

Consolidated financial statements and report of independent
certified public accountants

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

February 29, 2008 and February 28, 2007

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Report of Independent Certified Public Accountants

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We have audited the accompanying consolidated statements of financial position of Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc. as of February 29, 2008 and February 28, 2007, 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc. as of February 29, 2008 and February 28, 2007, and the consolidated 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.

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GRANT THORNTON LLP
Madison, Wisconsin
June 9, 2008

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

ASSETS	February 29, 2008	February 28, 2007
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,737,194	\$ 1,384,491
Accounts receivable, less allowance for doubtful accounts of \$33,800 in 2008 and \$8,500 in 2007	438,162	566,584
Accounts receivable - divisions and affiliate, net	99,937	264,569
Current portion of pledges receivable, net	263,160	517,860
Inventories	360,421	444,873
Prepaid expenses and deferred charges	470,071	347,639
Total current assets	5,368,945	3,526,016
PLEDGES RECEIVABLE, less current portion, unamortized discount and allowance	129,641	166,811
INVESTMENTS - AT MARKET	25,631,321	25,986,399
PROPERTY AND EQUIPMENT		
Land improvements	2,076,054	2,029,180
Buildings	17,330,814	17,201,287
Leasehold improvements	9,725,293	9,214,369
Office furniture and fixtures	4,799,171	4,759,434
Computer equipment and software	6,544,098	6,316,764
Shop and maintenance equipment	786,842	783,502
Transportation equipment	981,295	909,779
Museum display equipment	3,327,294	3,141,921
Film library	105,231	105,231
	45,676,092	44,461,467
Less accumulated depreciation and amortization	27,986,581	26,682,817
	17,689,511	17,778,650
Land	4,352,946	4,352,946
Capital addition projects in progress	1,565,016	715,328
	23,607,473	22,846,924
OTHER ASSETS		
Display aircraft, aircraft components and library	10,258,596	10,528,790
Cash value of life insurance	494,471	476,783
Assets held for deferred compensation	405,700	360,371
	11,158,767	11,365,944
TOTAL ASSETS	\$ 65,896,147	\$ 63,892,094

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	February 29, 2008	February 28, 2007
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 5,793	\$ 5,793
Current portion of gift annuity liability	73,385	82,468
Current portion of deferred compensation	52,581	58,654
Accounts payable	1,027,436	958,458
Accrued expenses and other payables	1,558,568	1,465,261
Current portion of unearned income	6,568,774	6,455,847
Total current liabilities	9,286,537	9,026,481
GIFT ANNUITY LIABILITY, less current portion	537,929	646,207
DEFERRED COMPENSATION, less current portion	1,181,185	1,145,204
LONG-TERM DEBT, less current maturities	10,137	15,931
UNEARNED INCOME, less current portion	731,357	620,047
Total liabilities	11,747,145	11,453,870
NET ASSETS		
Unrestricted	39,099,859	36,890,154
Temporarily restricted	1,484,154	1,700,315
Permanently restricted	13,564,989	13,847,755
	54,149,002	52,438,224
TOTAL LIABILITIES AND NET ASSETS	\$ 65,896,147	\$ 63,892,094

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

	February 29, 2008	February 28, 2007
Changes in unrestricted net assets		
Revenues, gains and other support		
Membership dues and subscriptions	\$ 6,444,930	\$ 6,476,658
Donations, cash and pledges	5,115,838	3,573,824
Donations, display aircraft and aircraft components	200,448	17,955
Donations, AirVenture services and property	460,000	448,000
Advertising	2,969,568	2,766,050
Rentals	3,427,852	3,185,675
Admissions and registrations	8,631,173	7,847,839
Audio visual services	7,805	-
Merchandise sales	2,359,888	2,472,220
Commissions and royalties	1,068,675	855,619
Investment (loss) income	(4,828)	1,415,317
Administrative fees	451,497	510,501
Sponsorship income	1,841,060	1,584,713
Loss on disposal of property and equipment	(158)	(287)
Loss on disposal of display aircraft, aircraft components and library	(124,553)	(151,283)
Miscellaneous	121,806	102,725
Net assets released from restrictions	2,098,885	2,430,074
	35,069,886	33,535,600
Expenses		
AirVenture expenses	6,748,898	6,346,381
Fundraising	1,863,171	1,426,201
Membership services	8,200,374	8,511,053
Management and general	5,952,377	6,256,917
Cost of merchandise sales	2,166,592	2,177,261
Other program expenses	7,928,769	7,580,019
Total expenses	32,860,181	32,297,832
	2,209,705	1,237,768
Changes in temporarily restricted net assets		
Donations, cash and pledges	1,233,893	1,751,260
Investment income	648,831	596,024
Net assets released from restrictions	(2,098,885)	(2,430,074)
	(216,161)	(82,790)

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

For the years ended

	February 29, 2008	February 28, 2007
Changes in permanently restricted net assets		
Donations, cash and pledges	\$ 81,676	\$ 452,793
Investment (loss) income	(366,442)	470,368
Recovery (loss) on uncollectible pledges	2,000	(2,059)
	<hr/>	<hr/>
(Decrease) increase in permanently restricted net assets	(282,766)	921,102
	<hr/>	<hr/>
INCREASE IN NET ASSETS	1,710,778	2,076,080
Net assets at beginning of year	52,438,224	50,362,144
	<hr/>	<hr/>
Net assets at end of year	<u>\$ 54,149,002</u>	<u>\$ 52,438,224</u>

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 29, 2008	February 28, 2007
	<u> </u>	<u> </u>
Cash flows from operating activities		
Increase in net assets for the year	\$ 1,710,778	\$ 2,076,080
Adjustments to reconcile the increase in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	1,332,915	1,410,837
Loss on disposal of property and equipment	158	287
Loss on disposal of display aircraft, aircraft components and library	124,553	151,283
Donations of display aircraft and aircraft components	(200,448)	(17,955)
Loss (gain) on investments	625,240	(1,802,073)
Deferred compensation payments	(133,726)	(288,939)
Deferred compensation expense	118,305	232,415
Changes in operating assets and liabilities:		
Accounts receivable	128,422	262,337
Accounts receivable - divisions and affiliate	164,632	152,959
Pledges receivable	291,870	213,099
Inventories	84,452	321,756
Prepaid expenses and deferred charges	(122,432)	43,411
Accounts payable	68,978	96,470
Accrued expenses and other payables	93,307	70,889
Unearned income	224,237	410,943
Gift annuity liability	(117,361)	(4,299)
	<u> </u>	<u> </u>
Net cash provided by operating activities	4,393,880	3,329,500
Cash flows from investing activities		
Proceeds from sale of investments	645,697	18,623,612
Purchases of investments	(915,859)	(18,582,112)
Proceeds from disposal of property and equipment	-	1,225
Purchases of property and equipment	(1,243,934)	(1,043,714)
(Increase) decrease in capital addition projects in progress	(849,688)	114,230
Increase in cash value of life insurance	(17,688)	(17,990)
Proceeds from disposal of display aircraft, aircraft components and library	349,197	300,250
Additions to display aircraft, aircraft components and library	(3,108)	(207,255)
Insurance proceeds	-	111,109
	<u> </u>	<u> </u>
Net cash used in investing activities	(2,035,383)	(700,645)

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

For the years ended

	February 29, 2008	February 28, 2007
Cash flows from financing activities		
Proceeds from long-term debt financing	\$ 2,040,000	\$ 2,425,000
Payments of long-term debt	<u>(2,045,794)</u>	<u>(4,580,792)</u>
Net cash used in financing activities	<u>(5,794)</u>	<u>(2,155,792)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,352,703	473,063
Cash and cash equivalents at beginning of year	<u>1,384,491</u>	<u>911,428</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,737,194</u></u>	<u><u>\$ 1,384,491</u></u>
Supplemental disclosure of cash flow information:		
Interest paid	<u><u>\$ 26,354</u></u>	<u><u>\$ 76,491</u></u>

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 29, 2008 and February 28, 2007

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 therefrom to support the Association.

A summary of the Experimental Aircraft Association, Inc. and EAA Aviation Foundation, Inc.'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 29, 2008 and February 28, 2007 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.

4. Accounts Receivable

The majority of the Association'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.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

February 29, 2008 and February 28, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 1.6% in 2008 and 4.5% in 2007, 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 hedge fund is 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.

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 \$223,452 and \$135,433 distributed from the trust for the years ended February 29, 2008 and February 28, 2007, respectively.

EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2008 and February 28, 2007

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

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 (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 donated value or market value.

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.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

February 29, 2008 and February 28, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$460,000 and \$448,000 for the years ended February 29, 2008 and February 28, 2007, 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 GAAP 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 restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

13. Advertising Costs

The Association and Foundation expense advertising costs as they are incurred. Advertising expenses were \$1,007,000 and \$1,432,000 in 2008 and 2007, respectively.

14. Reclassification

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 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 (FDIC) insured limit of \$100,000. The Association and Foundation have not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

February 29, 2008 and February 28, 2007

NOTE C - PLEDGES RECEIVABLE

Pledges receivable are summarized as follows:

	February 29, 2008	February 28, 2007
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges receivable	\$ 549,349	\$ 759,193
Less unamortized discount	6,721	22,424
	<u>542,628</u>	<u>736,769</u>
Less allowance for uncollectible pledges receivable	149,827	52,098
	<u>\$ 392,801</u>	<u>\$ 684,671</u>
Amounts due in:		
Less than one year	\$ 412,952	\$ 517,860
One to five years	133,497	236,333
More than five years	2,900	5,000
	<u>549,349</u>	<u>759,193</u>
Less unamortized discount and allowance	156,548	74,522
	<u>\$ 392,801</u>	<u>\$ 684,671</u>

NOTE D - INVESTMENTS

Investments at market value consist of the following:

	February 29, 2008	February 28, 2007
Money market funds	\$ 390,042	\$ 120,629
Common stocks	4,633,079	5,601,507
Bond funds	4,320,156	4,864,758
Equity funds	1,927,281	1,948,113
Common trust equity funds	7,616,809	8,667,167
Hedge fund	2,083,091	1,870,364
Beneficial interest in perpetual trust	2,749,880	2,913,861
Real estate funds	1,910,983	-
	<u>\$ 25,631,321</u>	<u>\$ 25,986,399</u>

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

February 29, 2008 and February 28, 2007

NOTE D - INVESTMENTS - Continued

Investment income consists of the following for the years ended:

	February 29, 2008	February 28, 2007
Interest and dividends, net	\$ 885,113	\$ 661,646
Realized and unrealized (losses) gains on investments	(625,240)	1,802,073
Increase in cash surrender value of life insurance	17,688	17,990
	<hr/>	<hr/>
Total	\$ 277,561	\$ 2,481,709

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following:

	February 29, 2008	February 28, 2007
Long-term obligation associated with street assessment, principal and interest payable quarterly, 40 payments of \$1,448, interest at a rate of 8%, due July 2010	\$ 15,930	\$ 21,724
	15,930	21,724
Less current maturities	5,793	5,793
	<hr/>	<hr/>
	\$ 10,137	\$ 15,931

Future maturities of long-term debt as of February 29, 2008 are as follows:

2009	\$ 5,793
2010	5,793
2011	4,344
	<hr/>
	\$ 15,930

Associated Bank provides the Association an unsecured line of credit in the amount of \$3,500,000, which has an expiration date of September 2012. Interest is payable monthly at a variable rate equal to the 30-day LIBOR, plus 1.5% (effective rate of 4.61% at February 29, 2008). The line of credit agreement contains a number of restrictive covenants, with which the Association was in compliance at February 29, 2008.

EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2008 and February 28, 2007

NOTE E - LONG-TERM DEBT - Continued

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 \$127,401. The letter of credit expires December 31, 2010. As of February 29, 2008 and February 28, 2007, there were no amounts outstanding.

U.S. Bank, N.A. provides the Association a line of credit in the amount of \$200,000, which has an expiration date of December 31, 2010. There were no outstanding balances at February 29, 2008 and February 28, 2007 on this line of credit.

U.S. Bank, N.A. provides the Association a line of credit in the amount of \$2,500,000, which has an expiration date of December 31, 2008. There were no outstanding balances at February 29, 2008 and February 28, 2007 on this line of credit.

NOTE F - UNEARNED INCOME

Unearned income consists of the following items:

	February 29, 2008	February 28, 2007
Unearned membership dues	\$ 4,237,619	\$ 4,271,232
Exhibits	2,572,585	2,384,708
Other	489,927	419,954
Total	<u>\$ 7,300,131</u>	<u>\$ 7,075,894</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 6.00% and 5.75% as of February 29, 2008 and February 28, 2007, respectively. 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.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

February 29, 2008 and February 28, 2007

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 \$541,899 and \$520,660 for the years ended February 29, 2008 and February 28, 2007, 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 6% is \$828,066 and at 5.75% is \$843,487 at February 29, 2008 and February 28, 2007, respectively, 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 29, 2008 and February 28, 2007 were \$105,625 each year.

The Association also provides a deferred compensation plan for its president. The Association contributes an amount equal to that which would have been allocated to him notwithstanding limitations on allowable pension plan contributions under the Internal Revenue Code (IRC). Contributions totaling \$28,101 and \$31,773 were made for the years ended February 29, 2008 and February 28, 2007, respectively. An asset and related liability have been recorded in the amount of \$405,700 and \$360,371 at February 29, 2008 and February 28, 2007, 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.

Prior to February 28, 2007, the Association also had a deferred compensation plan for an employee. The balance in the employee's deferred compensation plan of \$151,541 was paid out in 2007.

NOTE J - LEASE COMMITMENTS

The Association has various leases for its office space and certain premises located at Wittman Regional Airport with a minimum total aggregate commitment of \$982,500. Future minimum rentals are as follows:

2009	\$	90,000
2010		90,000
2011		90,000
2012		90,000
2013		97,500
Later years		<u>525,000</u>
	\$	<u>982,500</u>

For the years ended February 29, 2008 and February 28, 2007, expenses under these leases were \$100,000 and \$103,000, respectively.

EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 29, 2008 and February 28, 2007

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 has one “affiliate,” National Association of Flight Instructors, which is also a separate corporation. 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 statements.

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

	February 29, 2008	February 28, 2007
Payments from the divisions and affiliate for data processing and other administrative services	\$ 432,000	\$ 423,000
Accounts receivable from divisions and affiliate	299,734	264,569

NOTE L - CONTINGENT LIABILITIES

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 29, 2008 and February 28, 2007. For one named individual, the Association is responsible for the first \$150,000 of covered medical expenses per incident at February 29, 2008. 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 \$1,146,000 and \$997,000 for the years ended February 29, 2008 and February 28, 2007, respectively.

NOTE M - BOARD-DESIGNATED FUND BALANCE

The Board of Trustees has designated a portion of the Foundation’s unrestricted net assets as funds functioning as endowment and they have been invested as such. The total amount of funds so designated totaled \$7,622,000 and \$7,167,000 at February 29, 2008 and February 28, 2007, respectively.

The Association’s Board of Directors has directed management to designate funds received from the sales of artifacts as unavailable for general operations. As of February 29, 2008 and February 28, 2007, funds so designated totaled \$1,563,000 and \$1,162,000, respectively.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

February 29, 2008 and February 28, 2007

NOTE N - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following restricted amounts:

	February 29, 2008	February 28, 2007
Leadership Center	\$ 67,145	\$ 113,530
Vision of Eagles	32,495	115,749
Scholarships	71,844	10,088
Internships	40,460	47,495
Young Eagles	72,559	123,283
Supersonic Learning Adventure	24,543	25,052
Clay Lacy Scholarships	48,224	50,189
Eagle Hangar	31,739	30,839
Aviation Education and Safety	8,247	26,767
Youth in Aviation Education	4,959	2,450
Timeless Voices	112,940	124,822
Aeroscholars	27,000	76,250
Spread Your Wings	302,127	399,709
Museum Galleries	175,624	373,771
Founder's Wing	31,494	-
B17 Maintenance	121,500	-
Miscellaneous	210,687	44,236
Pledges receivable (time restricted)	100,567	136,085
	<u>\$ 1,484,154</u>	<u>\$ 1,700,315</u>

NOTE O - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following restricted amounts:

	February 29, 2008	February 28, 2007
Education Scholarship	\$ 392,096	\$ 368,896
Young Eagles	1,570,634	1,656,367
General Endowment	900,533	900,533
Pioneer Work Experience	130,531	137,707
Doolittles Raiders	161,915	161,915
Women in Aviation	150,125	150,125
Allen Davis Scholarship	11,333	8,360
Thomas Ellsberg Scholarship	11,153	11,765
Youth in Aviation Education	76,036	80,210
Vision of Eagles Endowment	2,728,893	2,875,863

EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 29, 2008 and February 28, 2007

NOTE O - PERMANENTLY RESTRICTED NET ASSETS - Continued

	February 29, 2008	February 28, 2007
	<u> </u>	<u> </u>
EAA Air Academy Lodge Operating Endowment	\$ 1,032,538	\$ 1,089,208
Residence Education Program	1,091,229	1,151,409
Endowment Annuities	95,738	95,606
Henry Kimberly Endowment	45,981	45,981
WASP Scholarship	21,349	22,520
Preston Little Award	22,947	22,096
Bill Daniels Gift Trust	1,155,351	1,218,494
Florence Gregory Charitable Trust	3,475,415	3,392,545
Wittman Internship	47,092	50,000
Bury Family Scholarship	11,269	10,560
Neale Slater Memorial Scholarship	23,699	25,000
Russell MacFarlane Scholarship	125,000	100,000
Museum Support	258,401	272,595
John Paradiso Scholarship	15,000	-
Robert B Weronke Academic Scholarship	10,731	-
	<u>\$ 13,564,989</u>	<u>\$ 13,847,755</u>

NOTE P - WITTMAN REGIONAL AIRPORT MASTER PLAN

The Association pledged to contribute \$765,000 in support of the Wittman Regional Airport Master Plan. The pledge payments were made at the end of each year that specified improvements to the airport were completed. Contributions of \$40,000 were made in 2007. As of February 28, 2007 and February 29, 2008, no further commitment exists as the entire pledge has been paid.

**EXPERIMENTAL AIRCRAFT ASSOCIATION, INC. AND EAA AVIATION FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

February 29, 2008 and February 28, 2007

NOTE Q - 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 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 of \$157,000 and \$109,000, respectively. The carryforwards expire as follows:

Federal net operating loss available	State net operating loss available	Expiration date
47,000	28,000	February 29, 2008
40,000	24,000	February 28, 2009
-	57,000	February 28, 2021
12,000	-	February 28, 2022
57,000	-	February 28, 2025
1,000		February 28, 2026
<u>\$ 157,000</u>	<u>\$ 109,000</u>	

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.

NOTE R - NEW ACCOUNTING PRONOUNCEMENT

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109. Interpretation 48, which clarifies Statement 109, Accounting for Income Taxes, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Association's and Foundation's financial statements. On initial application, Interpretation 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 will be reported as an adjustment to net assets at the beginning of the period in which it is adopted.

Interpretation 48 is effective for fiscal years beginning after December 15, 2007, and will be adopted by the Association and Foundation on March 1, 2008. The Association and Foundation currently does not believe that the adoption of Interpretation 48 will have a significant effect on its financial statements or its ability to comply with its current debt covenants.