

Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

**Aircraft Owners and Pilots Association  
and Affiliates**

December 31, 2017

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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 statement of financial position as of December 31, 2017, and the related consolidated statement of activities and changes in net assets, and cash flows for the year 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 audit. We conducted our audit 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, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters

##### *Supplementary Information*

Our audit was 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, 2017 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 13, 2018

## **CONSOLIDATED FINANCIAL STATEMENTS**

**AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

December 31,

2017

**Assets**

**Current Assets**

Cash and cash equivalents	\$	3,738,000
Restricted cash		4,029,000
Insurance premiums receivable, net		2,036,000
Advertising, services and other receivables, net		364,000
Contract fees and other receivables		532,000
Advances and prepaid expenses		1,884,000

12,583,000

**Investments, at Fair Value**

84,082,000

**Deferred Income Taxes**

1,144,000

**Property and Equipment, net**

14,988,000

**Intangibles, net**

836,000

**Goodwill**

3,556,000

**Other Assets**

7,000

**Total Assets**

\$ 117,196,000

**Liabilities and Net Assets**

**Current Liabilities**

Accounts payable	\$	4,724,000
Accrued expenses		5,172,000
Deferred revenue:		
Membership dues and subscriptions		11,099,000
Other deferred revenue		3,603,000
Financing loan payable		2,857,000
Other obligations		378,000

27,833,000

**Long-term Obligations**

Other obligations		4,326,000
Financing loan payable		3,165,000

7,491,000

**Total Liabilities**

35,324,000

**Net Assets, unrestricted**

81,872,000

**Total Liabilities and Net Assets**

\$ 117,196,000

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

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

<i>Year ended December 31,</i>	<b>2017</b>
<b>Revenue</b>	
<i>Program Services:</i>	
Membership dues and subscriptions	\$ 18,378,000
Commissions and royalties	14,560,000
Advertising fees	7,604,000
Product sales and services	<u>5,085,000</u>
	45,627,000
Contributions, contracts, course income and grants	7,713,000
Other income	<u>785,000</u>
	54,125,000
<b>Expense</b>	
<i>Program Services:</i>	
Advocacy and representation	12,847,000
Products and services	12,161,000
Publications	10,832,000
Member engagement	9,117,000
Membership development	<u>7,182,000</u>
	52,139,000
<i>Support Services:</i>	
Management and general	5,346,000
Fundraising	<u>540,000</u>
	5,886,000
	<u>58,025,000</u>
<b>Change in net assets from operations before income taxes</b>	(3,900,000)
Income tax provision	<u>1,263,000</u>
<b>Change in net assets from operations</b>	(5,163,000)
Return on investments, net	<u>11,199,000</u>
<b>Change in net assets from non-operating activity</b>	11,199,000
<b>Change in net assets</b>	6,036,000
<b>Net assets, beginning of year</b>	<u>75,836,000</u>
<b>Net assets, end of year</b>	<u>\$ 81,872,000</u>

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

**AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>December 31,</i>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>	
Change in net assets	\$ 6,036,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized gains	(8,324,000)
Realized gains	(3,038,000)
Reinvested dividends and interest, net	(97,000)
Investment expenses related to deferred compensation and retention arrangements	260,000
Depreciation	2,721,000
Amortization	466,000
Deferred income taxes	1,173,000
Changes in operating assets and liabilities:	
Receivables	44,000
Advances and prepaid expenses	(266,000)
Restricted cash	(566,000)
Other assets	(7,000)
Accounts payable	922,000
Accrued expenses	607,000
Deferred revenue	461,000
Long-term obligations	(353,000)
<b>Net cash provided by operating activities</b>	<b>39,000</b>
<b>Cash Flows from Investing Activities</b>	
Proceeds from sales of investments	25,478,000
Purchases of investments	(22,403,000)
Purchases of property and equipment	(4,127,000)
<b>Net cash used in investing activities</b>	<b>(1,052,000)</b>
<b>Cash Flows from Financing Activities</b>	
Loan proceeds	2,648,000
Repayments on loans and leases	(629,000)
<b>Net cash provided by financing activities</b>	<b>2,019,000</b>
<b>Net change in cash and cash equivalents</b>	<b>1,006,000</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,732,000</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,738,000</b>

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

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

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### 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. 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 \$4,029,000 at December 31, 2017. 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, common stock and 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 statement 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, 2017

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### 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, 2017, \$405,000 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 statement 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, 2017 total approximately \$6,949,000. These funds are maintained for traditionally high first quarter funding requirements.

#### 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. 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.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

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

#### **Revenue Recognition - continued**

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.

Educational revenue is recognized as training and educational courses are completed or after two years of enrollment, whichever is sooner.

#### **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, 2017, 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, 2017

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### 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, 2017, 2016, 2015, and 2014 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, 2017

### 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 statement 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.

### NOTE B - INVESTMENTS

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

	2017	
	<u>Cost</u>	<u>Market Value</u>
Alternative investments	\$45,363,000	\$ 52,840,000
Common stock and mutual funds	19,299,000	20,756,000
Bond backed mutual funds	4,079,000	4,096,000
Money market funds	4,071,000	4,071,000
Cash and cash equivalents	<u>2,319,000</u>	<u>2,319,000</u>
	<u>\$75,131,000</u>	<u>\$84,082,000</u>

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

### 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>
<b>2017:</b>				
Common stock and mutual funds	\$ 20,756,000	\$ 20,756,000	\$ —	\$ —
Bonds backed mutual funds	4,096,000	4,096,000	—	—
Money market funds	<u>4,071,000</u>	<u>4,071,000</u>	<u>—</u>	<u>—</u>
	28,923,000	28,923,000	—	—
Investments measured at NAV <sup>(a)</sup>	52,840,000	—	—	—
Cash and cash equivalents	<u>2,319,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 84,082,000</u>	<u>\$ 28,923,000</u>	<u>\$ —</u>	<u>\$ —</u>

<sup>(a)</sup> 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, 2017.

- *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.
- *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.
- *Cash and cash equivalents.* This category includes holdbacks on sales of alternative investments at December 31, 2017 that were reinvested in alternative investments in January 2018.

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.

## Aircraft Owners and Pilots Association and Affiliates

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

#### NOTE B - INVESTMENTS - Continued

The table below presents additional information for the Association's investments, as of December 31, 2017, 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 12/31/2017</u>
Commingled	\$ 2,297,000	\$ —	Daily	Daily	Yes	Yes
Commingled	24,572,000	\$ —	Monthly	Monthly	Yes	Yes
Commingled	<u>5,276,000</u>	\$ —	Quarterly	Quarterly	Yes	Yes
	<u>\$32,145,000</u>					
Hedge funds (a)	\$ 1,861,000	\$ —	Daily	Daily	Yes	Yes
Hedge funds (a)	2,556,000	\$ —	Monthly	Monthly	Yes	Yes
Hedge funds (a)	12,396,000	\$ —	Quarterly	Quarterly	Yes	Yes
Hedge funds (a)	<u>9,000</u>	\$ —	Annually	Annually	Yes	Yes
	<u>\$16,822,000</u>					
Private equity (a)	<u>\$ 3,873,000</u>	\$ 410,000	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.

Return on investments consisted of the following at December 31:

	<u>2017</u>
Unrealized gains	\$ 8,324,000
Realized gains	3,038,000
Reinvested dividends	405,000
Reinvested interest	64,000
Investment expenses relating to deferred compensation and retention arrangements	(260,000)
Investment fees	<u>(372,000)</u>
	<u>\$11,199,000</u>

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

### 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:

	<u>2017</u>
Equipment, vehicles, and other	\$ 18,965,000
Buildings and improvements	11,977,000
Aircraft	5,454,000
Land and improvements	638,000
Assets in progress	234,000
	<u>37,268,000</u>
Less accumulated depreciation	<u>(22,280,000)</u>
	<u>\$ 14,988,000</u>

Fixed assets with an original cost of \$972,000 and accumulated depreciation of \$972,000 were disposed of in 2017.

Depreciation expense was \$2,721,000 for 2017.

### NOTE D - 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 2017; hence, no recoverability testing was warranted.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

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### NOTE D - ACQUISITIONS - Continued

#### Intangible Assets Other Than Goodwill - continued

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 \$21,000 for the year ended December 31, 2017.

Leased costs associated with office space in the amount of \$7,000 was amortized for the year ended December 31, 2017. Leased costs are amortized over the life of the lease.

#### 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). As of January 1, 2016, AOPA sold its ownership of AOPAIA to its subsidiary, AOPA Holdings Corporation 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, 2017. Goodwill amortization expense was \$444,000 for the year ended December 31, 2017.

### NOTE E - INCOME TAXES

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

	<u>2017</u>
Current	\$ 90,000
Deferred	<u>1,173,000</u>
	<u>\$1,263,000</u>

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

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### NOTE E - INCOME TAXES - Continued

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

	<u>2017</u>
Net operating loss & other	\$ 556,000
Deferred compensation	487,000
Accrued legal service plan	111,000
Accrued paid time off	43,000
Depreciation & amortization	35,000
Bad debt reserves	14,000
Prepaid	(28,000)
Unrealized gain	<u>(74,000)</u>
	<u>\$1,144,000</u>

Income taxes paid totaled \$88,000 for the year ended December 31, 2017.

As of December 31, 2017, the Association has federal income tax net operating loss carryforwards of \$926,000, which will expire at various dates from 2032 through 2034. Management believes that it is more likely than not that the benefit from federal NOL carryforwards will be utilized. Such carryforwards expire as follows:

2032	\$ 17,000
2033	198,000
2034	<u>711,000</u>
Total	<u>\$ 926,000</u>

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Job Act (the "Act"), resulting in significant modifications to existing law. Accounting for the income tax effect of the Act which impact the Association's tax provision has been completed as of the current year and included in the Association's financial statements as of December 31, 2017. As a result of the Act, the Association has recorded a onetime discrete deferred tax charge of \$475,000 which consisted primarily of the re-measurement of deferred tax assets and liabilities from a federal rate of 34% to 21%.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

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### NOTE F - OTHER OBLIGATIONS

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

	<u>2017</u>
Legal service plan reserves	\$ 198,000
Financing lease payable	<u>180,000</u>
	<u>\$ 378,000</u>

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

	<u>2017</u>
AOPA lifetime memberships	\$ 2,088,000
Deferred compensation and retirement plan accruals	1,817,000
Legal service plan reserves	207,000
Other long-term accrued liabilities	145,000
Aircraft reserves	<u>68,000</u>
	<u>\$ 4,326,000</u>

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

### NOTE G - FINANCING

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 \$209,000 was repaid in 2017. In April 2017, the Association entered into a revolving Line of Credit (LOC) agreement with Bank of America, N.A. The total amount of the LOC is \$3,000,000 and is available through June 30, 2018. There was an outstanding balance of \$2,639,000 as of December 31, 2017.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

### NOTE G - FINANCING - Continued

At December 31, 2017 future minimum principal payments are as follows:

2018		\$ 2,992,000
2019		352,000
2020		352,000
2021		351,000
2022		<u>2,481,000</u>
Total		\$ 6,528,000
Less interest		<u>(506,000)</u>
		 \$ 6,202,000
Less current portion		<u>(2,857,000)</u>
		 \$ 3,165,000

The Association entered into an interest rate swap agreement, with an effective date of March 16, 2015, 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 Association agreed to swap its variable interest rate of 1 month of London Interbank Offered Rate ("LIBOR") plus 2.05% for a fixed rate equal to 4.02%. The variable rate of interest at December 31, 2017 was 2.25%. The fair value of the interest rate swap agreement was recorded on the statement of financial position for 2017 in long-term obligations and the change in fair value is recorded in the statement of activities as unrealized investment gains or losses.

As of and for the year ended December 31, 2017, amounts included within the financial statements relating to the interest rate swap agreement are as follows.

Effective Date	Notational Amount	Rate	Termination Date	Fair Value at December 31, 2017
March 16, 2015	\$3,938,000	4.02%	March 1, 2022	\$11,000

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

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### 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 2022. 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, 2017:

2018	\$ 724,000
2019	632,000
2020	642,000
2021	627,000
2022	295,000
Thereafter	<u>133,000</u>
Total minimum lease payments	<u>\$3,053,000</u>

Rental expense, net of sublease income, was \$1,195,000 for 2017.

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, 2017:

2018	\$ 236,000
2019	167,000
2020	166,000
2021	110,000
2022	<u>47,000</u>
Total minimum lease receipts	<u>\$ 726,000</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 \$997,000 in 2017.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the year ended December 31, 2017, matching contributions were \$791,000.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

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### 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 \$1,817,000 as of December 31, 2017.

### 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 \$865,000 in 2017. The Association received grants from the AOPA Foundation, Inc. in the amount of \$4,800,000, which is included in the Contributions, contracts, and grants line item on the consolidated statement of activities and changes in net assets. The amount due to the AOPA Foundation, Inc. at December 31, 2017 was \$104,000, and is included in accounts payable in the consolidated statement of financial position.

### NOTE K - SUBSEQUENT EVENTS

The Association evaluated its December 31, 2017 consolidated financial statements for subsequent events through April 13, 2018, the date the consolidated financial statements were available to be issued and concluded that no additional disclosures are required.

## **SUPPLEMENTARY INFORMATION**

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

<i>Year ended December 31, 2017</i>	<b>AOPA</b>	<b>Subsidiary and Affiliate, net of Eliminating Entries</b>	<b>AOPA Consolidated</b>
<b>Total revenue</b>	\$ 44,540,000	\$ 9,585,000	\$ 54,125,000
<b>Total expenses</b>	49,851,000	8,174,000	58,025,000
<b>Change in net assets from operations before income taxes</b>	(5,311,000)	1,411,000	(3,900,000)
Income tax provision	2,000	1,261,000	1,263,000
<b>Change in net assets from operations</b>	(5,313,000)	150,000	(5,163,000)
Return on investments, net	11,199,000	—	11,199,000
<b>Total non-operating activity</b>	11,199,000	—	11,199,000
<b>Change in net assets</b>	5,886,000	150,000	6,036,000
<b>Net assets</b> , beginning of year	72,231,000	3,605,000	75,836,000
Dividends	2,500,000	(2,500,000)	—
<b>Net assets</b> , end of year	\$ 80,617,000	\$ 1,255,000	\$ 81,872,000

*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, 2017</i>	<b>AOPA Consolidated</b>
<b>Total revenue</b>	\$ 54,125,000
Salaries and benefits	29,088,000
Professional fees	5,966,000
Production costs	3,796,000
Travel and meetings	3,300,000
Depreciation and amortization	3,193,000
Distribution costs	2,697,000
Rent & maintenance	2,642,000
Communications & technology	2,318,000
Credit card, bank charges and interest	1,191,000
Contributions	890,000
Member insurance & premiums	689,000
Taxes and insurance	680,000
Dues, license & subscriptions	644,000
Course	478,000
Supplies	402,000
Other	51,000
	58,025,000
<b>Total expenses</b>	<b>58,025,000</b>
<b>Change in net assets from operations before income taxes</b>	<b>\$ ( 3,900,000 )</b>

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