective date of ASC 842 by an additional year for nonpublic entities. This ASU is effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Association and Foundation are currently evaluating the impact and have not determined the impact on the consolidated financial statements at this time.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software*. ASU No. 2018-15 allows for the capitalization of implementation costs incurred to develop or obtain internal-use software. ASU No. 2018-15 is effective for annual periods beginning after December 15, 2020, although early adoption is permitted. The Association and Foundation adopted this guidance in the current year and there was no impact as a result of the adoption.

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

Contributions from one donor represents 18% of the Association's and Foundation's donations as of February 29, 2020. There were no donors with significant contributions for the year ended February 28, 2019.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable are summarized as follows as of February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges receivable	\$ 265,700	\$ 251,227
Less amortized discount	3,030	3,030
	<u>262,670</u>	<u>248,197</u>
Less allowance for uncollectible pledges receivable	18,423	14,560
	<u>\$ 244,247</u>	<u>\$ 233,637</u>
Amounts due in		
Less than one year	\$ 209,198	\$ 218,894
One to five years	56,502	32,333
	<u>265,700</u>	<u>251,227</u>
Less unamortized discount and allowance	21,453	17,590
	<u>\$ 244,247</u>	<u>\$ 233,637</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

NOTE E - INVESTMENTS

Investments at fair value consisted of the following as of February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Money market funds	\$ 7,153,099	\$ 4,870,319
Common stocks	2,455,103	2,569,174
Bond funds	16,504,164	16,986,865
Equity funds	30,071,500	27,262,627
Hedge fund	2,342,470	2,258,290
	<u>\$ 58,526,336</u>	<u>\$ 53,947,275</u>

Investment return consists of the following for the years ended February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Investment fees	\$ (157,256)	\$ (139,184)
Interest and dividends	1,584,168	1,393,872
Realized loss on investments	(599,915)	(1,576,230)
Unrealized gain on investments	1,211,540	1,528,341
	<u>\$ 2,038,537</u>	<u>\$ 1,206,799</u>

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following as of February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
\$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 2.60% and 3.23% at February 29, 2020 and February 28, 2019, respectively); secured by all equipment and fixtures acquired with the proceeds of the bonds	\$ 5,200,000	\$ 5,800,000
	5,200,000	5,800,000
Less current maturities	<u>600,000</u>	<u>600,000</u>
	<u>\$ 4,600,000</u>	<u>\$ 5,200,000</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

A letter of credit to satisfy Wisconsin unemployment tax requirements is provided by the Association through U.S. Bank, N.A. in the amount of approximately \$140,000. The letter of credit expires December 31, 2023. In addition, a supporting line of credit is provided for \$200,000. The supporting line of credit expires December 31, 2022. As of February 29, 2020 and February 28, 2019, there were no amounts outstanding on the supporting line of credit. 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, 2021. There were no outstanding balances at February 29, 2020 and February 28, 2019, on this line of credit. Interest on the line of credit is the 30-day LIBOR rate plus 150 basis points.

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 29, 2020 and February 28, 2019.

Future maturities of long-term debt as of February 29, 2020 follows for the years ending:

2021	\$ 600,000
2022	600,000
2023	600,000
2024	600,000
2025	600,000
Thereafter	<u>2,200,000</u>
	<u>\$ 5,200,000</u>

NOTE G - UNEARNED INCOME

Unearned income consists of the following items as of February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Unearned membership dues and subscription revenue	\$ 10,048,303	\$ 9,506,789
Exhibits	3,261,423	2,967,513
Other	<u>1,421,545</u>	<u>1,438,134</u>
Total	14,731,271	13,912,436
Less current portion	<u>8,614,244</u>	<u>8,173,176</u>
Long-term unearned income	<u>\$ 6,117,027</u>	<u>\$ 5,739,260</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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 29, 2020 and February 28, 2019. 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 management and general expenses.

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 \$721,000 and \$708,000 for the years ended February 29, 2020 and February 28, 2019, respectively.

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 29, 2020 and February 28, 2019.

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 2.71% and 4.05% at February 29, 2020 and February 28, 2019, was \$213,594 and \$252,760, 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 29, 2020, are approximately as follows:

2021	\$ 344,100
2022	337,100
2023	301,000
2024	301,000
2025	271,900
Thereafter	<u>2,200,600</u>
	<u>\$ 3,755,700</u>

For the years ended February 29, 2020 and February 28, 2019, expenses under these leases were approximately \$430,000 and \$293,000, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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 \$574,000 and \$477,000 during the years ended February 29, 2020 and February 28, 2019, 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 and the Foundation receive 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.

Related-party transactions and year-end balances are as follows as of and for the years ended February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Payments from the Entities for data processing and other administrative services	\$ 559,430	\$ 538,746
Accounts payable to the Entities	95,489	281,883
Accounts receivable from the Entities	49,283	-

NOTE M - CONTINGENT LIABILITIES AND COMMITMENTS

The Association self-funds employees' medical expenses through a program under which it is responsible for the first \$65,000 and \$60,000 of covered medical expenses per incident at February 29, 2020 and February 28, 2019, respectively. 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 \$1,286,000 and \$1,135,000 for the years ended February 29, 2020 and February 28, 2019, respectively. The claims liability totaled approximately \$60,000 and \$98,000 as of February 29, 2020 and February 28, 2019, respectively, and is included in accrued expenses and other payables on the consolidated statements of financial position.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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.

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 29, 2020 and February 28, 2019. There were no transfers into or out of each level during the years ended February 29, 2020 and February 28, 2019.

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 29, 2020 and February 28, 2019, net asset value (NAV) per share, which is used as a practical expedient to estimate fair value. The value is determined by reference to the fund's underlying assets and is 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 unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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 29, 2020 and February 28, 2019, 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 29, 2020 and February 28, 2019:

	2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Money market funds	\$ 7,153,099	\$ 7,153,099	\$ -	\$ -
Common stocks	2,455,103	2,455,103	-	-
Bond funds	16,504,164	16,504,164	-	-
Equity funds	30,071,500	30,071,500	-	-
	56,183,866	<u>\$ 56,183,866</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV				
Hedge fund (a)	<u>2,342,470</u>			
	<u>\$ 58,526,336</u>			
Other assets				
Beneficial interest in perpetual trust	\$ 3,127,941	\$ -	\$ -	\$ 3,127,941
Beneficial interest in split-interest agreements	198,951	-	-	198,951

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

	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	27,262,627	27,262,627	-	-
	51,688,985	<u>\$ 51,688,985</u>	<u>\$ -</u>	<u>\$ -</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

- (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.

The following is a reconciliation of beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Beginning balance	\$ 3,377,895	\$ 3,449,659
Net gains (losses), realized and unrealized, included in change in net assets	<u>(51,003)</u>	<u>(71,764)</u>
Ending balance	<u>\$ 3,326,892</u>	<u>\$ 3,377,895</u>

NOTE O - NET ASSETS

Without donor restriction

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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 \$11,454,117 and \$11,515,433 at February 29, 2020 and February 28, 2019, 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 29, 2020 and February 28, 2019, 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 29, 2020 and February 28, 2019

Net assets with donor restrictions are restricted for the following purpose or periods as of February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Subject to expenditure for specified purpose:		
Scholarships	\$ 2,418,419	\$ 2,039,503
Internships	108,284	98,414
Operations	578,474	27,115
Museum Exhibits	1,065,398	1,040,174
Programs	2,649,397	920,589
Young Eagles	369,417	135,598
Aircraft Preservation	37,372	138,519
Museum Operations	6,118	6,118
	<u>7,232,879</u>	<u>4,406,030</u>
Subject to passage of time:		
Promises to give, not restricted by donors but unavailable until due	68,167	-
Assets held under split-interest agreements	198,952	202,601
	<u>267,119</u>	<u>202,601</u>
Endowments:		
Subject to appropriation and expenditure for specified purpose:		
Scholarships	713,918	674,967
Internships	39,509	40,890
Operations	182,898	189,512
Museum Exhibits	7,635	7,945
Air Academy	158,475	163,509
Programs	6,459	6,548
Young Eagles	9,355	17,995
Museum Operations	19,560	22,219
Underwater funds	(182,757)	(145,454)
	<u>955,052</u>	<u>978,131</u>
Subject to endowment spending policy and appropriation:		
Scholarships	6,104,286	6,031,496
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	71,981	61,981
Young Eagles	5,184,133	5,153,333
Museum operations	410,845	408,605
	<u>15,551,528</u>	<u>15,435,698</u>
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trusts - donor restricted for programs	3,127,941	3,175,295
	<u>19,634,521</u>	<u>19,589,124</u>
	<u>\$ 27,134,519</u>	<u>\$ 24,197,755</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

Net assets released from donor restrictions are as follows for the years ended February 29, 2020 and February 28, 2019:

	February 29, 2020	February 28, 2019
Expiration of time restriction	\$ 131,936	\$ 21,956
Satisfaction of purpose restrictions:		
Scholarships	1,015,486	121,754
Young Eagles	135,598	427,348
Museum exhibits	-	4,145
Museum operations	-	5,030
Operations	-	646,052
Aircraft preservation	211,636	329,618
Other programs	596,543	206,801
	<u>1,959,263</u>	<u>1,740,748</u>
Restricted purpose distributions:		
Beneficial interest in perpetual trust	-	95,921
Restricted-purpose spending policy distributions and appropriations:		
Scholarships	211,659	184,772
Internships	-	15,184
Young Eagles	198,070	187,145
Museum exhibits	12,070	44,260
Museum operations	16,669	17,760
Operations	43,300	64,233
Air Academy	80,849	86,132
Other programs	2,512	1,752
	<u>565,129</u>	<u>601,238</u>
	<u>\$ 2,656,328</u>	<u>\$ 2,459,863</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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

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 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 \$182,757 and \$145,454 as of February 29, 2020 and February 28, 2019, 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 2020 and 2019. 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 29, 2020 and February 28, 2019

Changes in endowment net assets for the years ended February 29, 2020 and February 28, 2019 are as follows:

	Without donor restrictions	With donor restrictions	Total
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	1,009,703	-	1,009,703
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	-	(59,524)	(59,524)
Endowment net assets, February 28, 2019	11,515,433	19,589,124	31,104,557
Investment return, net	397,579	697,745	1,095,324
New additions			
Contributions	368,778	120,127	488,905
Fund transfers	-	(5,865)	(5,865)
Other income	6,320	-	6,320
Total new additions	375,098	114,262	489,360
Appropriation of endowment assets for expenditures	(833,993)	(719,256)	(1,553,249)
Change in beneficial interest in perpetual trust	-	(47,354)	(47,354)
Endowment net assets, February 29, 2020	<u>\$ 11,454,117</u>	<u>\$ 19,634,521</u>	<u>\$ 31,088,638</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 29, 2020 and February 28, 2019

For the year ended February 29, 2020, functional expense consists of the following:

	Program Activities			Supporting Activities			Total	
	AirVenture	Membership Services	Other program services	Total program services	Management & General	Fundraising		Total supporting services
Personnel	\$ 2,743,289	\$ 2,442,319	\$ 5,572,838	\$ 10,758,446	\$ 3,935,343	\$ 741,729	\$ 4,677,072	\$ 15,435,518
Cost of Goods Sold	119,536	4,682	1,599,651	1,723,869	1,965	623	2,588	1,726,457
Postage & Printing	86,947	1,815,206	303,530	2,205,683	371,554	99,278	470,832	2,676,515
Marketing	390,114	89,257	383,758	863,129	264,529	121,149	385,678	1,248,807
Fees for Services	3,057,060	398,514	1,013,521	4,469,095	1,187,832	598,186	1,786,018	6,255,113
Meetings & Travel	567,679	171,991	758,044	1,497,714	109,856	37,957	147,813	1,645,527
Equipment Rental	2,674,472	41,062	262,704	2,978,238	47,794	121,385	169,179	3,147,417
Fulfillment & Support	277,941	56,456	1,837,995	2,172,392	150,284	154,157	304,441	2,476,833
Office & Administrative	812,722	188,008	499,922	1,500,652	1,087,579	134,076	1,221,655	2,722,307
Aircraft Expenses	251,382	-	1,318,565	1,569,947	20,858	6,713	27,571	1,597,518
Maintenance & Occupancy	1,367,008	23,594	1,012,143	2,402,745	162,820	710	163,530	2,566,275
Insurance	454,670	84,817	890,202	1,429,689	190,805	16,605	207,410	1,637,099
Depreciation	742,175	135,019	1,021,524	1,898,718	557,874	27,736	585,610	2,484,328
Total expenses	\$ 13,544,995	\$ 5,450,925	\$ 16,474,397	\$ 35,470,317	\$ 8,089,093	\$ 2,060,304	\$ 10,149,397	\$ 45,619,714

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

	Program Services			Supporting Services			Total	
	AirVenture	Membership Services	Other program services	Total program services	Management & General	Fundraising		Total supporting services
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	470,136	300,195	868,327	1,638,658	700,713	146,817	847,530	2,486,188
Total expenses	\$ 12,461,167	\$ 5,636,551	\$ 14,964,063	\$ 33,061,781	\$ 6,959,723	\$ 2,725,520	\$ 9,685,243	\$ 42,747,024

NOTE Q - 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 29, 2020 and February 28, 2019

The following table reflects the Association's financial assets as of February 29, 2020 and February 28, 2019 reduced by amounts that are not available to meet general expenditures within one year of the statement financial of financial position date because of contractual or donor restrictions and board designations.

	February 29, 2020	February 28, 2019
Cash and cash equivalents	\$ 1,713,788	\$ 2,423,848
Investments	24,935,602	23,938,245
Accounts receivable	675,885	635,228
Accounts receivable from Foundation at year end	-	442,150
Pledges receivable, current	15,074	204,334
	<hr/>	<hr/>
Total financial assets	27,340,349	27,643,805
Less: Amounts not available to be used within one year		
Funds subject to time and purpose restrictions	<u>(2,484,845)</u>	<u>(3,407,802)</u>
	<hr/>	<hr/>
	\$ 24,855,504	\$ 24,236,003

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 Associations 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. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation's governing body 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 investments 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2020 and February 28, 2019

The Foundation's governing board 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:

	February 29, 2020	February 28, 2019
Cash and cash equivalents	\$ 329,585	\$ 500,000
Investments	33,590,734	30,009,030
Accounts receivable	21,542	25,485
Pledges receivable, current	175,701	-
	<hr/>	<hr/>
Total financial assets	34,117,562	30,534,515
Less: Amounts not available to be used within one year		
Endowments to be kept in perpetuity	(15,551,528)	(15,435,698)
Funds subject to time and purpose restrictions	(5,770,483)	(1,976,359)
	<hr/>	<hr/>
	\$ 12,795,596	\$ 13,122,458
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NOTE R - SUBSEQUENT EVENTS

The Association and Foundation evaluated their February 29, 2020, consolidated financial statements for subsequent events through July 7, 2020, 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, except as disclosed below.

Subsequent to February 29, 2020, the World Health Organization declared the novel coronavirus outbreak a public health emergency. The Association and Foundation have experienced a reduction in operations as a result of office closures, social distancing limitations which include limits on gatherings of people and Safer At Home orders in Wisconsin and across the country. As it presently stands, the duration and intensity of the impact of the coronavirus and the potential resulting disruption to the Association and Foundation's operations has led to the cancellation of AirVenture for the 2021 fiscal year. Management plans to mitigate financial impact through reduced spending and alternative methods of operations. The Association and Foundation will continue to monitor the situation closely and assess the impact on its operations and financial results for the remainder of the year.

The United States and global markets experienced significant declines in value resulting in uncertainty. The Association and Foundation are closely monitoring investment portfolios and liquidity while actively working to minimize the impact of these declines. The Association and Foundation financial statements do not include adjustments to fair value that have resulted from these declines.

In addition, the Association was granted a Payroll Protection Program ("PPP") loan under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act.