

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

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

February 28, 2009 and February 29, 2008

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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, 2009 and February 29, 2008, 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 as 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, 2009 and February 29, 2008, 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
Madison, Wisconsin
June 22, 2009

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

ASSETS	February 28, 2009	February 29, 2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,397,704	\$ 3,737,194
Accounts receivable, less allowance for doubtful accounts of \$163,700 in 2009 and \$33,800 in 2008	674,721	438,162
Accounts receivable - divisions and affiliate, net	268,103	99,937
Current portion of pledges receivable, net	281,459	263,160
Inventories	417,261	360,421
Prepaid expenses and deferred charges	906,244	470,071
Total current assets	4,945,492	5,368,945
PLEDGES RECEIVABLE, less current portion, unamortized discount and allowance	125,945	129,641
INVESTMENTS - AT MARKET	17,162,051	25,631,321
PROPERTY AND EQUIPMENT		
Land improvements	2,130,248	2,076,054
Buildings	17,424,237	17,330,814
Leasehold improvements	10,036,329	9,725,293
Office furniture and fixtures	5,018,866	4,799,171
Computer equipment and software	7,032,734	6,544,098
Shop and maintenance equipment	789,642	786,842
Transportation equipment	1,007,785	981,295
Museum display equipment	3,342,937	3,327,294
Film library	105,231	105,231
	46,888,009	45,676,092
Less accumulated depreciation and amortization	29,157,774	27,986,581
	17,730,235	17,689,511
Land	4,352,946	4,352,946
Capital addition projects in progress	5,597,208	1,565,016
	27,680,389	23,607,473
OTHER ASSETS		
Display aircraft, aircraft components and library	10,406,188	10,258,596
Cash value of life insurance	413,649	494,471
Assets held for deferred compensation	331,282	405,700
	11,151,119	11,158,767
TOTAL ASSETS	\$ 61,064,996	\$ 65,896,147

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	<u>February 28, 2009</u>	<u>February 29, 2008</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ -	\$ 5,793
Current portion of gift annuity liability	57,698	73,385
Current portion of deferred compensation	61,052	52,581
Accounts payable	1,878,211	1,027,436
Accrued expenses and other payables	1,537,523	1,558,568
Current portion of unearned income	<u>5,998,250</u>	<u>6,568,774</u>
Total current liabilities	9,532,734	9,286,537
 GIFT ANNUITY LIABILITY, less current portion	 459,211	 537,929
 DEFERRED COMPENSATION, less current portion	 1,040,791	 1,181,185
 LONG-TERM DEBT, less current maturities	 1,973,141	 10,137
 OTHER LONG-TERM LIABILITIES	 222,505	 -
 UNEARNED INCOME, less current portion	 <u>899,190</u>	 <u>731,357</u>
Total liabilities	14,127,572	11,747,145
 NET ASSETS		
Unrestricted	34,711,987	39,099,859
Temporarily restricted	1,930,306	1,484,154
Permanently restricted	<u>10,295,131</u>	<u>13,564,989</u>
	<u>46,937,424</u>	<u>54,149,002</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 61,064,996</u>	<u>\$ 65,896,147</u>

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND
EAA AVIATION FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES**
For the years ended

	February 28, 2009	February 29, 2008
Changes in unrestricted net assets		
Revenues, gains and other support		
Membership dues and subscriptions	\$ 6,227,621	\$ 6,444,930
Donations, cash and pledges	5,499,363	5,115,838
Donations, display aircraft and aircraft components	211,385	200,448
Donations, AirVenture services and property	470,000	460,000
Advertising	2,808,014	2,969,568
Rentals	3,649,317	3,427,852
Admissions and registrations	8,787,526	8,631,173
Audio visual services	20	7,805
Merchandise sales	2,293,091	2,359,888
Commissions and royalties	1,081,124	1,068,675
Investment loss	(5,655,803)	(4,828)
Administrative fees	467,866	451,497
Sponsorship income	1,981,934	1,841,060
Gain (loss) on disposal of property and equipment	10,034	(158)
Loss on disposal of display aircraft, aircraft components and library	(86,500)	(124,553)
Miscellaneous	16,485	121,806
Net assets released from restrictions	4,627,450	2,098,885
	32,388,927	35,069,886
Total unrestricted revenues, gains and other support		
Expenses		
AirVenture expenses	7,831,172	6,748,898
Fundraising	2,460,826	1,863,171
Membership services	8,399,343	8,200,374
Management and general	5,837,129	5,952,377
Cost of merchandise sales	1,944,778	2,166,592
Other program expenses	10,303,551	7,928,769
Total expenses	36,776,799	32,860,181
	(4,387,872)	2,209,705
(Decrease) increase in unrestricted net assets		
Changes in temporarily restricted net assets		
Donations, cash and pledges	4,393,706	1,233,893
Investment income transfer	679,896	648,831
Net assets released from restrictions	(4,627,450)	(2,098,885)
	446,152	(216,161)
Increase (decrease) in temporarily restricted net assets		

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

	February 28, 2009	February 29, 2008
Changes in permanently restricted net assets		
Donations, cash and pledges	\$ 143,078	\$ 81,676
Investment loss	(3,412,936)	(366,442)
Recovery on uncollectible pledges	-	2,000
Decrease in permanently restricted net assets	(3,269,858)	(282,766)
(DECREASE) INCREASE IN NET ASSETS	(7,211,578)	1,710,778
Net assets at beginning of year	54,149,002	52,438,224
Net assets at end of year	\$ 46,937,424	\$ 54,149,002

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, 2009	February 29, 2008
Cash flows from operating activities		
(Decrease) increase in net assets for the year	\$ (7,211,578)	\$ 1,710,778
Adjustments to reconcile the (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	1,416,153	1,332,915
(Gain) loss on disposal of property and equipment	(10,034)	158
Loss on disposal of display aircraft, aircraft components and library	86,500	124,553
Donations of display aircraft and aircraft components	(211,385)	(200,448)
Loss on investments	9,011,504	625,240
Deferred compensation payments	(135,433)	(133,726)
Deferred compensation expense	77,928	118,305
Changes in operating assets and liabilities:		
Accounts receivable	(236,559)	128,422
Accounts receivable - divisions and affiliate	(168,166)	164,632
Pledges receivable	(14,603)	291,870
Inventories	(56,840)	84,452
Prepaid expenses and deferred charges	(436,173)	(122,432)
Accounts payable	253,181	68,978
Accrued expenses and other payables	(21,045)	93,307
Unearned income	(402,691)	224,237
Gift annuity liability	(94,405)	(117,361)
Other long-term liabilities	222,505	-
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Net cash provided by operating activities	2,068,859	4,393,880
Cash flows from investing activities		
Proceeds from sale of investments	168,025	645,697
Purchases of investments	(710,259)	(915,859)
Proceeds from disposal of property and equipment	10,200	-
Purchases of property and equipment	(1,457,043)	(1,243,934)
Increase in capital addition projects in progress	(3,434,598)	(849,688)
Decrease (increase) in cash value of life insurance	80,822	(17,688)
Proceeds from disposal of display aircraft, aircraft components and library	93,070	349,197
Additions to display aircraft, aircraft components and library	(115,777)	(3,108)
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Net cash used in investing activities	(5,365,560)	(2,035,383)

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

	February 28, 2009	February 29, 2008
Cash flows from financing activities		
Proceeds from long-term debt financing	\$ 1,973,141	\$ -
Payments of long-term debt	(15,930)	(5,794)
Proceeds from line of credit	3,349,538	2,040,000
Payments of line of credit	(3,349,538)	(2,040,000)
Net cash provided by (used in) financing activities	1,957,211	(5,794)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,339,490)	2,352,703
Cash and cash equivalents at beginning of year	3,737,194	1,384,491
Cash and cash equivalents at end of year	\$ 2,397,704	\$ 3,737,194
Supplemental disclosure of cash flow information:		
Interest paid	\$ 14,186	\$ 26,354

Non-cash operating and investing activities:

As of February 28, 2009 there was \$597,594 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, 2009 and February 29, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Experimental Aircraft Association, Inc. (the Association) is a membership organization and, as such, its major program is service to its members. Each year, AirVenture, the Association's annual fly-in and convention, is held. AirVenture has among its purposes the education of the general public concerning the various facets of aviation and presents daily air shows. The Association is dedicated to serving all of aviation by fostering and encouraging individual participation, high standards and access to the world of flight in an environment that promotes freedom, safety, family and personal fulfillment. Additionally, the Association has established and maintains a museum and library to promote interest among the general public.

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, 2009 and February 29, 2008 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 - CONTINUED
February 28, 2009 and February 29, 2008

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 were computed at 1.2% in 2009 and 1.6% in 2008, which management feels represents a 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 and real estate securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The common trust funds and hedge fund, for which quoted market prices are not available, are carried at estimated fair market values 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 - CONTINUED
February 28, 2009 and February 29, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Investments - continued

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 in the possession 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 \$120,135 and \$223,452 distributed from the trust for the years ended February 28, 2009 and February 29, 2008, respectively.

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

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.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND
EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2009 and February 29, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. 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.

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.

11. Donated Services and Equipment

The Association receives significant professional services and equipment at no cost. The estimated value of the donated services and equipment received was \$470,000 and \$460,000 for the years ended February 28, 2009 and February 29, 2008, 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.

12. 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 statement of activities as net assets released from restrictions.

13. Advertising Costs

The Association and the Foundation expense advertising costs as they are incurred. Advertising expenses were \$1,068,000 and \$1,007,000 in 2009 and 2008, respectively.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND
EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2009 and February 29, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Fair Value of Financial Instruments

The Association and the Foundation adopted Statement of Financial Accounting Standards No. 157 (SFAS No. 157), *Fair Value Measurements*, effective March 1, 2008. SFAS No. 157 (1) creates a single definition of fair value, (2) establishes a framework for measuring fair value, and (3) expands disclosure requirements about items measured at fair value. SFAS No. 157 applies to both items recognized and reported at fair value in the financial statements and items disclosed at fair value in the notes to the financial statements. SFAS No. 157 does not change existing accounting rules governing what can or what must be recognized and reported at fair value in the financial statements, or disclosed at fair value in the notes to the financial statements.

SFAS No. 157 clarifies the definition of fair value 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 SFAS No. 157 fair value 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).

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

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND
EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 28, 2009 and February 29, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Fair Value of Financial Instruments - continued

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.

Cash and cash equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

Pledges receivable

Measured at fair value by utilizing discount rates commensurate with the related risks involved to determine present values (see Note A5) and are classified within level 3 of the fair value 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.

Gift annuity liability

The liability for gift annuities which have been issued are based on the annuitant's life expectancy and a discounted cash flow of payments estimated remaining to be paid. The discounted rate used is a high quality (the definition of high quality is Aa), long term corporate bonds as of the measurement date. The life expectancy and discount rate are evaluated each year by an outside actuary. The gift annuity liability is classified within level 2 of the fair value hierarchy.

Deferred compensation liability

A portion of the deferred compensation liability is based on a specific investment held by the Association. That investment has an available quoted market price. The portion of the liability representing this offsetting asset is classified within level 1 of the fair value hierarchy. The remaining balance of the deferred compensation liability is based on the recipient's (and his spouse) life expectancy and a discounted cash flow of payments estimated remaining to be paid. The discounted rate used is a high quality (the definition of high quality is Aa), long term corporate bonds as of the measurement date. The life expectancy and discount rate are evaluated periodically by an outside actuary. The liability is adjusted monthly, as payments under the agreement are made. This portion of the deferred compensation liability is classified within level 2 of the fair value hierarchy.