



Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

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

February 28, 2011 and 2010

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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 statements of financial position of Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc. as of February 28, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of their activities and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



GRANT THORNTON LLP  
Milwaukee, Wisconsin  
July 22, 2011

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**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
February 28,

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,970,199	\$ 2,342,896
Accounts receivable, less allowance for doubtful accounts of \$259,300 in 2011 and \$196,000 in 2010	1,305,206	1,151,119
Accounts receivable - divisions and affiliate	233,687	214,826
Current portion of pledges receivable, less allowance for uncollectible pledges	110,241	178,860
Inventories	317,283	318,714
Prepaid expenses and deferred charges	<u>771,702</u>	<u>806,149</u>
<b>Total current assets</b>	5,708,318	5,012,564
<b>PLEDGES RECEIVABLE, less current portion, unamortized discount and allowance</b>	195,367	277,469
<b>INVESTMENTS - AT MARKET</b>	22,332,416	18,921,944
<b>PROPERTY AND EQUIPMENT</b>		
Land improvements	3,164,360	3,168,176
Buildings	19,802,592	19,123,634
Leasehold improvements	17,422,035	14,234,621
Office furniture and fixtures	4,901,474	5,206,917
Computer equipment and software	9,713,998	9,597,170
Shop and maintenance equipment	1,002,594	1,019,018
Transportation equipment	1,581,620	1,418,972
Museum display equipment	3,335,130	3,342,937
Film library	103,422	105,231
Flyable aircraft	<u>254,273</u>	<u>-</u>
	61,281,498	57,216,676
Less accumulated depreciation and amortization	<u>32,198,910</u>	<u>30,915,926</u>
	29,082,588	26,300,750
Land	3,311,511	3,311,511
Capital addition projects in progress	<u>355,065</u>	<u>1,319,601</u>
	32,749,164	30,931,862
<b>OTHER ASSETS</b>		
Display aircraft, aircraft components and library	10,432,385	10,435,525
Beneficial interest in perpetual trust	2,607,883	2,333,182
Beneficial interest in split interest agreement	189,770	176,254
Cash value of life insurance	499,698	462,883
Assets held for deferred compensation	501,560	418,209
Notes receivable	<u>84,101</u>	<u>-</u>
	<u>14,315,397</u>	<u>13,826,053</u>
<b>TOTAL ASSETS</b>	<u>\$ 75,300,662</u>	<u>\$ 68,969,892</u>

The accompanying notes are an integral part of these statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 127,103	\$ 126,025
Current portion of gift annuity liability	17,074	92,137
Current portion of deferred compensation	223,650	64,818
Accounts payable	688,643	979,000
Accrued expenses and other payables	1,695,533	1,698,537
Current portion of unearned income	<u>6,509,310</u>	<u>5,056,284</u>
<b>Total current liabilities</b>	9,261,313	8,016,801
<b>GIFT ANNUITY LIABILITY, less current portion</b>	200,411	328,237
<b>DEFERRED COMPENSATION, less current portion</b>	1,077,435	1,062,900
<b>LONG-TERM DEBT, less current maturities</b>	9,005,271	6,255,261
<b>OTHER LONG-TERM LIABILITY</b>	272,576	269,725
<b>UNEARNED INCOME, less current portion</b>	<u>952,326</u>	<u>991,733</u>
<b>Total liabilities</b>	20,769,332	16,924,657
<b>NET ASSETS</b>		
Unrestricted	40,075,995	37,717,104
Temporarily restricted	2,222,566	2,759,427
Permanently restricted	12,232,769	11,568,704
	<u>54,531,330</u>	<u>52,045,235</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 75,300,662</u>	<u>\$ 68,969,892</u>

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF ACTIVITIES**

For the years ended February 28,

	2011	2010
<b>Changes in unrestricted net assets</b>		
Revenues, gains and other support		
Membership dues and subscriptions	\$ 5,731,046	\$ 5,749,046
Donations, cash and pledges	5,110,883	4,417,459
Donations, display aircraft and aircraft components	102,929	77,725
Donations, AirVenture services and property	250,000	290,000
Advertising	2,133,547	2,177,008
Rentals	3,926,381	3,982,540
Admissions and registrations	9,162,102	9,684,519
Merchandise sales	2,176,162	2,419,172
Commissions and royalties	1,188,426	1,104,624
Investment income	1,597,186	2,347,101
Administrative fees	457,390	484,152
Sponsorship income	2,736,014	2,499,711
Loss on disposal of property and equipment	(39,894)	(252,797)
(Loss) gain on disposal of display aircraft, aircraft components and library	(14,500)	78,068
Miscellaneous	182,627	115,919
Net assets released from restrictions	5,663,680	6,861,725
<b>Total unrestricted revenues, gains and other support</b>	40,363,979	42,035,972
Expenses		
AirVenture expenses	8,980,120	8,428,697
Fundraising	2,824,632	2,618,959
Membership services	7,849,609	8,391,961
Management and general	6,236,245	6,005,135
Cost of merchandise sales	1,853,725	1,991,931
Other program expenses	9,953,397	10,220,540
Other expenses	307,360	258,525
<b>Total expenses</b>	38,005,088	37,915,748
<b>Increase in unrestricted net assets</b>	2,358,891	4,120,224
<b>Changes in temporarily restricted net assets</b>		
Donations, cash and pledges	3,195,859	4,478,813
Investment income	1,930,960	2,620,064
Net assets released from restrictions	(5,663,680)	(6,861,725)
<b>(Decrease) increase in temporarily restricted net assets</b>	(536,861)	237,152

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED**

For the years ended February 28,

	2011	2010
<b>Changes in permanently restricted net assets</b>		
Donations, cash and pledges	\$ 431,708	\$ 257,308
Change in beneficial interest in perpetual trust	232,357	493,127
	664,065	750,435
<b>INCREASE IN NET ASSETS</b>	2,486,095	5,107,811
Net assets at beginning of year	52,045,235	46,937,424
Net assets at end of year	\$ 54,531,330	\$ 52,045,235

The accompanying notes are an integral part of these statements.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended February 28,

	2011	2010
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 2,486,095	\$ 5,107,811
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	2,308,038	1,894,909
Loss on disposal of property and equipment	39,894	252,797
Loss (gain) on disposal of display aircraft, aircraft components and library	14,500	(78,068)
Donations of display aircraft and aircraft components	(8,995)	(27,500)
Gain on investments	(3,390,958)	(5,548,138)
Change in beneficial interest in perpetual trust	(232,357)	493,127
Deferred compensation payments	(131,284)	(134,383)
Deferred compensation expense	221,300	73,331
Changes in operating assets and liabilities:		
Accounts receivable	(154,087)	(476,398)
Accounts receivable - divisions and affiliate	(18,861)	53,277
Pledges receivable	150,721	(48,925)
Inventories	1,431	98,547
Prepaid expenses and deferred charges	34,447	100,095
Accounts payable	(290,357)	(899,211)
Accrued expenses and other payables	(3,004)	161,014
Unearned income	1,413,619	(849,423)
Gift annuity liability	(202,889)	(96,535)
Other long-term liability	2,851	47,220
	2,240,104	123,547
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	179,844	1,370,354
Purchases of investments	(255,218)	(584,672)
Proceeds from disposal of property and equipment	704	972
Purchases of property and equipment	(5,130,474)	(9,094,435)
Proceeds from disposal of land	-	81,575
Decrease in capital addition projects in progress	964,536	4,277,607
Issuance of note receivable	(84,101)	-
Increase in cash value of life insurance	(36,815)	(49,234)
Proceeds from disposal of display aircraft, aircraft components and library	3,500	-
Additions to display aircraft, aircraft components and library	(5,865)	(1,837)
	(4,363,889)	(3,999,670)
<b>Net cash used in investing activities</b>		

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**

For the years ended February 28,

	2011	2010
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt financing	\$ 2,877,835	\$ 2,579,856
Payments of long-term debt	(125,963)	(38,541)
Proceeds from line of credit	2,663,741	4,780,000
Payments of line of credit	(2,664,525)	(3,500,000)
<b>Net cash provided by financing activities</b>	<b>2,751,088</b>	<b>3,821,315</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>627,303</b>	<b>(54,808)</b>
Cash and cash equivalents at beginning of year	2,342,896	2,397,704
Cash and cash equivalents at end of year	<b>\$ 2,970,199</b>	<b>\$ 2,342,896</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 235,374	\$ 115,340

**Non-cash operating and investing activities:**

As of February 28, 2010, there was \$12,285 of capital projects in progress included in accounts payable.

The accompanying notes are an integral part of these statements.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
February 28, 2011 and 2010**

**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.” The Association accomplishes its mission by encouraging and supporting clear pathways that ignite and nurture interest; a welcoming and supportive environment; opportunities to participate in all aspects of aviation including educational programs; the camaraderie and community of aviators and enthusiasts; and making aviation more accessible. Each year, AirVenture, the Association’s annual convention, fly-in and trade-show is held in Oshkosh, Wisconsin. AirVenture has among its purposes the aviation-oriented education of the general public and hosts more than eight hundred workshops and forums 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 an endowment fund, and to use the earnings there from to support the Association.

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

**1. Principles of Consolidation**

The consolidated financial statements as of and for the years ended February 28, 2011 and 2010 include the accounts of the Association and the Foundation. All significant intercompany balances and transactions have been eliminated in consolidation.

**2. Use of Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

**3. 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  
February 28, 2011 and 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**4. Accounts Receivable**

The majority of the Association and the Foundation's accounts receivable are due from advertisers for advertising space purchased in the Association's publications. 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.

**5. 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.

**6. Inventories**

Inventories of merchandise goods are stated at the lower of cost or market. Cost is determined by the average cost method.

**7. Investments**

Investments are stated at fair value and are recorded on the trade date. The fair value of all debt, equity, commodities and real estate securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The common trust equity funds and hedge fund, for which quoted market prices are not available, are valued at net asset value as provided by the external investment managers. Management of the Foundation believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Realized and unrealized gains and losses are included in the consolidated statements of activities.

Investment securities are exposed to various risks including, but not limited to, interest rate and market and credit risks. Due to the level of risks 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. Because the common trust funds and hedge fund are not readily marketable, its estimated value is subject to uncertainty and therefore may differ significantly from the value that would have been used had a ready market existed.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
February 28, 2011 and 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**8. 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 accelerated and straight-line methods 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
Leasehold improvements	12 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
Film library	8 to 12 years
Flyable aircraft	35 years

**9. 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 accounting principles generally accepted in the United States of America, inexhaustible collections are not depreciated. Adjustments are recorded as required to reduce display aircraft, aircraft components and library to the lower of cost or donated value or market value.

**10. 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 accounting principles generally accepted in the United States of America, the Foundation is required to record its interest in the trust at market 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 market value is recorded as permanently restricted gains or losses. There was \$82,225 and \$49,695 distributed from the trust for the years ended February 28, 2011 and 2010, respectively.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
February 28, 2011 and 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**11. 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 upon release of 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.

**12. Donated Services and Equipment**

The Association receives significant donations of professional services and equipment at no cost. The estimated value of the donated services and equipment received was \$640,997 and \$773,013 for the years ended February 28, 2011 and 2010, respectively. These amounts have been included in revenues, gains and other support and AirVenture 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.

**13. 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.

**14. Advertising Costs**

The Association and the Foundation expense advertising costs as they are incurred. Advertising expenses were approximately \$945,000 and \$1,046,000 in 2011 and 2010, respectively.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
February 28, 2011 and 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**15. Income Taxes**

As required by the uncertain tax position guidance in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, *Income Taxes*, 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 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Association and the Foundation applied the uncertain tax position guidance in ASC 740 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, 2011, the statute of limitations is no longer open for years before 2008 for federal income tax purposes. For state income tax purposes, the statute of limitations is no longer open for years before 2007.

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, 2011 and 2010.

**16. New Accounting Pronouncements**

In January 2010, the FASB issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for periods beginning after December 31, 2009. The new requirement that purchases, sales, issuances and settlements be presented gross in the Level 3 reconciliation is effective for fiscal years beginning after December 15, 2010, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it will not have any impact on the Association’s or Foundation’s financial statements.

**17. Reclassifications**

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

**NOTE B - CONCENTRATION OF CREDIT RISK**

The Association and the Foundation have cash deposited in financial institutions in which the balance exceeds the federal government agency insured limit of \$250,000. 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  
February 28, 2011 and 2010**

**NOTE C - PLEDGES RECEIVABLE**

Pledges receivable are summarized as follows as of February 28:

	<u>2011</u>	<u>2010</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges receivable	\$ 331,171	\$ 517,727
Less unamortized discount	7,212	12,703
	<u>323,959</u>	<u>505,024</u>
Less allowance for uncollectible pledges receivable	18,351	48,695
	<u>\$ 305,608</u>	<u>\$ 456,329</u>
Amounts due in:		
Less than one year	\$ 128,592	\$ 227,555
One to five years	195,479	289,972
More than five years	7,100	200
	<u>331,171</u>	<u>517,727</u>
Less unamortized discount and allowance	25,563	61,398
	<u>\$ 305,608</u>	<u>\$ 456,329</u>

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
February 28, 2011 and 2010**

**NOTE D - INVESTMENTS**

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

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 680,691	\$ 688,188
Common stocks	4,690,600	4,235,292
Bond funds	4,063,215	3,520,664
Equity funds	2,628,116	1,684,956
Common trust equity funds	7,540,206	6,792,110
Hedge fund	1,749,596	1,663,880
Commodities	979,992	336,854
	<u>\$ 22,332,416</u>	<u>\$ 18,921,944</u>

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

	<u>2011</u>	<u>2010</u>
Interest and dividends, net	\$ 400,365	\$ 385,495
Realized and unrealized gains on investments	3,127,781	4,581,670
Total	<u>\$ 3,528,146</u>	<u>\$ 4,967,165</u>

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
February 28, 2011 and 2010**

**NOTE E - LONG-TERM DEBT**

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

	2011	2010
\$1,000,000 U.S. Bank, N.A. unsecured line of credit; interest at 30-day LIBOR rate plus 1.5% with a floor of 4% (effective rate of 4%); final payment due October 1, 2012	\$ -	\$ 300,000
\$3,500,000 Associated Bank unsecured line of credit; interest payable monthly at a variable rate equal to 30-day LIBOR, plus 1.5% (effective rate of 1.73% at February 28, 2011); final payment due September 1, 2012	1,279,216	980,000
Note payable due in annual principal payments of \$80,000 plus interest at a rate of 5.75%; final payment due May 1, 2014	320,000	400,000
Various vehicle loans, principal and interest payable monthly in the amount of \$4,083; interest rates ranging up to 2.9% with payments through March 2013	102,327	148,290
\$10,000,000 Town of Nekimi, Wisconsin Industrial Development Revenue Bonds, Series 2008; interest only payments through 2012 with annual principal payment beginning 2013 if the outstanding balance exceeds \$9,400,000, final payment due September 2028; interest at 72.5% of both the 30-day LIBOR rate plus 150 basis points (effective rate of 1.28% at February 28, 2011); secured by all equipment and fixtures acquired with the proceeds of the bonds	7,430,831	4,552,996
	9,132,374	6,381,286
Less current maturities	127,103	126,025
	<u>\$ 9,005,271</u>	<u>\$ 6,255,261</u>

A standby letter of credit to satisfy Wisconsin unemployment tax requirements is provided by the Association through U.S. Bank, N.A. in the amount of \$135,000. The letter of credit expires December 31, 2014. As of February 28, 2011 and 2010, there were no amounts outstanding.

U.S. Bank, N.A. provides the Association a line of credit in the amount of \$500,000, which has an expiration date of December 31, 2014. There were no outstanding balances at February 28, 2011 and 2010 on this line of credit.

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, 2011 and 2010.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND  
EAA AVIATION FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
February 28, 2011 and 2010**

**NOTE E - LONG-TERM DEBT - Continued**

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

2012	\$ 127,103
2013	1,407,426
2014	87,015
2015	80,000
2016	-
Thereafter	<u>7,430,830</u>
	<u><u>\$ 9,132,374</u></u>

Interest rate swap agreement

During fiscal year 2009, the Association entered into an interest rate swap agreement to manage its exposure to movements in interest rates. The use of the interest rate swap agreement modifies the exposure of this risk with the intent to reduce the risk to the Association. The fair value of the Association's interest rate swap agreement is described at Note M. At February 28, 2011 and 2010, the notional amount is \$3,000,000 and the maturity date of the interest rate swap is November 1, 2014. The fixed rate being paid to the bank is 3.62%, while the payment received from the bank is 72.5% of the 30-day LIBOR rate (0.19% as of February 28, 2011). The fair market value of the swap as of February 28, 2011 and 2010 is \$(272,576) and \$(269,725), respectively, and is recorded as other long-term liability.

**NOTE F - UNEARNED INCOME**

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

	2011	2010
Unearned membership dues	\$ 4,233,405	\$ 4,081,496
Exhibits	2,246,537	1,360,155
Other	<u>981,694</u>	<u>606,366</u>
Total	<u><u>\$ 7,461,636</u></u>	<u><u>\$ 6,048,017</u></u>

**NOTE G - GIFT ANNUITIES**

Assets held under a contractual obligation that provides 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 6.0% as of February 28, 2011 and 2010. 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.

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**NOTE H - PENSION PLAN**

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 total provision for pension costs were \$602,550 and \$520,873 for the years ended February 28, 2011 and 2010, respectively.

**NOTE I - DEFERRED COMPENSATION**

Under a deferred compensation agreement with its former president, the Association is making monthly payments. The present value of these payments discounted at 5.0% at February 28, 2011 is \$799,525 and discounted at 6.0% at February 28, 2010 is \$709,509, and is included in the deferred compensation liability shown in the consolidated statements of financial position. The payments are to be made for the balance of his lifetime. Upon the recipient's death, biweekly payments would be made to his spouse for ten years, or until her death, whichever occurs first. Total payments made under the agreement for the years ended February 28, 2011 and 2010 were \$105,625 each year.

The Association also provides a deferred compensation plan for its president, who retired during 2011. Through 2011, the Association contributed an amount equal to that which would have been allocated to him notwithstanding limitations on allowable pension plan contributions under the Internal Revenue Code. Contributions totaling \$25,658 and \$28,758 were made for the years ended February 28, 2011 and 2010, respectively. An asset and related liability have been recorded in the amount of \$501,560 and \$418,209 at February 28, 2011 and 2010, respectively, related to this deferred compensation agreement. The balance due the president under the plan does not become vested until two years after he ceases employment with the sponsoring entity and is subject to non-competition covenants.

**NOTE J - 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 are approximately as follows:

2012	\$ 95,600
2013	103,100
2014	105,600
2015	105,600
2016	105,600
Thereafter	356,800
	<u>\$ 872,300</u>

For the years ended February 28, 2011 and 2010, expenses under these leases were approximately \$106,100 and \$104,000, respectively.

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**NOTE K - RELATED PARTY TRANSACTIONS**

The Association has three “divisions,” International Aerobatic Club, Inc., Warbirds of America, Inc. and EAA Vintage Aircraft Association, Inc. These divisions are separate corporations, but no person may become a member of any of the three divisions without first being a member of the Association. The Association also had one “affiliate,” National Association of Flight Instructors, which is also a separate corporation and who is no longer an affiliate as of February 28, 2011. Each of the divisions and the affiliate pay administrative fees to the Association for clerical services rendered to them. The tax-exempt purposes of the divisions and affiliate are similar to the Association’s tax-exempt purpose. These divisions and affiliate are independent corporate entities who report their own income and expense. Other than the fees charged to the divisions and affiliate, no other financial transactions of the divisions and affiliate are included in these consolidated financial statements.

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

	2011	2010
Payments from the divisions and affiliate for data processing and other administrative services	\$ 434,000	\$ 470,000
Accounts receivable from divisions and affiliate	234,000	615,000

**NOTE L - 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, 2011 and 2010. For one named individual, the Association is responsible for the first \$150,000 of covered medical expenses per incident at February 28, 2011 and 2010. 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 \$972,000 and \$1,049,000 for the years ended February 28, 2011 and 2010, respectively.

**NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The financial assets and liabilities of the Association and Foundation are valued in accordance with the current guidance on fair value measurements. The guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. 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.

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**NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued**

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;
- Quote 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 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 on a recurring and non-recurring basis, as well as the general classification pursuant to the valuation hierarchy.

*Investments*

When quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted prices are not available or accessible, then fair values are estimated using pricing models, audit reports, SEC filings, recent trading activity, and subsequent trading activity; the fair value of securities estimated using one or more of these methods are classified within Level 2 of the fair value hierarchy. See description of the valuation methodologies of investments at note A7 and D.

*Beneficial interest in perpetual trust and split interest agreement*

Beneficial interests in perpetual trust and split interest agreement held by others 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.

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**NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued**

*Interest rate swap (other long-term liability)*

The fair value of the Association's interest rate swap agreement is based on estimates using standard pricing models that take into account the present value of future cash flows as of the balance sheet date. The fair value of the interest rate swap is based on quotes from market makers of this instrument and represents the estimated amount that the Association would expect to receive or pay to terminate the agreement. The interest rate swap is classified within Level 2 of the fair value hierarchy.

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

	February 28, 2011			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
Money market funds	\$ 680,691	\$ 680,691	\$ -	\$ -
Common stocks	4,690,600	4,690,600	-	-
Bond funds	4,063,215	4,063,215	-	-
Equity funds	2,628,116	2,628,116	-	-
Common trust equity funds (a)	7,540,206	-	7,540,206	-
Hedge fund (b)	1,749,596	-	1,749,596	-
Commodity funds	979,992	979,992	-	-
Other assets				
Beneficial interest in perpetual trust	2,607,883	-	2,607,883	-
Beneficial interest in split interest agreement	189,770	-	189,770	-
<b>Liabilities</b>				
Interest rate swap (other long-term liability)	272,576	-	272,576	-
February 28, 2010				
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
Money market funds	\$ 688,188	\$ 688,188	\$ -	\$ -
Common stocks	4,235,292	4,235,292	-	-
Bond funds	3,520,664	3,520,664	-	-
Equity funds	1,684,956	1,684,956	-	-
Common trust equity funds (a)	6,792,110	297,162	6,494,948	-
Hedge fund (b)	1,663,880	-	1,663,880	-
Commodity funds	336,854	336,854	-	-
Other assets				
Beneficial interest in perpetual trust	2,333,182	-	2,333,182	-
Beneficial interest in split interest agreement	176,254	-	176,254	-
<b>Liabilities</b>				
Interest rate swap (other long-term liability)	269,725	-	269,725	-

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**NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued**

The common trust equity funds and hedge fund do not have a readily determinable fair value and are valued at their February 28, 2011 and 2010 net asset value per share as provided by the fund's administrators. The following provides additional information regarding these funds:

(a) Common trust equity funds - The investment strategy of this category is to provide exposure to a broad equity market, both U.S. and International, with overall results to outperform the Russell 1000 Index while providing opportunities for long-term growth. Redemption is permitted at the end of each month with a 30 day notice.

(b) 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 60 day notice.

**NOTE N - NET ASSETS**

**1. 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 approximately \$7,338,000 and \$6,074,000 at February 28, 2011 and 2010, 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, 2011 and 2010, funds so designated totaled approximately \$882,000 and \$858,000, respectively.

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**NOTE N - NET ASSETS - Continued**

**2. 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.

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

	2011	2010
Eagle Hangar	\$ -	\$ 1,000
Founder's Wing	65,122	53,485
Leadership Center	-	62,023
Brown Arch Fund	22,844	140,263
Jack Marks Hangar	48,310	48,527
Scholarships	251,003	130,467
Youth in Aviation Education	14,384	9,684
Thompson First Flight	60,000	-
Clay Lacy Scholarships	42,285	41,511
Thompson Scholarship Administration	138,100	78,539
Spread Your Wings	113,894	153,593
Vision of Eagles Operations	-	175,751
Young Eagles	4,400	16,486
Timeless Voices	29,700	59,396
Aeroscholars	-	2,000
B-17 Maintenance	25,000	49,000
Burgher Chapter Development	157,943	100,938
Supersonic Learning/Museum Ed	-	2,779
Bill Daniels Gift Trust	866,294	736,241
Cianchetti Charitable Remainder Unitrust	189,770	176,254
Gift annuities	73,253	106,484
Miscellaneous/general restricted	120,264	615,006
	\$ 2,222,566	\$ 2,759,427

During the years ended February 28, 2011 and 2010, the Association and Foundation released \$5,663,680 and \$6,861,725, respectively, of net assets from restriction.

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**NOTE N - NET ASSETS - Continued**

**3. 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 consist of the following as of February 28:

	2011	2010
Education Scholarship	\$ 291,826	\$ 291,301
Payzer Scholarship	326,486	105,925
Young Eagles	1,561,589	1,561,589
Florence Gregory Charitable Trust	2,636,824	2,404,467
Endowment - general donor restricted	835,651	835,651
Pioneer Work Experience	156,000	156,000
Doolittles Raiders	161,915	161,915
Women in Aviation	150,125	150,125
Allen Davis Scholarship	11,090	11,090
Thomas Ellsberg Scholarship	11,000	11,000
Wittman Internship	50,000	50,000
Youth in Aviation Education	75,000	75,000
Vision of Eagles Endowment	2,854,331	2,854,331
EAA Air Academy Lodge Operating Endowment	1,000,000	1,000,000
Residence Education Program	1,000,000	1,000,000
McRoberts Memorial Scholarship	10,000	10,000
Harrison Ford Scholarship	194,395	123,045
Michael Neuteufel Memorial Scholarship	10,000	10,000
Zieve Family MI Scholarship	10,850	10,850
Leo Giles Memorial Scholarship	10,365	10,365
Henry Kimberly Endowment	45,981	45,981
WASP Scholarship	18,178	18,178
Preston Little Award	16,000	16,000
Bury Family Scholarship	10,000	10,000
Neale Slater Memorial Scholarship	25,000	25,000
Russell MacFarlane Scholarship	274,980	274,980
Museum Support	272,595	272,595
John Paradiso Scholarship	15,000	15,000
Robert B Weronke Academic Scholarship	10,731	10,731
Richard Reitz Memorial Scholarship	13,815	13,815
Jason Kurt Lohr Aviation Scholarship	53,845	33,770
Jack Mark Scholarship	10,000	-

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**NOTE N - NET ASSETS - Continued**

**3. Permanently Restricted - continued**

	2011	2010
D. Hopkin Memorial Scholarship	\$ 20,640	\$ -
Arcamuzi Aviation Scholarship	10,500	-
Tim Peterson Scholarship	15,235	-
James Stafford Scholarship	12,722	-
Flight 1190 Memorial Scholarship	50,100	-
	\$ 12,232,769	\$ 11,568,704

**4. 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 on August 4, 2009, 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. The Foundation adopted UPMIFA on February 28, 2010. 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.

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**NOTE N - NET ASSETS - Continued**

**4. Endowment Net Assets - continued**

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 approximately \$1,342,000 and \$2,466,000 as of February 28, 2011 and 2010, 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 year ended February 28, 2011, the Foundation had the following endowment-related activities:

	Unrestricted Board Designated Endowment Funds	Temporarily Restricted Endowment Funds	Permanently Restricted Endowment Funds
Endowment net assets, beginning of year	\$ 6,074,143	\$ 17,844	\$ 11,568,704
Investment return:			
Interest and dividends	152,791	168,938	-
Realized and unrealized gain on investments	1,182,160	1,589,023	-
Total investment return	1,334,951	1,757,961	-
New additions:			
Contributions	405,135	-	431,708
Other income	28,818	-	-
Total new additions	433,953	-	431,708
Appropriation of endowment assets for expenditure	(505,207)	(521,406)	-
Replenishment of underwater funds	-	(1,124,136)	-
Change in beneficial interest in perpetual trust	-	-	232,357
Endowment net assets, end of year	<u>\$ 7,337,840</u>	<u>\$ 130,263</u>	<u>\$ 12,232,769</u>

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**NOTE N - NET ASSETS - Continued**

**4. Endowment Net Assets - continued**

During the year ended February 28, 2010, the Foundation had the following endowment-related activities:

	Unrestricted Board Designated Endowment Funds	Temporarily Restricted Endowment Funds	Permanently Restricted Endowment Funds
Endowment net assets, beginning of year	\$ 4,823,172	\$ -	\$ 10,818,269
Investment return:			
Interest and dividends	151,058	145,135	-
Realized and unrealized gain on investments	1,594,879	2,127,623	-
Total investment return	1,745,937	2,272,758	-
New additions:			
Contributions	132,606	-	257,308
Other income	14,462	-	-
Total new additions	147,068	-	257,308
Appropriation of endowment assets for expenditure	(642,034)	(448,042)	-
Replenishment of underwater funds	-	(1,806,872)	-
Change in beneficial interest in perpetual trust	-	-	493,127
Endowment net assets, end of year	<u>\$ 6,074,143</u>	<u>\$ 17,844</u>	<u>\$ 11,568,704</u>

The Foundation has adopted investment and spending policies for endowment assets, both board designated endowment 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 invests in a combination of equities and bonds with a long-term goal of a rate of return equal to 8%. The Foundation has a policy of appropriating for distribution each year, 5% of its endowment funds average fair value over the prior three calendar year-end preceeding the fiscal year in which the distribution is planned. The Foundation Trustees meet regularly with investment managers to evaluate investment performance and monitor investment policies.

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**NOTE O - 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 does pay unrelated business income tax on certain of its activities, which are deemed to be unrelated to its exempt purpose; however, the Association is currently not paying any unrelated business income tax due to federal and state net operating loss carryforwards, which will expire, if unused, as follows:

Federal net operating loss available	State net operating loss available	Expiration date
\$ -	\$ 29,000	February 28, 2022
-	32,000	February 28, 2025
41,000	35,000	February 28, 2026
1,000	-	February 28, 2027
32,000	-	February 28, 2028
35,000	-	February 28, 2029
<u>\$ 109,000</u>	<u>\$ 96,000</u>	

**NOTE P - SUBSEQUENT EVENTS**

The Association and Foundation evaluated its February 28, 2011 financial statements for subsequent events through July 22, 2011, the date the 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 financial statements, except as noted below.