

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

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

February 28, 2021 and February 29, 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Experimental Aircraft Association, Inc.

Board of Trustees
EAA Aviation Foundation, Inc.

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, 2021 and February 29, 2020 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, 2021 and February 29, 2020, 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
June 30, 2021

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

February 28, 2021 and February 29, 2020

	February 28, 2021	February 29, 2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,341,204	\$ 2,043,373
Accounts receivable, less allowance for doubtful accounts of \$22,430 in 2021 and \$12,811 in 2020	448,754	697,427
Accounts receivable - related parties	87,232	49,283
Current portion of pledges receivable, less allowance for uncollectible pledges of \$97,768 in 2021 and \$18,423 in 2020	514,478	190,775
Inventories	1,097,480	988,395
Prepaid expenses	1,638,190	1,754,119
Total current assets	9,127,338	5,723,372
PLEDGES RECEIVABLE, less current portion, unamortized discount and allowance for uncollectible pledges of \$70,694 in 2021 and \$3,030 in 2020	1,229,836	53,472
INVESTMENTS - AT FAIR VALUE	54,745,443	58,526,336
PROPERTY AND EQUIPMENT		
Land improvements	6,360,020	6,086,331
Buildings	21,441,230	21,325,511
Leasehold improvements	22,202,369	21,696,166
Office furniture and fixtures	3,043,194	2,944,462
Computer equipment and software	9,173,634	9,253,373
Transportation and maintenance equipment	3,251,690	3,067,150
Museum display equipment	3,093,005	3,062,595
Aircraft equipment	85,510	85,510
Aircraft parts	1,114,692	842,718
Film library	152,574	152,574
Flyable aircraft	3,325,441	3,037,521
Total property and equipment	73,243,359	71,553,911
Less accumulated depreciation and amortization	43,787,416	41,725,051
	29,455,943	29,828,860
Land	4,369,048	3,358,228
Capital addition projects in progress	1,263,505	1,106,596
Net property and equipment	35,088,496	34,293,684
OTHER ASSETS		
Collections	12,390,877	12,170,209
Beneficial interest in perpetual trust	3,557,263	3,127,941
Beneficial interest in split-interest agreements	231,553	198,951
Cash value of life insurance	138,889	149,584
Total other assets	16,318,582	15,646,685
TOTAL ASSETS	\$ 116,509,695	\$ 114,243,549

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED

February 28, 2021 and February 29, 2020

	February 28, 2021	February 29, 2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 600,000	\$ 600,000
Current portion of gift annuity liability	10,124	10,124
Current portion of deferred compensation	-	78,471
Accounts payable	809,695	1,413,228
Accounts payable - related parties	234,056	95,489
Accrued expenses and other payables	1,440,986	1,993,843
Current portion of unearned income	11,565,494	8,878,081
Total current liabilities	14,660,355	13,069,236
LONG-TERM DEBT , less current maturities	4,000,000	4,600,000
GIFT ANNUITY LIABILITY , less current portion	134,528	135,802
DEFERRED COMPENSATION , less current portion	-	135,123
UNEARNED INCOME , less current portion	6,741,363	6,117,027
Total liabilities	25,536,246	24,057,188
NET ASSETS		
Without donor restrictions	56,805,608	63,051,842
With donor restriction	34,167,841	27,134,519
Total net assets	90,973,449	90,186,361
TOTAL LIABILITIES AND NET ASSETS	\$ 116,509,695	\$ 114,243,549

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 28, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Membership dues and subscriptions	\$ 5,740,505	\$ -	\$ 5,740,505
Advertising	1,439,025	-	1,439,025
Rentals	150,567	-	150,567
Admissions and registrations	244,981	-	244,981
Merchandise sales	784,168	-	784,168
Commissions and royalties	635,134	-	635,134
Investment return	4,894,758	3,932,635	8,827,393
Change in beneficial interests	-	461,925	461,925
Administrative fees	1,014,275	-	1,014,275
Donations, cash and pledges	2,514,428	5,456,671	7,971,099
Donations, contributed services and property	469,406	873,059	1,342,465
Donations, sponsorship	284,915	(557,034)	(272,119)
Gain on deferred compensation	213,594	-	213,594
Miscellaneous	239,759	-	239,759
Net assets released from restrictions	3,043,547	(3,043,547)	-
	<u>21,669,062</u>	<u>7,123,709</u>	<u>28,792,771</u>
Expenses			
AirVenture expenses	3,845,103	-	3,845,103
Membership services	3,653,239	-	3,653,239
Other program expenses	10,910,671	-	10,910,671
Management and general	8,304,051	-	8,304,051
Fundraising	1,202,232	90,387	1,292,619
	<u>27,915,296</u>	<u>90,387</u>	<u>28,005,683</u>
Change in net assets	<u>(6,246,234)</u>	<u>7,033,322</u>	<u>787,088</u>
Net assets at beginning of year	<u>63,051,842</u>	<u>27,134,519</u>	<u>90,186,361</u>
Net assets at end of year	<u>\$ 56,805,608</u>	<u>\$ 34,167,841</u>	<u>\$ 90,973,449</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

For the year ended February 29, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
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	2,656,328	(2,656,328)	-
	<u>50,224,642</u>	<u>2,936,764</u>	<u>53,161,406</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	2,060,304	-	2,060,304
	<u>45,619,714</u>	<u>-</u>	<u>45,619,714</u>
Total expenses			
	45,619,714	-	45,619,714
Change in net assets	4,604,928	2,936,764	7,541,692
	<u>4,604,928</u>	<u>2,936,764</u>	<u>7,541,692</u>
Net assets at beginning of year	58,446,914	24,197,755	82,644,669
	<u>58,446,914</u>	<u>24,197,755</u>	<u>82,644,669</u>
Net assets at end of year	\$ 63,051,842	\$ 27,134,519	\$ 90,186,361
	<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 STATEMENTS OF CASH FLOWS

February 28, 2021 and February 29, 2020

	<u>February 28, 2021</u>	<u>February 29, 2020</u>
Cash flows from operating activities		
Change in net assets	\$ 787,088	\$ 7,541,692
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	2,245,162	2,484,883
Gain on disposal of property and equipment	-	(4,622)
Change in value of deferred compensation agreement	(154,741)	39,305
Donations of collections	(220,668)	(1,001,529)
Donations of property and equipment	(158,666)	(517,764)
Donations of investments	(1,002,492)	(247,501)
Gain on investments	(7,942,255)	(611,625)
Change in beneficial interests	(461,924)	51,003
Changes in operating assets and liabilities:		
Accounts receivable	248,673	(36,714)
Accounts receivable - related parties	(37,949)	(49,283)
Pledges receivable	(1,500,067)	(10,610)
Inventories	(109,085)	(15,774)
Prepaid expenses	274,595	(501,326)
Accounts payable	(603,533)	203,382
Accounts payable - related parties	138,567	(186,394)
Accrued expenses and other payables	(552,857)	8,493
Unearned income	869,112	1,082,672
Gift annuity liability	(1,274)	(13,119)
Deferred compensation	(58,853)	(78,471)
Net cash (used in) provided by operating activities	(8,241,167)	8,136,698
Cash flows from investing activities		
Proceeds from sale of investments	67,689,506	7,057,476
Purchases of investments	(54,963,866)	(10,777,411)
Purchases of property and equipment	(3,039,974)	(4,730,226)
Decrease in cash value of life insurance	10,695	32,988
Net cash provided by (used in) investing activities	9,696,361	(8,417,173)
Cash flows from financing activities		
Payments of long-term debt	(600,000)	(600,000)
Proceeds from Paycheck Protection Program Loan	2,442,637	-
Net cash provided by (used in) financing activities	1,842,637	(600,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,297,831	(880,475)
Cash and cash equivalents at beginning of year	<u>2,043,373</u>	<u>2,923,848</u>
Cash and cash equivalents at end of year	<u>\$ 5,341,204</u>	<u>\$ 2,043,373</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 63,306	\$ 151,975

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 28, 2021 and February 29, 2020

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 ended February 29, 2020. All fundraising is 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 28, 2021 and February 29, 2020, 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 consolidated 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

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
Flyable aircraft	35 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 to 7 years
Film library	8 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 28, 2021 and February 29, 2020

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 received from the trust totaled \$158,181 and \$131,252 for the years ended February 28, 2021 and February 29, 2020, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

Revenue Recognition

The Association and Foundation recognize revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* (ASC 606). 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 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. See Note G for discussion of unearned income. 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.

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. The promised services that meet the distinct criteria are combined with services that are substantially the same into one performance obligation as a series that have the same pattern of transfer. As such, revenue for those performance obligations is generally recognized as services are performed.

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

Contributions

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

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 unearned income and were \$603,780 for the year ended February 28, 2021.

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 \$1,371,465 and \$3,143,547 for the years ended February 28, 2021 and February 29, 2020, 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.

Advertising Costs

The Association and the Foundation expense advertising costs as they are incurred. Advertising expense was approximately \$448,000 and \$1,249,000 for the years ended February 28, 2021 and February 29, 2020, 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 28, 2021 and February 29, 2020.

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, 2021 and February 29, 2020.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

Reclassifications

Certain reclassifications have been made to the 2020 financial statement presentation to conform to the 2021 presentation. There is no impact on net assets or change in net assets as previously reported.

Adopted Accounting Pronouncement

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-13, *Disclosure Framework - Changes to Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements of ASC Topic 820. The Association and Foundation adopted this guidance in the current year and there was no material impact as a result of the adoption.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is expected to increase transparency and comparability among organizations. The core principle of this guidance is that a lessee should recognize the assets and liabilities that arise from leases. The standard requires lessees to reflect most leases on their statement of financial position as lease liabilities with a corresponding right-of-use asset, while leaving presentation of lease expense in the statement of activities largely unchanged. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting which lessors must apply to sales-type and direct-financing leases. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which deferred the effective date of ASU No. 2016-02 for private companies. This amendments in the guidance are effective for fiscal years beginning after December 15, 2021. It shall be applied using a modified retrospective approach. Early adoption is permitted. The Association and Foundation are currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The guidance requires contributed nonfinancial assets to be presented as a separate line item on the statement of activities, apart from cash and other financial asset contributions. The guidance also requires disclosure of the types of contributed nonfinancial assets and, for each category, information about whether the assets were monetized or utilized, a description of the policies to monetize or utilize such assets, a description of donor-imposed restrictions associated with the contributions, and a description of the valuation techniques and principal market used to arrive at a fair value measure at initial recognition. The guidance will be effective for the Association and Foundation for the year ending February 28, 2022. Organizations are required to apply the guidance on a retrospective basis, and early adoption is permitted. The Association and Foundation are currently evaluating the impact of ASU 2020-07 on the consolidated financial statements.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

NOTE C - DONOR CONCENTRATIONS

Contributions from four donors represent 57% of the Association's and Foundation's donations for the year ended February 28, 2021. Contributions from one donor represents 18% of the Association's and Foundation's donations for the year ended February 29, 2020.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable are summarized as follows as of February 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
	<u> </u>	<u> </u>
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges receivable	\$ 1,912,776	\$ 265,700
Less: amortized discount	70,694	3,030
	<u>1,842,082</u>	<u>262,670</u>
Less: allowance for uncollectible pledges receivable	97,768	18,423
	<u>\$ 1,744,314</u>	<u>\$ 244,247</u>
Amounts due in:		
Less than one year	\$ 612,246	\$ 209,198
One to five years	1,300,530	56,502
	<u>1,912,776</u>	<u>265,700</u>
Less: unamortized discount and allowance	168,462	21,453
	<u>\$ 1,744,314</u>	<u>\$ 244,247</u>

NOTE E - INVESTMENTS

Investments at fair value consisted of the following as of February 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
	<u> </u>	<u> </u>
Money market funds	\$ 2,879,925	\$ 7,153,099
Common stocks	2,488,676	2,455,103
Bond funds	14,986,274	16,504,164
Equity funds	26,340,437	30,071,500
Hedge fund	3,950,131	2,342,470
Other ^(a)	4,100,000	-
	<u>\$ 54,745,443</u>	<u>\$ 58,526,336</u>

^(a)Included in investments is \$4,100,000 of pending trades as of February 28, 2021.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

Investment return consists of the following for the years ended February 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
Investment fees	\$ (138,487)	\$ (157,256)
Interest and dividends	1,023,626	1,584,168
Realized loss on investments	(6,753,132)	(599,915)
Unrealized gain on investments	14,695,386	1,211,540
	<u>\$ 8,827,393</u>	<u>\$ 2,038,537</u>

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following as of February 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
\$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 1.59% and 2.60% at February 28, 2021 and February 29, 2020, respectively); secured by all equipment and fixtures acquired with the proceeds of the bonds	<u>\$ 4,600,000</u>	<u>\$ 5,200,000</u>
	4,600,000	5,200,000
Less: current maturities	<u>600,000</u>	<u>600,000</u>
	<u>\$ 4,000,000</u>	<u>\$ 4,600,000</u>

Letters of credit to satisfy Wisconsin unemployment tax requirements are provided by the Association and Foundation through U.S. Bank, N.A. in the amounts of \$150,626 and \$2,239, respectively. The letters of credit expire December 31, 2024. In addition, supporting lines of credit are provided for \$200,000 for the Association and \$5,000 for the Foundation. Both supporting lines of credit expire December 31, 2024. As of February 28, 2021 and February 29, 2020, there were no amounts outstanding on the supporting lines of credit. Interest on the lines of credit are 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 28, 2021 and February 28, 2020, on this line of credit. Interest on the line of credit is the 30-day London Interbank Offered Rate ("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 or received appropriate waivers at February 28, 2021 and February 29, 2020.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

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, 2021 and February 29, 2020. 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 \$601,000 and \$721,000 for the years ended February 28, 2021 and February 29, 2020, respectively.

The Association also sponsors a 403(b) retirement plan which permits employees to defer a portion of their compensation, subject to annual IRS limitations. There were no employer contributions to the 403(b) retirement plan for the years ended February 28, 2021 and February 29, 2020.

NOTE J - DEFERRED COMPENSATION

The Association was making monthly payments under a deferred compensation agreement with a former president. 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 were to be made for 10 years or until her death, whichever occurs first. In November of 2020, the spouse passed away, which terminated the deferred compensation agreement. Accordingly, at February 28, 2021, there is no liability associated with this agreement. At February 29, 2020, the present value of the payments were discounted at 2.71% and was \$213,594, which was 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, 2021, are approximately as follows:

2022	\$	344,700
2023		308,700
2024		308,700
2025		279,600
2026		265,300
Thereafter		<u>1,951,400</u>
	\$	<u>3,458,400</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

For the years ended February 28, 2021 and February 29, 2020, expenses under these leases were approximately \$356,000 and \$430,000, 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 \$395,000 and \$574,000 during the years ended February 28, 2021 and February 29, 2020, 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 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
Payments from the Entities for data processing and other administrative services	\$ 536,200	\$ 559,430
Accounts payable to the Entities	234,056	95,489
Accounts receivable from the Entities	87,232	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 of covered medical expenses per incident at February 28, 2021 and February 29, 2020. 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 \$1,412,000 and \$1,315,000 for the years ended February 28, 2021 and February 29, 2020, respectively. The claims liability totaled approximately \$96,000 and \$60,000 as of February 28, 2021 and February 29, 2020, 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 28, 2021 and February 29, 2020

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; and
- 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 28, 2021 and February 29, 2020. There were no transfers into or out of each level during the years ended February 28, 2021 and February 29, 2020.

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 and equity fund do not have a readily determinable fair value and are valued at the February 28, 2021 and February 29, 2020, 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 28, 2021 and February 29, 2020

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, 2021 and February 29, 2020, 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 statements of financial position as of February 28, 2021 and February 29, 2020:

	2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments:				
Money market funds	\$ 2,879,925	\$ 2,879,925	\$ -	\$ -
Common stocks	2,488,676	2,488,676	-	-
Bond funds	14,986,274	14,986,274	-	-
Equity funds	26,340,437	26,340,437	-	-
Other ^(c)	4,100,000	4,100,000	-	-
	<u>50,795,312</u>	<u>\$ 50,795,312</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV:				
Hedge fund ^(a)	2,700,131			
Equity fund ^(b)	<u>1,250,000</u>			
	<u>\$ 54,745,443</u>			
Other assets:				
Beneficial interest in perpetual trust	\$ 3,557,263	\$ -	\$ -	\$ 3,557,263
Beneficial interest in split-interest agreements	231,553	-	-	231,553

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

	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	-	-
	<u>56,183,866</u>	<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

^(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. There are no unfunded commitments.

^(b) Equity 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 45-day notice; however, there may be additional restrictions on the redemption of underlying funds. There is \$2,500,000 in unfunded commitments.

^(c) Included in investments is \$4,100,000 of pending trades as of February 28, 2021.

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 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
Beginning balance	\$ 3,326,892	\$ 3,377,895
Net gains (losses), realized and unrealized, included in change in net assets	<u>461,924</u>	<u>(51,003)</u>
Ending balance	<u>\$ 3,788,816</u>	<u>\$ 3,326,892</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

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 \$13,408,753 and \$11,454,117 at February 28, 2021 and February 29, 2020, 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, 2021 and February 29, 2020, 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, 2021 and February 29, 2020

Net assets with donor restrictions are restricted for the following purpose or periods as of February 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
Subject to expenditure for specified purpose:		
Scholarships	\$ 2,507,843	\$ 2,418,419
Internships	108,283	108,284
Operations	20,670	578,474
Museum exhibits	1,169,026	1,065,398
Programs	806,834	2,649,397
Young Eagles	44,757	369,417
Capital	4,395,229	-
Aircraft preservation	12,016	37,372
Museum operations	186	6,118
	<u>9,064,844</u>	<u>7,232,879</u>
Subject to passage of time:		
Promises to give, not restricted by donors but unavailable until due	15,361	68,167
Assets held under split-interest agreements	231,554	198,952
	<u>246,915</u>	<u>267,119</u>
Endowments:		
Subject to appropriation and expenditure for specified purpose:		
Scholarships	2,098,821	713,918
Internships	118,755	39,509
Operations	451,319	182,898
Museum exhibits	20,231	7,635
Air Academy	500,964	158,475
Programs	153,867	6,459
Young Eagles	904,311	9,355
Museum operations	94,254	19,560
Underwater funds	(91,017)	(182,757)
	<u>4,251,505</u>	<u>955,052</u>
Subject to endowment spending policy and appropriation:		
Scholarships	7,538,250	6,104,286
Internships	329,192	329,193
Operations	1,365,022	1,365,022
Museum exhibits	65,000	65,000
Air Academy	2,021,068	2,021,068
Programs	130,402	71,981
Young Eagles	5,187,534	5,184,133
Museum operations	410,845	410,845
	<u>17,047,313</u>	<u>15,551,528</u>
Not subject to spending policy or appropriation:		
Beneficial interest in perpetual trusts - donor restricted for programs	3,557,264	3,127,941
	<u>24,856,082</u>	<u>19,634,521</u>
	<u>\$ 34,167,841</u>	<u>\$ 27,134,519</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

Net assets released from donor restrictions are as follows for the years ended February 28, 2021 and February 29, 2020:

	February 28, 2021	February 29, 2020
Expiration of time restriction	\$ 67,827	\$ 131,936
Satisfaction of purpose restrictions:		
Scholarships	1,184,451	1,015,486
Young Eagles	416,952	135,598
Museum exhibits	71,420	-
Museum operations	6,118	-
Aircraft preservation	87,181	211,636
Other programs	625,973	596,543
	<u>2,392,095</u>	<u>1,959,263</u>
Satisfaction of restricted purpose distributions:		
Beneficial interest in perpetual trust	155,670	-
Restricted purpose spending policy distributions and appropriations:		
Scholarships	56,535	211,659
Young Eagles	215,839	198,070
Museum exhibits	42,297	12,070
Museum operations	18,092	16,669
Operations	65,277	43,300
Air Academy	29,070	80,849
Other programs	845	2,512
	<u>427,955</u>	<u>565,129</u>
	<u>\$ 3,043,547</u>	<u>\$ 2,656,328</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 28, 2021 and February 29, 2020

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 \$91,017 and \$182,757 as of February 28, 2021 and February 29, 2020, 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 2021 and 2020. 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, 2021 and February 29, 2020

Changes in endowment net assets for the years ended February 28, 2021 and February 29, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
	<u>375,098</u>	<u>114,262</u>	<u>489,360</u>
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	<u>-</u>	<u>(47,354)</u>	<u>(47,354)</u>
Endowment net assets, February 29, 2020	11,454,117	19,634,521	31,088,638
Investment return, net	2,469,262	3,716,647	6,185,909
New additions:			
Contributions	251,448	1,495,785	1,747,233
Other income	6,972	-	6,972
	<u>258,420</u>	<u>1,495,785</u>	<u>1,754,205</u>
Total new additions	258,420	1,495,785	1,754,205
Appropriation of endowment assets for expenditures	(773,046)	(420,194)	(1,193,240)
Change in beneficial interest in perpetual trust	<u>-</u>	<u>429,322</u>	<u>429,322</u>
Endowment net assets, February 29, 2021	<u>\$ 13,408,753</u>	<u>\$ 24,856,081</u>	<u>\$ 38,264,834</u>

NOTE P - FUNCTIONAL EXPENSES

The consolidated 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, 2021 and February 29, 2020

For the year ended February 28, 2021, functional expense consists of the following:

	Program Activities				Supporting Activities			Total
	AirVenture	Membership Services	Other Program Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 1,511,384	\$ 1,650,615	\$ 4,558,948	\$ 7,720,947	\$ 4,958,058	\$ 544,002	\$ 5,502,060	\$ 13,223,007
Cost of goods sold	128	3	439,776	439,907	488	707	1,195	441,102
Postage and printing	26,542	1,547,737	284,943	1,859,222	326,094	104,530	430,624	2,289,846
Marketing	53,333	2,314	148,568	204,215	136,564	107,517	244,081	448,296
Fees for services	201,192	203,841	527,572	932,605	1,113,038	208,264	1,321,302	2,253,907
Meetings and travel	5,270	25,404	68,895	99,569	25,849	(2,002)	23,847	123,416
Equipment rental	59,673	1,935	72,981	134,589	29,026	18,102	47,128	181,717
Fulfillment and support	13,006	14,565	1,422,220	1,449,791	126,461	14,249	140,710	1,590,501
Office and administrative	279,963	84,518	532,970	897,451	666,583	185,385	851,968	1,749,419
Aircraft expenses	9,539	11,841	530,375	551,755	159,464	3,113	162,577	714,332
Maintenance and occupancy	563,179	10,606	482,676	1,056,461	138,329	6,382	144,711	1,201,172
Insurance	443,803	39,288	835,184	1,318,275	159,420	66,110	225,530	1,543,805
Depreciation	678,091	60,572	1,005,563	1,744,226	464,677	36,260	500,937	2,245,163
Total expenses	\$ 3,845,103	\$ 3,653,239	\$ 10,910,671	\$ 18,409,013	\$ 8,304,051	\$ 1,292,619	\$ 9,596,670	\$ 28,005,683

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 28, 2021 and February 29, 2020

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 and 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 and 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 and 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 and support	277,941	56,456	1,837,995	2,172,392	150,284	154,157	304,441	2,476,833
Office and 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 and 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

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.

The following table reflects the Association's financial assets as of February 28, 2021 and February 29, 2020 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 28, 2021	February 29, 2020
Cash and cash equivalents	\$ 3,273,665	\$ 1,713,788
Investments	15,060,590	24,935,602
Accounts receivable	446,279	675,885
Pledges receivable, current	11,894	15,074
	<u>18,792,428</u>	<u>27,340,349</u>
Total financial assets	18,792,428	27,340,349
Less: Amounts not available to be used within one year		
Funds subject to time and purpose restrictions	<u>(1,432,973)</u>	<u>(2,484,845)</u>
	<u>\$ 17,359,455</u>	<u>\$ 24,855,504</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 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.

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 28, 2021	February 29, 2020
Cash and cash equivalents	\$ 2,067,539	\$ 329,585
Investments	39,684,853	33,590,734
Accounts receivable	2,075	21,542
Accounts receivable from Association at year end	259,082	-
Pledges receivable, current	502,584	175,701
	<hr/>	<hr/>
Total financial assets	42,516,133	34,117,562
Less: Amounts not available to be used within one year:		
Endowments to be kept in perpetuity	(17,047,314)	(15,551,528)
Funds subject to time and purpose restrictions	(11,898,736)	(5,770,438)
	<hr/>	<hr/>
	\$ 13,570,083	\$ 12,795,596
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NOTE R - RISKS AND UNCERTAINTIES

The Association and Foundation have experienced a reduction in operations over the course of the 2021 fiscal year due to the novel coronavirus pandemic public emergency. As a result of the pandemic, the Association and Foundation canceled all events, including AirVenture 2020 and other significant fundraising events, significantly impacting financial results as presented in the consolidated financial statements. The pandemic could further impact the Association and Foundation's business and operations and the operations of its donors, members, suppliers, vendors and customers. The pandemic continues to significantly impact global economic conditions and in the U.S. as federal, state and local governments react to the public health crisis with mitigation measures, creating uncertainties in the U.S. and global economies. The extent to which the pandemic will continue to affect the Association and Foundation's business, operations and financial results will depend on numerous factors that may not be accurately predicted and which may cause the actual results to differ from the estimates and assumptions the Association and the Foundation are required to make in preparation of consolidated financial statements according to U.S. GAAP.

The financial impact from the AirVenture 2020 cancellation and other reduced or ceased operations was mitigated by management by reducing spending, alternative methods of operations and applying for federal funding.

Based on the current pandemic environment improving in the U.S., the Association and the Foundation believe AirVenture 2021, fundraising events and more operations will be held in the coming year.

NOTE 5 - SUBSEQUENT EVENTS

The Association and Foundation evaluated their February 28, 2021, consolidated financial statements for subsequent events through June 30, 2021, 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.

In March 2021, the Association was granted a second PPP loan in the amount of \$2,000,000 under the CARES Act. The PPP loan matures in fiscal year 2026 and carries a stated interest rate of 1%. The PPP loan is eligible for forgiveness under the CARES Act if the proceeds of the loan are utilized for eligible payroll and other non-payroll costs provided for under the agreement.

In April 2021, the Association broke ground on a new facility. The estimated project cost is \$6,200,000 and the facility is expected to be completed in 2022.

In June 2021, the Association received notification that their first PPP loan in the amount of \$2,442,637 had been forgiven in full.