Consolidated Financial Statements and Report of Independent Certified Public Accountants

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

February 28, 2018 and 2017

Contents

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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, 2018 and 2017, 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, 2018 and 2017, 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 2, 2018

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
February 28, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 10,782,630	$ 8,634,061
Accounts receivable, less allowance for doubtful accounts of $80,754 in 2018 and $38,654 in 2017	596,921	510,956
Current portion of pledges receivable, less allowance for uncollectible pledges of $15,683 in 2018 and $36,939 in 2017	64,271	-
Inventories	627,450	599,646
Prepaid expenses	1,049,258	1,027,482
Total current assets	13,120,530	10,772,145
PLEDGES RECEIVABLE, less current portion, unamortized discount and allowance	37,970	2,869
INVESTMENTS - AT FAIR VALUE	43,071,612	38,661,683
PROPERTY AND EQUIPMENT		
Land improvements	5,825,672	5,708,651
Buildings	20,164,849	19,642,566
Leasehold improvements	20,246,288	20,079,175
Office furniture and fixtures	2,523,360	4,429,843
Computer equipment and software	9,010,276	12,019,813
Shop and maintenance equipment	923,474	1,024,810
Transportation equipment	1,923,536	1,935,327
Museum display equipment	3,338,905	3,408,641
Aircraft parts	106,453	-
Film library	152,574	152,574
Flyable aircraft	991,616	991,616
Total property and equipment	65,207,003	69,393,016
Less accumulated depreciation and amortization	38,921,304	42,577,272
	26,285,699	26,815,744
Land	3,311,511	3,311,511
Capital addition projects in progress	986,296	476,459
Net property and equipment	30,583,506	30,603,714
OTHER ASSETS		
Display aircraft, aircraft components and library	10,707,239	10,551,941
Beneficial interest in perpetual trust	3,234,819	3,078,551
Beneficial interest in split-interest agreements	214,840	207,973
Cash value of life insurance	208,938	230,215
Total other assets	14,365,836	14,068,680
TOTAL ASSETS	$101,179,454	$94,109,091

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED
February 28, 2018 and 2017

LIABILITIES AND NET ASSETS	2018	2017
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 600,000	$ 600,000
Current portion of gift annuity liability	11,028	12,124
Current portion of deferred compensation	78,471	78,471
Accounts payable	1,248,682	1,209,934
Accounts payable - related parties	221,932	248,909
Accrued expenses and other payables	1,970,352	1,556,665
Current portion of unearned income	7,634,246	7,482,719
Total current liabilities	11,764,711	11,188,822
GIFT ANNUITY LIABILITY, less current portion	149,394	158,886
DEFERRED COMPENSATION, less current portion	213,695	249,887
LONG-TERM DEBT, less current maturities	5,800,000	6,400,000
UNEARNED INCOME, less current portion	4,936,957	4,092,086
Total liabilities	22,864,757	22,089,681
NET ASSETS		
Unrestricted	55,696,215	52,431,267
Temporarily restricted	4,737,088	3,747,872
Permanently restricted	17,881,394	15,840,271
Total net assets	78,314,697	72,019,410
TOTAL LIABILITIES AND NET ASSETS	$101,179,454	$94,109,091

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
Year ended February 28, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Membership dues and subscriptions	$ 5,932,962	$ -	$ -	$ 5,932,962
Donations, cash and pledges	1,316,530	3,218,026	1,879,548	6,414,104
Donations, contributed services and property	1,696,029	5,520	5,307	1,706,856
Advertising	2,497,655	-	-	2,497,655
Rentals	5,707,968	-	-	5,707,968
Admissions and registrations	13,336,814	-	-	13,336,814
Merchandise sales	2,843,300	-	-	2,843,300
Commissions and royalties	1,822,703	-	-	1,822,703
Investment return	2,727,345	1,353,398	-	4,080,743
Change in beneficial interests	-	6,866	156,268	163,134
Administrative fees	857,098	-	-	857,098
Sponsorship income	2,354,132	-	-	2,354,132
Gain on deferred compensation	36,192	-	-	36,192
Loss on disposal of property and equipment	(216,173)	-	-	(216,173)
Miscellaneous	509,222	-	-	509,222
Net assets released from restrictions	3,594,594	(3,594,594)	-	-
Total revenues, gains and other support	45,016,371	989,216	2,041,123	48,046,710
Expenses				
AirVenture expenses	14,824,227	-	-	14,824,227
Fundraising	1,893,508	-	-	1,893,508
Membership services	6,229,942	-	-	6,229,942
Management and general	4,779,143	-	-	4,779,143
Cost of merchandise sales	2,428,289	-	-	2,428,289
Other program expenses	11,596,314	-	-	11,596,314
Total expenses	41,751,423	-	-	41,751,423
Change in net assets	3,264,948	989,216	2,041,123	6,295,287
Net assets at beginning of year	52,431,267	3,747,872	15,840,271	72,019,410
Net assets at end of year	$55,696,215	$ 4,737,088	$17,881,394	$78,314,697

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

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended February 28, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Membership dues and subscriptions	$ 5,837,881	$ -	$ -	$ 5,837,881
Donations, cash and pledges	1,316,165	3,272,746	2,263,614	6,852,525
Donations, contributed services and property	1,921,065	206,451	-	2,127,516
Advertising	2,370,391	-	-	2,370,391
Rentals	5,599,876	-	-	5,599,876
Admissions and registrations	12,313,918	-	-	12,313,918
Merchandise sales	2,541,644	-	-	2,541,644
Commissions and royalties	1,698,639	-	-	1,698,639
Investment return	3,864,696	825,565	-	4,690,261
Change in beneficial interests	-	18,598	254,671	273,269
Administrative fees	938,871	-	-	938,871
Sponsorship income	2,271,183	-	-	2,271,183
Gain on deferred compensation	34,094	-	-	34,094
Loss on disposal of property and equipment	(5,858)	-	-	(5,858)
Miscellaneous	348,733	-	-	348,733
Net assets released from restrictions	3,799,230	(3,799,230)	-	-
Total revenues, gains and other support	44,850,528	524,130	2,518,285	47,892,943
Expenses				
AirVenture expenses	14,467,047	-	-	14,467,047
Fundraising	1,309,061	-	-	1,309,061
Membership services	6,023,260	-	-	6,023,260
Management and general	4,561,813	-	-	4,561,813
Cost of merchandise sales	2,126,305	-	-	2,126,305
Other program expenses	11,096,159	-	-	11,096,159
Total expenses	39,583,645	-	-	39,583,645
Change in net assets	5,266,883	524,130	2,518,285	8,309,298
Net assets at beginning of year	47,164,384	3,223,742	13,321,986	63,710,112
Net assets at end of year	$52,431,267	$ 3,747,872	$15,840,271	$72,019,410

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

Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended February 28, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 6,295,179	$ 8,309,298
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	2,367,578	2,439,276
Loss on disposal of property and equipment	216,173	5,858
Change in value of deferred compensation agreement	42,279	44,377
Donations of display aircraft and aircraft components	(137,693)	(18,000)
Donations of property and equipment	(42,987)	(429,996)
Donations of investments	(64,651)	(294,765)
Gain on investments	(3,273,101)	(4,048,329)
Change in beneficial interests	(163,134)	(273,268)
Changes in operating assets and liabilities		
Accounts receivable	(85,965)	27,009
Pledges receivable	(99,372)	166,574
Inventories	(27,804)	(82,782)
Prepaid expenses and deferred charges	(21,776)	19,300
Accounts payable	38,748	10,958
Accounts payable - related parties	(26,977)	(55,378)
Accrued expenses and other payables	413,795	(96,822)
Unearned income	996,398	1,159,171
Gift annuity liability	(10,588)	(1,391)
Deferred compensation payments	(78,471)	(78,471)
Net cash provided by operating activities	6,337,631	6,802,619
Cash flows from investing activities		
Proceeds from sale of investments	2,387,927	12,762,717
Purchases of investments	(3,460,105)	(22,907,897)
Proceeds from disposal of property and equipment	697	18,350
Purchases of property and equipment	(2,538,858)	(2,093,559)
Proceeds of notes receivable	-	1,802
Decrease in cash value of life insurance	21,277	19,327
Net cash used in investing activities	(3,589,062)	(12,199,260)
Cash flows from financing activities		
Payments of long-term debt	(600,000)	(608,824)
Net cash used in financing activities	(600,000)	(608,824)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,148,569	(6,005,465)
Cash and cash equivalents at beginning of year	8,634,061	14,639,526
Cash and cash equivalents at end of year	$10,782,630	$ 8,634,061
Supplemental disclosure of cash flow information		
Interest paid	$ 131,887	$ 101,062

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

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 900 exhibitors, and more than 1,000 workshops, forums and special events during the weeklong event in pursuit of that goal.

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

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

Principles of Consolidation

The consolidated financial statements as of and for the years ended February 28, 2018 and 2017, include the accounts of the Association and the Foundation, and the Association's affiliates, EAA IMC, LLC and EAA STC, LLC. EAA IMC, LLC had no activity to report for the years ended February 28, 2018 and 2017. 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.

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 of merchandise goods are stated at the lower of cost or net realizable value. Cost is determined by the average cost method.

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 income for financial reporting purposes and totaled $24,277 and $120,723 for the years ended February 28, 2018 and 2017, respectively.

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

Property and Equipment

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

Land improvements	12 to 40 years
Buildings	15 to 40 years
Office furniture and fixtures	7 to 12 years
Computer equipment and software	3 to 5 years
Shop and maintenance equipment	10 to 12 years
Transportation equipment	3 to 12 years
Museum display equipment	5 to 12 years
Aircraft parts	Dependent on aircraft flight hours
Film library	8 to 12 years
Flyable aircraft	35 years

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

Display Aircraft, Aircraft Components and Library

Costs to acquire, restore or build museum displays are accumulated per display. 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 display aircraft, aircraft components and library to the lower of cost or fair value.

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 permanently restricted net assets. Distributions received from the trust are recorded as temporarily restricted investment income and the change in fair value is recorded as permanently restricted gains or losses. Distributions from the trust totaled $123,442 and $139,593 for the years ended February 28, 2018 and 2017, respectively.

Revenue Recognition

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

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

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

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

Donations are recognized as revenue when they are received or unconditionally pledged.

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 $1,706,856 and $2,127,516 for the years ended February 28, 2018 and 2017, 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.

Net Assets

Donations that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a time restriction expires or a purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Advertising Costs

The Association and the Foundation expense advertising costs as they are incurred. Advertising expenses were approximately $1,425,000 and $1,137,000 in 2018 and 2017, respectively.

Income Taxes

As required by the uncertain tax position guidance, the Association and the Foundation recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Association and the Foundation applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of February 28, 2018 and 2017.

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, 2018 and 2017.

On December 22, 2017, tax reform legislation commonly known as the Tax Cuts and Jobs Act of 217 (the Act) was passed; resulting in significant modifications to existing tax law. There were no material effects on the consolidated financial statements as a result of the Act.

New Accounting Pronouncement

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which amends the accounting for revenue recognition. The amendments are intended to provide a more robust framework for addressing revenues issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Subsequent to ASU No. 2014-09, the FASB issued subsequent updates. The subsequent updates extended the effective date of ASU No. 2014-09 and added clarification to the new revenue recognition framework. The above standards are effective for all annual reporting periods beginning after December 15, 2018. The Association and Foundation are currently evaluating the impact on the consolidated financial statements, and have not determined the impact on its consolidated financial statements at this time.

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. This ASU is effective for annual periods beginning after December 15, 2018, and shall be applied retrospectively. Early adoption is permitted. The Association and Foundation are currently evaluating the impact on the consolidated financial statements, and have not determined the impact on its consolidated financial statements at this time.

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 bequest represents 22% of the Association and Foundation's donations at February 28, 2018 and 2017.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable are summarized as follows as of February 28:

	2018	2017
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges receivable	$120,954	$40,050
Less amortized discount	3,030	242
	117,924	39,808
Less allowance for uncollectible pledges receivable	15,683	36,939
	$102,241	$ 2,869
Amounts due in		
Less than one year	$ 79,954	$36,050
One to five years	41,000	4,000
	120,954	40,050
Less unamortized discount and allowance	18,713	37,181
	$102,241	$ 2,869

NOTE E - INVESTMENTS

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

	2018	2017
Money market funds	$ 1,091,357	$ 4,641,133
Common stocks	2,048,692	2,373,631
Bond funds	8,659,505	7,315,200
Equity funds	28,957,548	22,109,861
Hedge fund	2,314,510	2,221,858
	$43,071,612	$38,661,683

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

	2018	2017
Investment fees	$ (102,525)	$ (121,186)
Interest and dividends	910,167	763,118
Realized loss on investments	(536,898)	(180,215)
Unrealized gain on investments	3,809,999	4,228,544
	$4,080,743	$4,690,261

NOTE F - LONG-TERM DEBT

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

	2018	2017
$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 2.50% and 2.00% at February 28, 2018 and 2017, respectively); secured by all equipment and fixtures acquired with the proceeds of the bonds	$6,400,000	$7,000,000
	6,400,000	7,000,000
Less current maturities	600,000	600,000
	$5,800,000	$6,400,000

A standby letter of credit to satisfy Wisconsin unemployment tax requirements is provided by the Association through U.S. Bank, N.A. in the amount of $140,000. In addition, a supporting letter of credit is provided for $200,000. The letter of credit and line of credit expire December 31, 2021. As of February 28, 2018 and 2017, there were no amounts outstanding. Interest on the line of credit is the prime rate plus 150 basis points.

U.S. Bank, N.A. provides the Association a line of credit in the amount of $3,000,000, which has an expiration date of December 31, 2019. There were no outstanding balances at February 28, 2018 and 2017, 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 28, 2018 and 2017.

Future maturities of long-term debt as of February 28, 2017, are as follows for the years ending:

2019	$ 600,000
2020	600,000
2021	600,000
2022	600,000
2023	600,000
Thereafter	3,400,000
	$6,400,000

NOTE G - UNEARNED INCOME

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

	2018	2017
Unearned membership dues	$ 8,527,590	$ 7,514,309
Exhibits	2,853,150	2,858,595
Other	1,190,463	1,201,901
Total	12,571,203	11,574,805
Less current portion	7,634,246	7,482,719
Long-term unearned income	$ 4,936,957	$ 4,092,086

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, 2018 and 2017. The difference between the fair value of the gift annuity assets and the actuarially determined present value of future annuity cash flows is recorded as donation revenue in the year the gift annuity is received. Subsequent changes are recorded in the consolidated statements of activities within investment income.

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 $661,000 and $623,000 for the years ended February 28, 2018 and 2017, 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 28, 2018 and 2017.

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 3.98% and 3.94% at February 28, 2018 and 2017, was $292,166 and $328,858, respectively, and is included in the deferred compensation liability shown in the consolidated statements of financial position. Total payments made under the agreement for the years ended February 28, 2018 and 2017, were $78,471.

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, 2018, are approximately as follows:

2019	$138,500
2020	105,000
2021	49,200
2022	31,500
2023	31,500
Thereafter	206,400
	$562,100

For the years ended February 28, 2018 and 2017, expenses under these leases were approximately $271,000 and $258,000, 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 $356,000 and $277,000 during the years ended February 28, 2018 and 2017, respectively.

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

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

	2018	2017
Payments from the Entities for data processing and other administrative services	$478,584	$463,415
Accounts payable to the Entities	221,932	248,909

NOTE M - CONTINGENT LIABILITIES AND COMMITMENTS

The Association self-funds employees' medical expenses through a program under which it is responsible for the first $60,000 of covered medical expenses per incident at February 28, 2018 and 2017. 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 $1,202,000 and $803,000 for the years ended February 28, 2018 and 2017, respectively. The claims liability totaled approximately $137,000 and $86,000 as of February 28, 2018 and 2017, respectively.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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, 2018 and 2017. There were no transfers into or out of each level during the years ended February 28, 2018 and 2017.

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.

Beneficial Interest in Perpetual Trust and Split-interest Agreement

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

Other Assets and Liabilities

The carrying amount of the Association's and the Foundation's financial instruments, which include accounts receivable, pledges receivable, accounts payable and accrued expenses, approximate their fair values at February 28, 2018 and 2017, 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.

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

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

	2017			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Money market funds	$ 4,641,133	$ 4,641,133	$ -	$ -
Common stocks	2,373,631	2,373,631	-	-
Bond funds	7,315,200	7,315,200	-	-
Equity funds	22,109,861	22,109,861	-	-
	$36,439,825	$36,439,825	$ -	$ -
Investments measured at NAV				
Hedge fund (a)	2,221,858			
	$38,661,683			
Other assets				
Beneficial interest in perpetual trust	$ 3,078,551	$ -	$ -	$ 3,078,551
Beneficial interest in split-interest agreements	207,973	-	-	207,973

The hedge fund does not have a readily determinable fair value and is valued at the February 28, 2018 and 2017, net asset value (NAV) per share as provided by the fund administrator. The following provides additional information regarding this fund:

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

NOTE O - NET ASSETS

Unrestricted

This portion of net assets is neither temporarily nor permanently 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 unrestricted net assets as funds functioning as endowment funds and they have been invested as such. The total amount of funds so designated totaled $9,812,945 and $8,835,563 at February 28, 2018 and 2017, respectively.

It is management's and corporate counsel'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 Association's board of directors has directed management to designate funds received from the sale of artifacts as unavailable for general operations. As of February 28, 2018 and 2017, funds so designated totaled $1,104,952 and $1,113,846, respectively.

Temporarily Restricted

Temporarily restricted net assets 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.

Temporarily restricted net assets consisted of the following as of February 28:

	2018	2017
Scholarships	$1,426,127	$ 962,481
Internships	136,096	97,878
Operations	432,678	318,857
Programs	2,742,187	2,283,206
Annuities	-	85,450
	$4,737,088	$3,747,872

During the years ended February 28, 2018 and 2017, the Association and Foundation released $3,594,594 and $3,799,230, respectively, of net assets from restriction.

Permanently Restricted

Permanently restricted net assets are those net assets subject to donor-imposed stipulations that the original gift be invested in the endowment fund and that a portion of those funds, or a portion of earnings from those funds, be used to support educational, preservation and operational activities. Some donors stipulate that the entire original gift remain intact while some stipulate that the fund can fluctuate over time resulting from earnings and losses on investment activity. Further, some donors have imposed restrictions on the use of the earnings from those funds for specific educational, preservation and operational activities.

Permanently restricted net assets consisted of the following as of February 28:

	2018	2017
Scholarships	$ 5,822,622	$ 3,972,020
Internships	329,193	329,193
Operations	1,365,022	1,365,022
Programs	10,364,557	10,174,036
	$17,881,394	$15,840,271

Endowment Net Assets

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

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted and enacted by the Wisconsin legislature, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (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 donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 unrestricted net assets were $97,553 and $465,726 as of February 28, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

During the years ended February 28, 2018 and 2017, the Foundation had the following endowment-related activities:

	Unrestricted				
	Board-designated endowment funds	Endowment funds	Temporarily restricted endowment funds	Permanently restricted endowment funds	Total
Endowment net assets, March 1, 2016	$7,181,481	$(1,884,142)	$ 473,687	$13,321,986	$19,093,012
Investment return					
Interest and dividends	219,576	-	391,227	-	610,803
Realized and unrealized loss on investments	1,454,189	-	1,670,916	-	3,125,105
Total investment return	1,673,765	-	2,062,143	-	3,735,908
New additions					
Contributions	614,669	-	-	2,263,614	2,878,283
Other income	13,801	-	-	-	13,801
Total new additions	628,470	-	-	2,263,614	2,892,084
Appropriation of endowment assets for expenditures	(648,153)	1,418,416	(1,999,978)	-	(1,229,715)
Change in beneficial interest in perpetual trust	-	-	-	254,671	254,671
Endowment net assets, February 28, 2017	8,835,563	(465,726)	535,852	15,840,271	24,745,960
Investment return					
Interest and dividends	211,052	-	429,953	-	641,005
Realized and unrealized gain on investments	814,171	-	1,182,417	-	1,996,588
Total investment return	1,025,223	-	1,612,370	-	2,637,593
New additions					
Contributions	438,817	-	-	1,884,855	2,323,672
Fund Transfers	85,450	-	-	-	85,450
Other income	12,944	-	-	-	12,944
Total new additions	537,211	-	-	1,884,855	2,422,066
Appropriation of endowment assets for expenditures	(585,052)	368,173	(964,673)	-	(1,181,552)
Change in beneficial interest in perpetual trust	-	-	-	156,268	156,268
Endowment net assets, February 28, 2018	$9,812,945	$ (97,553)	$ 1,183,549	$17,881,394	$28,780,335

The Foundation has adopted investment and spending policies for endowment assets, both board-designated endowment and other board-designated funds and temporarily and permanently restricted funds, 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 2018 and 2017. The Foundation Trustees meet regularly with investment managers to evaluate investment performance and monitor investment policies.

NOTE P - INCOME TAXES

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

NOTE Q - SUBSEQUENT EVENTS

The Association and Foundation evaluated their February 28, 2018, consolidated financial statements for subsequent events through July 2, 2018, 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.