



Consolidated Financial Statements and Report of
Independent Certified Public Accountants

**Aircraft Owners and Pilots Association
and Affiliates**

December 31, 2016 and 2015

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees
Aircraft Owners and Pilots Association and Affiliates

We have audited the accompanying consolidated financial statements of Aircraft Owners and Pilots Association and Affiliates (the Association), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aircraft Owners and Pilots Association and Affiliates as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of activities and changes in net assets and consolidated schedule of operating expenses by natural account for the year ended December 31, 2016 on page 24 and 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Baltimore, Maryland
April 3, 2017

CONSOLIDATED FINANCIAL STATEMENTS

AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>December 31,</i>	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,732,000	\$ 6,029,000
Restricted cash	3,463,000	3,802,000
Insurance premiums receivable, net	1,768,000	1,925,000
Advertising, services and other receivables, net	757,000	1,045,000
Contract fees and other receivables	451,000	456,000
Advances and prepaid expenses	1,618,000	1,828,000
	<hr/>	<hr/>
	10,789,000	15,085,000
Investments, at fair value	75,958,000	75,431,000
Deferred income taxes	2,317,000	2,984,000
Property and equipment, net	13,582,000	14,212,000
Intangibles, net	857,000	882,000
Goodwill	4,001,000	4,445,000
Other assets	—	253,000
	<hr/>	<hr/>
Total Assets	\$ 107,504,000	\$ 113,292,000
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 3,802,000	\$ 4,344,000
Accrued expenses	4,565,000	4,161,000
Deferred revenue:		
Membership dues and subscriptions	9,743,000	10,279,000
Other deferred revenue	4,498,000	5,904,000
Other obligations	818,000	1,761,000
	<hr/>	<hr/>
	23,426,000	26,449,000
Long-term Obligations	<hr/>	<hr/>
	8,242,000	9,502,000
Total Liabilities	31,668,000	35,951,000
Net Assets, unrestricted	<hr/>	<hr/>
	75,836,000	77,341,000
Total Liabilities and Net Assets	<hr/>	<hr/>
	\$ 107,504,000	\$ 113,292,000

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

AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

<i>Year ended December 31,</i>	2016	2015
Revenue		
<i>Program Services:</i>		
Membership dues and subscriptions	\$ 17,412,000	\$ 17,111,000
Commissions and royalties	13,542,000	14,036,000
Advertising fees	7,762,000	8,080,000
Product sales and services	4,465,000	4,558,000
	<hr/>	<hr/>
	43,181,000	43,785,000
Contributions, contracts, and grants	3,755,000	3,072,000
Other income	1,467,000	1,485,000
	<hr/>	<hr/>
	48,403,000	48,342,000
Expense		
<i>Program Services:</i>		
Advocacy and representation	12,652,000	12,103,000
Publications	11,097,000	13,071,000
Products and services	10,127,000	9,814,000
Membership development	5,926,000	5,921,000
Member engagement	5,649,000	4,067,000
	<hr/>	<hr/>
	45,451,000	44,976,000
<i>Support Services:</i>		
Management and general	5,041,000	4,798,000
Fundraising	602,000	518,000
	<hr/>	<hr/>
	5,643,000	5,316,000
	<hr/>	<hr/>
	51,094,000	50,292,000
Change in net assets from operations before income taxes	(2,691,000)	(1,950,000)
Income tax provision	835,000	530,000
	<hr/>	<hr/>
Change in net assets from operations	(3,526,000)	(2,480,000)
<i>Non-operating activity:</i>		
Real estate investment revenue	207,000	297,000
Real estate investment expense	(416,000)	(517,000)
Real estate investment, net	<hr/>	<hr/>
	(209,000)	(220,000)
Return on investments, net	2,230,000	(836,000)
	<hr/>	<hr/>
Change in net assets from non-operating activity	2,021,000	(1,056,000)
Change in net assets	(1,505,000)	(3,536,000)
Net assets, beginning of year	77,341,000	80,877,000
	<hr/>	<hr/>
Net assets, end of year	\$ 75,836,000	\$ 77,341,000

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

AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>December 31,</i>	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (1,505,000)	\$ (3,536,000)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Return on investment, net	(2,230,000)	836,000
Depreciation	2,551,000	2,538,000
Amortization	469,000	74,000
Deferred income taxes	667,000	203,000
Changes in operating assets and liabilities:		
Receivables	451,000	944,000
Advances and prepaid expenses	210,000	(154,000)
Assets held for sale	-	3,555,000
Restricted cash	339,000	(310,000)
Other assets	252,000	29,000
Accounts payable	(541,000)	(399,000)
Accrued expenses	262,000	(456,000)
Deferred revenue	(1,942,000)	73,000
Long-term obligations	(672,000)	(197,000)
Net cash (used in) provided by operating activities	(1,689,000)	3,200,000
Cash Flows from Investing Activities		
Proceeds from sales of investments	44,451,000	156,392,000
Purchases of investments	(42,713,000)	(155,324,000)
Purchases of property and equipment	(1,920,000)	(5,252,000)
Net cash used in investing activities	(182,000)	(4,184,000)
Cash Flows from Financing Activities		
Loan proceeds	—	3,793,000
Repayments on loans and leases	(1,426,000)	(1,442,000)
Net cash (used in) provided by financing activities	(1,426,000)	2,351,000
Net change in cash and cash equivalents	(3,297,000)	1,367,000
Cash and cash equivalents, beginning of year	6,029,000	4,662,000
Cash and cash equivalents, end of year	\$ 2,732,000	\$ 6,029,000

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

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The Aircraft Owners and Pilots Association (AOPA), a non-profit tax exempt individual membership association, preserves the freedom to fly by providing our members with high value products and services, fostering the health of general aviation worldwide, and attracting the financial support to make it all happen.

The accompanying consolidated financial statements include the accounts of AOPA and its wholly-owned taxable subsidiary AOPA Holdings Corporation (AHC) and its affiliate AOPA Political Action Committee (PAC) (collectively, the Association). AHC coordinates the delivery of products and services to AOPA members and pilots, provides marketing services related to the Association's products and services, and engages in business activities to provide support for AOPA's mission. PAC is a federal political action committee that solicits contributions from donors and contributes to the political campaign of federal election candidates. As of January 1, 2016, AOPA Insurance Agency, Inc. (AOPAIA) is a wholly-owned subsidiary of AOPA Holdings Corporation (AHC). AOPAIA is an aircraft insurance broker and provides marketing and program support for non-aviation insurance programs.

Basis of Accounting

The consolidated financial statements of the Association have been prepared on the accrual basis, which conforms to generally accepted accounting principles.

The consolidated financial statements include the accounts of AOPA and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents except for short-term investments managed by the Associations' investment manager as part of the long-term investment strategies.

Restricted Cash

Restricted cash includes insurance premiums collected from AOPAIA customers but not yet remitted to insurance companies and PAC contributions of \$3,463,000 and \$3,802,000 at December 31, 2016 and 2015, respectively. The funds are restricted as to use by laws in states in which AOPAIA operates and PAC federal campaign activities.

Investments

The Association reports investments in money market funds, mutual funds, bond backed mutual funds, and alternative investments at fair value.

Investment gains and losses, net of management fees, are included in the consolidated statements of activities and changes in net assets and are reported as non-operating activity.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Legal Service Plan

The Association provides a Legal Service Plan through the Pilot Protection Service whereby enrolled members receive certain legal services in connection with aviation tax matters, aviation contractual issues, and alleged violations of regulations as administered by the Federal Aviation Administration. Revenues are recognized on a pro-rata basis over the period of Pilot Protection Service participation. At December 31, 2016 and 2015, \$433,000 and \$855,000, respectively, was accrued for estimated claims and related costs under the plan.

Net Assets

Unrestricted net assets are a result of operations and, accordingly, are available to meet the general operating needs of the Association.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the consolidated statements of activities.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to a concentration of credit risk include cash deposits with commercial banks. The Association's cash management policies limit its exposure to a concentration of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

From time to time, the Association maintains cash balances with financial institutions which may exceed federally insured limits. The Association has not experienced any credit losses and management does not consider this to be a significant risk. Amounts exceeding established FDIC limits at December 31, 2016 total approximately \$5,156,000. These funds are maintained for traditionally high first quarter funding requirements.

Reclassification

To better report functional expenses, certain 2015 expenses have been reclassified from advocacy and representation to member services, both of which are considered to be program services costs, to conform to the 2016 presentation.

Revenue Recognition

Membership dues, subscriptions, and products sales and services revenues are recognized over the period that member services are provided. Advertising fees are recognized during the period in which the advertisements appear in the Association's media channels.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - continued

AOPAIA commission income is recorded at the later of the billing date or the effective date of the related insurance policies. Commissions billed on policies that are not yet effective are reflected as deferred revenue and earned when the policies become effective.

Aviation Finance Brokerage commission income is recorded at the closing date of the loan or periodically as payments are received.

The Association reports contributions, including promises to give, as restricted support if they are received with donor stipulations that restrict the use of the donated assets. Conditional promises to give are recognized when the conditions on which they depend have been substantially met.

Sponsorship revenue is considered earned when the Association has substantially met its obligations in accordance with the terms of sponsorship agreement.

Accounts Receivable

The carrying value of the Association's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is based on the age of the outstanding receivable and historical collection trends. If events or changes in circumstances indicate that a specific receivable balance may be unrealizable, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Receivable balances deemed uncollectible are written off against the allowance.

Advances and Prepaid Expenses

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received.

Income Taxes

Under the provisions of the Internal Revenue Code Section 501(c)(4) and the applicable local income tax regulations, the Association is exempt on income other than unrelated business income and income derived from the taxable subsidiary AHC. For the years ended December 31, 2016, 2015 and 2014 the Association generated unrelated business income. Taxes associated with this are included within the consolidated tax provision.

Deferred income taxes are provided for temporary differences in the recognition of certain income and expenses for financial and tax reporting. These temporary differences relate to accrued expenses, net operating loss carryover, deferred compensation, contribution carryover, depreciation, and bad debt reserves.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes - continued

PAC is an exempt organization under Internal Revenue Code Section 527.

The Association follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Association has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ending December 31, 2016, 2015, 2014 and 2013 are still open to audit for both federal and state purposes. The Association has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program costs charged to each program based on the direct costs charged to each program.

Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. In accordance with ASC 820, the Association classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value Measurements - continued

The following is a description of the valuation methodologies and inputs used for assets measured at fair value, as well as the general classification pursuant to the valuation hierarchy. Investments in equity securities are valued at the quoted prices in an active market, and are classified within Level 1 of the fair value hierarchy. When quoted prices are available in an active market, corporate debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. When quoted market prices are not available or accessible, the investments are classified within Level 3 of the fair value hierarchy and these fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The Association does not hold any corporate debt securities for which quoted market prices are not available or accessible.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to the Association's financial statements.

Measure of Operations

The change in net assets from operating activities reflected on the accompanying consolidated statements includes primarily activities closely related to the educational, advocacy, research, and administrative functions of the Association. Amounts not included in the measure of operations consist of the net return on investments including realized and unrealized gains and losses, and results of the investment property owned.

NOTE B - INVESTMENTS

The components of the Association's investment portfolio are as follows at December 31:

	2016		2015	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Alternative investments	\$ 50,805,000	\$51,556,000	\$48,310,000	\$47,199,000
Common stock and mutual funds	13,731,000	13,755,000	15,505,000	14,516,000
Money market funds	7,396,000	7,396,000	10,281,000	10,281,000
Bond backed mutual funds	<u>3,351,000</u>	<u>3,251,000</u>	<u>3,539,000</u>	<u>3,435,000</u>
	<u>\$ 75,283,000</u>	<u>75,958,000</u>	<u>77,635,000</u>	<u>75,431,000</u>

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - INVESTMENTS - Continued

Investments were measured at fair value as of December 31 based on the following levels of hierarchy:

	<u>Amount</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
2016:				
Common stock and mutual funds	\$ 13,755,000	\$ 13,755,000	\$ —	\$ —
Money market funds	7,396,000	7,396,000	—	—
Bonds backed mutual funds	<u>3,251,000</u>	<u>3,251,000</u>	<u>—</u>	<u>—</u>
	24,402,000	24,402,000	—	—
Investments measured at NAV ^(a)	<u>51,556,000</u>	—	—	—
	<u>\$ 75,958,000</u>	<u>\$ 24,402,000</u>	<u>\$ —</u>	<u>\$ —</u>
2015:				
Common stock and mutual funds	\$ 14,516,000	\$ 14,516,000	\$ —	\$ —
Money market funds	10,281,000	10,281,000	—	—
Bonds backed mutual funds	<u>3,435,000</u>	<u>3,435,000</u>	<u>—</u>	<u>—</u>
	28,232,000	28,232,000	—	—
Investments measured at NAV ^(a)	<u>47,199,000</u>	—	—	—
	<u>\$ 75,431,000</u>	<u>\$ 28,232,000</u>	<u>\$ —</u>	<u>\$ —</u>

^(a) In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

- *Money market funds, bond backed mutual funds, common stocks, and mutual funds:* Valued at the closing price reported on the active market on which the individual (or similar) securities are traded.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - INVESTMENTS - Continued

- *Alternative investments:* This category includes investments in commingled, hedge funds, or private equity funds, which are valued by applying the Association's ownership percentage in the partnership to the total value of the underlying investments of the fund.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to the Association's consolidated financial statements.

The table below presents additional information for the Association's investments, as of December 31, 2016, whose fair value is estimated using the practical expedient of reported net asset value (NAV). These disclosures are required for all investments that are eligible to be valued using the practical expedient as defined in ASU 2009-12, regardless of whether the practical expedient has been applied:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Expected Liquidation Term</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>	<u>Redemption Restrictions at 12/31/2016</u>
Commingled	\$ 3,832,000	\$ —	Daily	Daily	Yes	Yes
Commingled	22,305,000	\$ —	Monthly	Monthly	Yes	Yes
Commingled	<u>2,736,000</u>	\$ —	Quarterly	Quarterly	Yes	Yes
	<u>\$28,873,000</u>					
Hedge funds (a)	\$ 2,854,000	\$ —	Monthly	Monthly	Yes	Yes
Hedge funds (a)	13,853,000	\$ —	Quarterly	Quarterly	Yes	Yes
Hedge funds (a)	<u>2,772,000</u>	\$ —	Annual	Annual	Yes	Yes
	<u>\$19,479,000</u>					
Private equity (a)	<u>\$ 3,204,000</u>	\$ 896,000	N/A	N/A	N/A	N/A

(a) This class includes several commingled, hedge funds, or private equity funds that invest primarily in international and domestic equity securities to achieve capital appreciation. The fair values of the investments have been estimated by using the NAV per share of the funds.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - INVESTMENTS - Continued

Return on investments consisted of the following at December 31:

	2016	2015
Unrealized gains (losses)	\$2,843,000	\$(2,388,000)
Reinvested dividends	403,000	527,000
Reinvested interest	12,000	3,000
Investment expenses relating to deferred compensation and retention arrangements	(119,000)	7,000
Investment fees	(354,000)	(310,000)
Realized (losses) gains	(555,000)	1,325,000
	\$2,230,000	\$ (836,000)

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and are depreciated using the straight-line method over estimated useful lives as follows:

Building and improvements	5-35 years
Aircraft	5-30 years
Equipment, vehicles and other	3-10 years

Property and equipment consisted of the following at December 31:

	2016	2015
Equipment, vehicles, and other	\$ 15,975,000	\$ 14,301,000
Building and improvements - headquarters building	7,603,000	7,116,000
Aircraft	5,098,000	5,021,000
Investment property	4,574,000	4,574,000
Land and improvements	638,000	638,000
Assets in progress	221,000	582,000
	34,109,000	32,232,000
Less accumulated depreciation	(20,527,000)	(18,020,000)
	\$ 13,582,000	\$ 14,212,000

The Association purchased investment real estate property at 411 Aviation Way, Frederick, Maryland in 2004 which is being depreciated over a 35-year period. The initial capitalized cost consisted of \$641,000 of land and \$3,933,000 of building assets. The revenue and expenses associated with rental activity are reflected as non-operating activities on the consolidated statements of activities and changes in net assets.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE C - PROPERTY AND EQUIPMENT - Continued

Aircraft with an original cost of \$315,000 and accumulated depreciation of \$44,000 were disposed of in 2016. There were no disposals in 2015.

Depreciation expense, excluding the investment real estate property, was \$2,432,000 and \$2,325,000 for 2016 and 2015, respectively.

NOTE D - OTHER ASSETS

Other assets consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Long-term advance	\$ —	\$ 260,000
Lease accounting income accrual	<u>—</u>	<u>(7,000)</u>
	<u>\$ —</u>	<u>\$ 253,000</u>

NOTE E - ACQUISITIONS

Intangible Assets Other Than Goodwill

Intangible assets other than goodwill include copyrights and costs of completing the acquisition of Flight Training magazine and purchased aviation insurance policies. Pursuant to ASC 350, *Intangibles - Goodwill and Other*, these intangible assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying value may not be fully recoverable. If an impairment indicator exists, recoverability is assessed by comparing the carrying value to undiscounted cash flows expected to be generated by the assets. If impaired, the impairment recognized is the amount by which the carrying value exceeds its fair value, which is then charged as a non-operating charge to the consolidated statement of activities. No impairment indicators existed for these intangible assets in 2016 and 2015; hence, no recoverability testing was warranted.

The intangible associated with the purchase of aviation insurance policies has been determined to have a finite useful life of four years based on the average active policy term. Amortization expense was \$25,000 and \$74,000 for the years ended December 31, 2016 and 2015, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - ACQUISITIONS – Continued

Goodwill

Goodwill represents the excess of the purchase price over the net amount assigned to identifiable assets acquired and liabilities assumed in the purchase of the minority interest in AOPA Insurance Agency, Inc. (AOPAIA), under a purchase agreement with AON Risk Services, Inc. (ARS). Prior to January 1, 2016, the Association annually tested for impairment. No impairment was identified as of December 31, 2015. As of January 1, 2016, AOPA sold its ownership of AOPAIA to its subsidiary, AOPA Holdings, Inc. and elected to implement the provisions of Accounting Standards Update (ASU) 2014-2, *Intangibles-Goodwill and Other*. As such, beginning January 1, 2016, goodwill is amortized on a straight-line basis over 10 years and will be tested for impairment at the reporting unit level as needed upon the occurrence of triggering events. The Association has not identified any triggering events as of December 31, 2016. Goodwill amortization expense was \$444,000 and \$0 for the years ended December 31, 2016 and 2015, respectively.

NOTE F - INCOME TAXES

The income tax provision consisted of the following for the years ended December 31:

	2016	2015
Current	\$ 168,000	\$ 327,000
Deferred	667,000	203,000
	\$ 835,000	\$ 530,000

Deferred tax assets consisted of the following for the years ended December 31:

	2016	2015
Net operating loss	\$1,346,000	\$1,209,000
Deferred compensation	801,000	971,000
Accrued legal service plan	171,000	337,000
Accrued paid time off	55,000	43,000
Bad debt reserves	17,000	119,000
Depreciation & amortization	(2,000)	372,000
Prepaid	(35,000)	(36,000)
Unrealized gain	(36,000)	(31,000)
	\$2,317,000	\$2,984,000

Income taxes paid totaled \$237,000 and \$438,000 for the years ended December 31, 2016 and 2015, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE F - INCOME TAXES - Continued

As of December 31, 2016, the Association has federal and state income tax net operating loss carryforwards of \$3,704,000, which will expire at various dates from 2032 through 2036. We believe that it is more likely than not that the benefit from both federal and state NOL carryforwards will be utilized. Such carryforwards expire as follows:

2032	\$ 22,000
2033	2,331,000
2034	711,000
2035	56,000
2036	<u>584,000</u>
 Total	 <u>\$3,704,000</u>

NOTE G - OTHER OBLIGATIONS

Short-term obligations consist of the following at December 31:

	2016	2015
Financing lease payable	\$ 415,000	\$ 1,225,000
Financing loan payable	209,000	201,000
Legal service plan reserves	<u>194,000</u>	<u>335,000</u>
	<u>\$ 818,000</u>	<u>\$ 1,761,000</u>

Long-term obligations consist of the following at December 31:

	2016	2015
Financing loan payable	\$3,419,000	\$3,592,000
AOPA lifetime memberships	2,100,000	2,051,000
Deferred compensation and retirement plan accruals	2,079,000	2,511,000
Financing lease payable	180,000	595,000
Other long-term accrued liabilities	178,000	190,000
Legal service plan reserves	239,000	519,000
Aircraft reserves	<u>47,000</u>	<u>44,000</u>
	<u>\$8,242,000</u>	<u>\$9,502,000</u>

The Association amortizes the lifetime membership liability based on remaining life expectancy of the participant base, which is evaluated on an annual basis.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE G - OTHER OBLIGATIONS - Continued

In February 2012, the Association entered into a lease agreement with Banc of America Leasing & Capital. The total amount financed was \$4,201,000 to be repaid over three to five years. In September 2013, the Association entered into another financing lease agreement with Banc of America Leasing & Capital for \$2,393,000 to be repaid over three to five years. In February 2015, the Association entered into a financing agreement with First Source Bank for \$3,938,000 to be repaid over seven years. Aggregated principal of \$1,426,000 and \$1,588,000 was repaid in 2016 and 2015, respectively.

The Association entered into an interest rate swap agreement as follows:

Effective Date	Notational Amount	Rate	Termination Date	Fair Value at December 31, 2016
March 16, 2015	\$3,938,490	4.02%	March 1, 2022	\$(36,251)

The Association entered into the interest rate swap agreement to manage interest cost and cash flows associated with variable interest rates, primarily short-term changes in LIBOR; changes in cash flows of the interest rate swap to offset changes in the interest payments on the covered portion of the Association's debt. The fair value of the interest rate swap agreement was recorded on the Statements of Financial Position for 2016 in long-term obligations and the change in fair value is recorded in the Statements of Activities as unrealized investment gains or losses.

Future lease payments are as follows:

2017	\$ 777,000
2018	534,000
2019	352,000
2020	352,000
2021	351,000
Thereafter	<u>2,481,000</u>
Total	\$4,847,000
Less interest	<u>(660,000)</u>
	\$4,187,000
Less current portion	<u>(624,000)</u>
Total long-term lease obligations	<u>\$3,563,000</u>

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE H - COMMITMENTS

The Association is committed under various long-term, non-cancelable leases and contracts for office space, hangar rental and equipment expiring at various times through December 2021. The Association records rent expense on a straight-line basis over the term of each lease. The following is a schedule of future minimum lease and contract payment commitments for operating leases at December 31, 2016:

<u>Minimum Lease Contract Payments</u>	
2017	\$ 581,000
2018	542,000
2019	454,000
2020	413,000
2021	386,000
Thereafter	<u>182,000</u>
Total minimum lease payments	<u>\$2,558,000</u>

Rental expense, net of sublease income, was \$1,071,000 and \$962,000 for 2016 and 2015, respectively.

The Association entered into non-cancelable lease agreements, as landlord, relating to the investment real estate property purchased during 2004. The future rental receipts expected under the non-cancelable operating leases are as follows at December 31, 2016:

2017	\$ 135,000
2018	75,000
2019	32,000
2020	30,000
2021	<u>—</u>
Total minimum lease receipts	<u>\$ 272,000</u>

NOTE I - EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Association provides its employees with an AOPA Employee's 401(k) Retirement Plan (the DC Plan). The supplemental contribution portion of the DC Plan can range from 2.5 percent to 10 percent of aggregated participants' eligible compensation at the discretion of the Board of Trustees. Contribution expense under the DC Plan was \$500,000 in 2016 and \$389,000 in 2015.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the years ended December 31, 2016 and 2015, matching contributions were \$682,000 and \$613,000, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE I - EMPLOYEE BENEFIT PLANS - Continued

Other Deferred Compensation Plan

The Association entered into various deferred compensation/retirement agreements with certain executives. Amounts due and funded under these arrangements totaled \$2,079,000 as of December 31, 2016.

NOTE J - RELATED PARTY TRANSACTIONS

Certain officers and trustees of AOPA Foundation, Inc. are also officers and trustees of the Association. The Association provides various administrative support and other services to AOPA Foundation, Inc. Charges for these services were \$1,507,000 and \$1,594,000 in 2016 and 2015, respectively. The Association received grants from the AOPA Foundation, Inc. in the amount of \$2,604,000, which is included in the Contributions, contracts, and grants line item on the consolidated statements of activities and changes in net assets. The amount due from the AOPA Foundation, Inc. at December 31, 2016 and 2015 was \$93,000 and \$213,000, respectively, and is included in other receivables in the consolidated statements of financial position. AOPAIA made a contribution of \$380,000 to the AOPA Foundation, Inc. for the year ended December 31, 2015. There was no contribution made in 2016.

NOTE K - SUBSEQUENT EVENTS

The Association evaluated its December 31, 2016 consolidated financial statements for subsequent events through April 3, 2017, the date the consolidated financial statements were available to be issued and concluded that no additional disclosures are required. Effective January 1, 2017, the AOPA Foundation, Inc. transferred the operations of its safety-related functions and programs to the Association. The Association purchased safety-related program assets and assumed safety-related liabilities and deferred revenue at the carrying value as of December 31, 2016.

SUPPLEMENTARY INFORMATION

AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

<i>Year ended December 31, 2016</i>	AOPA	Consolidated Subsidiary and Affiliate, net of Eliminating Entries	AOPA Consolidated
Total revenue	\$ 32,925,000	\$ 15,478,000	\$ 48,403,000
Total expenses	43,722,000	7,372,000	51,094,000
Change in net assets from operations before income taxes	(10,797,000)	8,106,000	(2,691,000)
Income tax provision	-	835,000	835,000
Change in net assets from operations	(10,797,000)	7,271,000	(3,526,000)
Non-operating activity:			
Real estate investment revenue	277,000	(70,000)	207,000
Real estate investment expense	(416,000)	-	(416,000)
Real estate investment, net	(139,000)	(70,000)	(209,000)
Return on investments, net	2,230,000	-	2,230,000
Total non-operating activity	2,091,000	(70,000)	2,021,000
Change in net assets	(8,706,000)	7,201,000	(1,505,000)
Net assets, beginning of year	76,937,000	404,000	77,341,000
Dividends	4,000,000	(4,000,000)	-
Net assets, end of year	\$ 72,231,000	\$ 3,605,000	\$ 75,836,000

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.

**AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES'
CONSOLIDATING SCHEDULE OF REVENUE AND
OPERATING EXPENSES BY NATURAL ACCOUNT**

<i>Year ended December 31, 2016</i>	AOPA Consolidated
Total revenue	\$ 48,403,000
Salaries and benefits	25,720,000
Professional fees	4,823,000
Production costs	3,480,000
Travel and meetings	3,210,000
Depreciation and amortization	2,901,000
Distribution costs	2,517,000
Rent & maintenance	2,412,000
Communications & technology	2,188,000
Credit card, bank charges and interest	1,071,000
Contributions	993,000
Dues, license & subscriptions	696,000
Taxes and insurance	614,000
Supplies	353,000
Other	116,000
	51,094,000
Total expenses	51,094,000
Change in net assets from operations before income taxes	\$ (2,691,000)

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.



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