

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

**Aircraft Owners and Pilots Association and
Affiliates**

December 31, 2018 and 2017

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GRANT THORNTON LLP

1000 Wilson Boulevard
Suite 1400
Arlington, VA 22209

D +1 703 847 7500

F +1 703 848 9580

S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)
twitter.com/grantthorntonus

Report of Independent Certified Public Accountants

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, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, 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.

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 for the year ended December 31, 2018 on page 26 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.

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, 2018 and 2017, 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.



Arlington, Virginia
May 6, 2019

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,821,000	\$ 3,738,000
Restricted cash	1,935,000	1,835,000
Advertising and services receivables, net	350,000	364,000
Contract fees and other receivables, net	1,572,000	532,000
Advances and prepaid expenses	2,444,000	1,816,000
Current assets - discounted operations	-	4,298,000
Total current assets	8,122,000	12,583,000
INVESTMENTS, AT FAIR VALUE	99,926,000	84,082,000
DEFERRED INCOME TAXES	437,000	1,144,000
PROPERTY AND EQUIPMENT, NET	10,059,000	14,722,000
INTANGIBLES, NET	-	836,000
GOODWILL	-	3,556,000
NON-CURRENT ASSETS - DISCONTINUED OPERATIONS	-	266,000
OTHER ASSETS	1,000	7,000
	110,423,000	104,613,000
Total assets	\$ 118,545,000	\$ 117,196,000

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 410,000	\$ 806,000
Accrued expenses	11,884,000	5,149,000
Deferred revenue:		
Membership dues and subscriptions	11,709,000	11,099,000
Other deferred revenue	2,414,000	3,286,000
Financing loan payable	527,000	2,857,000
Other obligations	235,000	378,000
Current liabilities - discontinued operations	-	4,258,000
	27,179,000	27,833,000
LONG-TERM OBLIGATIONS		
Other obligations	3,812,000	4,326,000
Financing loan payable	2,027,000	3,165,000
	5,839,000	7,491,000
Total liabilities	33,018,000	35,324,000
NET ASSETS WITHOUT DONOR RESTRICTIONS	85,527,000	81,872,000
Total liabilities and net assets	\$ 118,545,000	\$ 117,196,000

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

Year ended December 31,

	2018	2017
Revenue		
Program services		
Membership dues and subscriptions	\$ 19,720,000	\$ 18,378,000
Commissions and royalties	12,192,000	14,560,000
Advertising fees	6,682,000	7,604,000
Products and services	5,291,000	6,390,000
	43,885,000	46,932,000
Contributions, contracts, and grants	8,300,000	6,408,000
Other income	728,000	785,000
	52,913,000	54,125,000
Expense		
Program services		
Mission (See note A)	40,497,000	39,978,000
Products and services	12,970,000	12,161,000
	53,467,000	52,139,000
Support services		
General and administrative	6,080,000	5,346,000
Fundraising	578,000	540,000
	6,658,000	5,886,000
	60,125,000	58,025,000
Change in net assets from operating activities	(7,212,000)	(3,900,000)
Non-operating activities		
Impairment	(836,000)	-
Return on investments, net	(5,474,000)	11,199,000
Total non-operating activities	(6,310,000)	11,199,000
Change in net assets from operating and nonoperating activities, before income taxes and discontinued operations	(13,522,000)	7,299,000
Income tax provision	294,000	1,263,000
Change in net assets before discontinued operations	(13,816,000)	6,036,000
Discontinued operations (See note A)		
Discontinued operations activities	24,060,000	-
Income tax provision - discontinued operations	6,589,000	-
Gain from discontinued operations	17,471,000	-
Change in net assets	3,655,000	6,036,000
Net assets, beginning of year	81,872,000	75,836,000
Net assets, end of year	\$ 85,527,000	\$ 81,872,000

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

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018

	Program Services			Supporting Services			Total
	Mission	Products and Services	Total	General and Administrative	Fundraising	Total	
Compensation and benefits	\$ 21,241,000	\$ 7,440,000	\$ 28,681,000	\$ 2,520,000	\$ 34,000	\$ 2,554,000	\$ 31,235,000
Professional and software fees	4,485,000	2,284,000	6,769,000	1,588,000	230,000	1,818,000	8,587,000
Production and distribution	5,632,000	863,000	6,495,000	279,000	294,000	573,000	7,068,000
Meetings, events, membership	3,760,000	594,000	4,354,000	45,000	1,000	46,000	4,400,000
Rentals and maintenance	1,938,000	377,000	2,315,000	782,000	-	782,000	3,097,000
Depreciation and amortization	1,799,000	653,000	2,452,000	629,000	-	629,000	3,081,000
Regulatory fees	1,048,000	752,000	1,800,000	237,000	19,000	256,000	2,056,000
Contributions	594,000	7,000	601,000	-	-	-	601,000
Total expenses reported by function	<u>\$ 40,497,000</u>	<u>\$ 12,970,000</u>	<u>\$ 53,467,000</u>	<u>\$ 6,080,000</u>	<u>\$ 578,000</u>	<u>\$ 6,658,000</u>	<u>\$ 60,125,000</u>

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

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017

	Program Services			Supporting Services			Total
	Mission	Products and Services	Total	General and Administrative	Fundraising	Total	
Compensation and benefits	\$ 20,359,000	\$ 6,702,000	\$ 27,061,000	\$ 2,170,000	\$ 31,000	\$ 2,201,000	\$ 29,262,000
Professional and software fees	5,099,000	2,257,000	7,356,000	1,244,000	223,000	1,467,000	8,823,000
Production and distribution	5,793,000	715,000	6,508,000	118,000	267,000	385,000	6,893,000
Meetings, events, membership	3,435,000	498,000	3,933,000	56,000	-	56,000	3,989,000
Rentals and maintenance	1,817,000	526,000	2,343,000	777,000	-	777,000	3,120,000
Depreciation and amortization	1,721,000	731,000	2,452,000	741,000	-	741,000	3,193,000
Regulatory fees	883,000	730,000	1,613,000	240,000	19,000	259,000	1,872,000
Contributions	871,000	2,000	873,000	-	-	-	873,000
Total expenses reported by function	<u>\$ 39,978,000</u>	<u>\$ 12,161,000</u>	<u>\$ 52,139,000</u>	<u>\$ 5,346,000</u>	<u>\$ 540,000</u>	<u>\$ 5,886,000</u>	<u>\$ 58,025,000</u>

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

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,655,000	\$ 6,036,000
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Loss on sale of fixed assets	62,000	-
Discontinued operations gain and goodwill impairment	(27,208,000)	-
Unrealized loss (gains)	8,272,000	(8,324,000)
Realized gains	(2,372,000)	(3,038,000)
Reinvested dividends and interest, net	(363,000)	(97,000)
Investment expenses related to deferred compensation	(62,000)	260,000
Depreciation	2,669,000	2,721,000
Amortization	407,000	466,000
Deferred income taxes	707,000	1,173,000
Changes in operating assets and liabilities:		
Receivables	1,010,000	44,000
Advances and prepaid expenses	(561,000)	(266,000)
Restricted cash	2,094,000	(566,000)
Intangibles and other assets	3,991,000	(7,000)
Accounts payable	(4,314,000)	922,000
Accrued expenses	6,752,000	607,000
Deferred revenue	(579,000)	461,000
Long-term obligations	<u>(514,000)</u>	<u>(353,000)</u>
Net cash (used in) provided by operating activities	<u>(6,354,000)</u>	<u>39,000</u>
Cash flows from investing activities:		
Proceeds from sale of investments	33,964,000	25,478,000
Purchases of investments	(55,284,000)	(22,403,000)
Proceeds from sale of fixed assets	3,666,000	-
Proceeds from discontinued operations	27,383,000	-
Purchases of property and equipment	<u>(1,644,000)</u>	<u>(4,127,000)</u>
Net cash provided by (used in) investing activities	<u>8,085,000</u>	<u>(1,052,000)</u>
Cash flows from financing activities:		
Loan proceeds	171,000	2,648,000
Repayment on loans and leases	<u>(3,819,000)</u>	<u>(629,000)</u>
Net cash (used in) provided by financing activities	<u>(3,648,000)</u>	<u>2,019,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,917,000)	1,006,000
Cash and cash equivalents, beginning of year	<u>3,738,000</u>	<u>2,732,000</u>
Cash and cash equivalents, end of year	<u>\$ 1,821,000</u>	<u>\$ 3,738,000</u>

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, 2018 and 2017

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. AOPA's program services includes two programs: mission and product and services. AOPA's mission activities include advocacy and representation, publications, member engagement and member development. 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 aviation insurance broker and provides marketing and program support for non-aviation insurance programs. AOPAIA's aviation insurance book of business was sold in December 2018, refer to the discontinued operations footnote below for additional information on the sale.

Discontinued Operations

Effective December 1, 2018, AOPAIA sold its aviation insurance book of business to Assured Partners Aerospace (APA). The sale included the associated asset and liability accounts including the fiduciary bank account, fixed assets, prepaids, insurance premiums receivable and payable, and deferred revenue.

Continuing operations:	
Net loss from continuing operations before income taxes	\$ (7,212,000)
Less: Income taxes from continuing operations	<u>294,000</u>
Net loss from continuing operations after income taxes	(6,918,000)
Discontinued operations:	
Gain from discontinued operations	24,060,000
Less: Income taxes from discontinued operations	<u>6,589,000</u>
Gain from discontinued operations after taxes	<u>\$ 17,471,000</u>

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.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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 PAC contributions of \$1,935,000 and \$1,835,000 at December 31, 2018 and 2017, respectively. The funds are restricted as to use by PAC federal campaign 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, 2018 total approximately \$8,118,000. These funds are maintained for traditionally high first quarter funding requirements.

Liquidity

The Association's financial assets available for one year for general expenditures at December 31, 2018 and 2017 totaled \$5,251,000 and \$8,705,000, respectively. The financial assets are not subject to contractual restrictions that make them unavailable for general expenditures within one year. The accounts receivable is subject to implied time restrictions but are expected to be collected within one year. In addition, the Association currently holds investments totaling approximately \$99,276,000 and \$84,082,000 as of December 31, 2018 and 2017, respectively. While there are no long term restrictions to sell, it is the intention of management to hold these investments in excess of one year, therefore investments are excluded from the liquidity table below.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,821,000	\$ 3,738,000
Cash and cash equivalents – investments	1,508,000	4,071,000
Contract fees and other receivables, net	1,572,000	532,000
Advertising and services receivables, net	<u>350,000</u>	<u>364,000</u>
Financial assets available within one year	<u>\$ 5,251,000</u>	<u>\$ 8,705,000</u>

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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.

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, 2018 and 2017, \$386,000 and \$405,000, respectively, was accrued for estimated claims and related costs under the plan.

Net Assets

Net assets without donor restrictions 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.

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.

Through November 30, 2018, AOPAIA aviation 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.

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

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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, 2018, 2017, 2016 and 2015 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.

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, 2018, 2017, 2016 and 2015 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

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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. The expenses are presented by natural classification and functional classification in the consolidated statement of functional expenses.

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.

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 mission and product and services functions of the Association. Amounts not included in the measure of operations consists of the net return on investments including realized and unrealized gains and losses, discontinued operations gain, and a loss on goodwill impairment.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

Reclassification

Certain 2017 amounts were reclassified to conform to December 31, 2018 presentation in accordance with ASU 2016-4. Such reclassifications did not change net assets in the 2017 financial statements. The following is a list of reclassifications:

<u>Description of reclassification</u>	<u>Revised</u>	<u>Original</u>
Revenue – products and services	\$ 6,390,000	\$ 5,085,000
Revenue – contributions, contracts and grants	\$ 6,408,000	\$ 7,713,000
Expense – Advocacy and representation	\$ -	\$ 12,847,000
Expense – Publications	\$ -	\$ 10,832,000
Expense – Member engagement	\$ -	\$ 9,117,000
Expense – Membership development	\$ -	\$ 7,182,000
Expense – Mission	\$ 39,978,000	\$ -
Note C – Building and improvements	\$ 11,336,000	\$ 11,977,000
Note C – Land and improvements	\$ 1,279,000	\$ 638,000

NOTE B - INVESTMENTS

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

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Alternative investments	\$ 47,261,000	\$ 50,329,000	\$ 45,363,000	\$ 52,840,000
Common stock and mutual funds	26,899,000	24,518,000	19,299,000	20,756,000
Cash and cash equivalents	16,835,000	16,835,000	2,319,000	2,319,000
Bond backed mutual funds	6,773,000	6,736,000	4,079,000	4,096,000
Money market funds	1,508,000	1,508,000	4,071,000	4,071,000
	<u>\$ 99,276,000</u>	<u>\$ 99,926,000</u>	<u>\$ 75,131,000</u>	<u>\$ 84,082,000</u>

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 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>
2018:				
Common stock and mutual funds	\$ 24,518,000	\$ 24,518,000	\$ -	\$ -
Bonds backed market funds	6,736,000	6,736,000	-	-
Money mutual funds	<u>1,508,000</u>	<u>1,508,000</u>	<u>-</u>	<u>-</u>
	32,762,000	32,762,000	-	-
Investments measured at NAV ^(a)	50,329,000	-	-	-
Cash and cash equivalents	<u>16,835,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 99,926,000</u>	<u>\$ 32,762,000</u>	<u>\$ -</u>	<u>\$ -</u>
2017:				
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 ^(a)	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>

^(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.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE B - INVESTMENTS - Continued

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, 2018 and 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, 2018 that will be reinvested in alternative investments in 2019.

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, 2018, 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 12/31/2018</u>
Commingled	\$ 3,369,000	\$ -	Daily	Daily	Yes	Yes
Commingled	25,260,000	\$ -	Monthly	Monthly	Yes	Yes
Commingled	<u>6,579,000</u>	\$ -	Quarterly	Quarterly	Yes	Yes
	<u>\$35,208,000</u>					
Hedge funds ^(a)	1,423,000	\$ -	Monthly	Monthly	Yes	Yes
Hedge funds ^(a)	9,299,000	-	Quarterly	Quarterly	Yes	Yes
Hedge funds ^(a)	792,000	\$ -	Annual	Annual	Yes	Yes
Hedge funds ^(a)	<u>189,000</u>	-	N/A	N/A	N/A	N/A
	<u>\$11,703,000</u>					
Private equity ^(a)	<u>\$ 3,418,000</u>	\$ 350,000	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
December 31, 2018 and 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>	-	Annual	Annual	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>2018</u>	<u>2017</u>
Realized gains	\$ 2,372,000	\$ 3,038,000
Reinvested dividends	414,000	405,000
Reinvested interest	263,000	64,000
Investment expenses relating to deferred and compensation and retention arrangements	62,000	(260,000)
Investment fees	(313,000)	(372,000)
Unrealized (losses) gains	<u>(8,272,000)</u>	<u>8,324,000</u>
	<u>\$ (5,474,000)</u>	<u>\$ 11,199,000</u>

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 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:

	2018	2017
Equipment, vehicles, and other	\$ 15,762,000	\$ 18,965,000
Building and improvements	11,691,000	11,336,000
Aircraft	1,483,000	5,454,000
Land and improvements	1,279,000	1,279,000
Assets in progress	247,000	234,000
	30,462,000	37,268,000
Accumulated depreciation	(20,403,000)	(22,280,000)
Discontinued operations, net	-	(266,000)
	\$ 10,059,000	\$ 14,722,000

Fixed assets with an original cost of \$8,461,000 and \$972,000 and accumulated depreciation of \$4,545,000 and \$972,000 were disposed of during 2018 and 2017, respectively.

Depreciation expense was \$2,669,000 and \$2,721,000 for 2018 and 2017, respectively.

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. As of December 31, 2018, it was determined the Flight Training magazine was impaired, and, as a result, the carrying value was reduced to \$0 resulting in a non-operating loss of \$836,000.

The intangible associated with the purchase of aviation insurance policies was determined to have a finite useful life of four years based on the average active policy term. Amortization expense was \$0 and \$21,000 for the years ended December 31, 2018 and 2017, respectively. As a result of the AOPAIA book of business sale effective December 1, 2018, these intangibles were written-off.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE D - ACQUISITIONS - Continued

Intangible Assets Other Than Goodwill - Continued

Leased costs associated with office space in the amount of \$5,000 and \$7,000, respectively, was amortized for the years ended December 31, 2018 and 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 through the sale of the aviation book of business effective December 1, 2018, goodwill was amortized on a straight-line basis over 10 years. Goodwill amortization expense was \$407,000 and \$444,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE E - INCOME TAXES

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

	2018	2017
Current	\$ 6,176,000	\$ 90,000
Deferred	707,000	1,173,000
	\$ 6,883,000	\$ 1,263,000

Income tax provision from continuing and discontinued operations for years ended December 31:

	2018	2017
Continuing operations	\$ 294,000	\$ 1,263,000
Discontinued operations	6,589,000	-
Total income tax provision	\$ 6,883,000	\$ 1,263,000

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE E - INCOME TAXES - Continued

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

	<u>2018</u>	<u>2017</u>
Deferred compensation	\$ 353,000	\$ 487,000
Net operating losses	370,000	556,000
Accrued paid time off & other payroll	143,000	43,000
Accrued legal service plan	106,000	111,000
Depreciation & amortization	201,000	35,000
Unrealized gains	(15,000)	(74,000)
Prepaid & bad debt reserves	(34,000)	(14,000)
Deferred revenue	(129,000)	-
Other	14,000	-
Valuation allowance	(572,000)	-
	<u>\$ 437,000</u>	<u>\$ 1,144,000</u>

Income taxes paid totaled \$148,000 and \$88,000 for the years ended December 31, 2018 and 2017, respectively.

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 in 2017, which consisted primarily of the re-measurement of deferred tax assets and liabilities from a federal rate of 34% to 21%.

NOTE F - OTHER OBLIGATIONS

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

	<u>2018</u>	<u>2017</u>
Legal service plan reserves	\$ 235,000	\$ 198,000
Financing lease payable	-	180,000
	<u>\$ 235,000</u>	<u>\$ 378,000</u>

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE F - OTHER OBLIGATIONS - Continued

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

	<u>2018</u>	<u>2017</u>
AOPA lifetime memberships	\$ 2,119,000	\$ 2,088,000
Deferred compensation and retirement plan accruals	1,332,000	1,817,000
Legal service plan reserves	151,000	207,000
Other long-term accrued liabilities	127,000	146,000
Aircraft reserves	<u>83,000</u>	<u>68,000</u>
	<u>\$ 3,812,000</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 December 2018, the Association repaid the outstanding balance of its financing agreement with 1st Source Bank of \$3,172,000. In July 2018, the Association converted its revolving Line of Credit (LOC) agreement with Bank of America, N.A. into a five-year term note. There was an outstanding balance of \$2,554,000 as of December 31, 2018.

At December 31, 2018, future minimum principal payments are as follows:

2019	\$ 624,000
2020	624,000
2021	624,000
2022	624,000
2023	<u>311,000</u>
Total	2,807,000
Less: interest	<u>(253,000)</u>
	2,554,000
Less: current portion	<u>(527,000)</u>
Total long-term financing loan payable	<u>\$ 2,027,000</u>

The Association entered into an interest rate swap agreement, with an effective date of March 16, 2015.

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 consolidated statements of financial position for 2017 in long-term obligations and the change in fair value is recorded in the consolidated statements of activities as unrealized investment gains or losses. The agreement was terminated in December 2018 resulting in a \$58,000 gain recorded in the consolidated statements of activities as realized investment gain.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE G - FINANCING - Continued

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.

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

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 2043. 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, 2018:

<u>Minimum Lease Contract Payments</u>	
2019	\$ 513,000
2020	542,000
2021	524,000
2022	256,000
2023	123,000
Thereafter	<u>856,000</u>
Total minimum lease payments	<u>\$ 2,814,000</u>

Rental expense, net of sublease income, was \$1,000,000 and \$1,195,000 for 2018 and 2017, respectively.

The Association entered into non-cancelable lease agreements, as landlord, relating to a commercial real estate property. The future rental receipts expected under the non-cancelable operating leases are as follows at December 31, 2018:

2019	\$ 94,000
2020	136,000
2021	110,000
2022	<u>46,000</u>
Total minimum lease receipts	<u>\$ 386,000</u>

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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. For the years ended December 31, 2018 and 2017, contribution expense under the DC Plan was \$641,000 and \$997,000, respectively.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the years ended December 31, 2018 and 2017, matching contributions were \$853,000 and \$791,000, respectively.

Other Deferred Compensation Plan

The Association entered into various deferred compensation/retirement agreements with certain executives. For years ended December 31, 2018 and 2017, amounts due and funded under these arrangements totaled \$1,332,000 and \$1,817,000, respectively.

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 \$663,000 and \$773,000 in 2018 and 2017, respectively. The Association received grants from the AOPA Foundation, Inc. in the amount of \$5,700,000 and \$4,800,000 in 2018 and 2017, respectively, which is included in the Contributions, contracts, and grants line item on the consolidated statements of activities and change in net assets. The amount due from (to) the AOPA Foundation, Inc. at December 31, 2018 and 2017 was \$127,000 and (\$104,000), respectively, and is included in accounts receivable (payable) in the consolidated statements of financial position.

NOTE K - SUBSEQUENT EVENTS

The Association evaluated its December 31, 2018 consolidated financial statements for subsequent events through May 6, 2019, 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

Year ended December 31, 2018

	<u>AOPA</u>	<u>Consolidated Affiliate, net of Eliminating Entries</u>	<u>AOPA Consolidated</u>
Total revenue	\$ 43,535,000	\$ 9,378,000	\$ 52,913,000
Total expenses	<u>51,192,000</u>	<u>8,933,000</u>	<u>60,125,000</u>
<i>Operating revenues in excess of operating expense before non-operating</i>	(7,657,000)	445,000	(7,212,000)
Non-operating activities			
Goodwill impairment	(836,000)	-	(836,000)
Return on investments, net	<u>(5,512,000)</u>	<u>38,000</u>	<u>(5,474,000)</u>
Total non-operating activities	(6,348,000)	38,000	(6,310,000)
Income tax provision	<u>5,000</u>	<u>289,000</u>	<u>294,000</u>
Change in net assets before discontinued operations	(14,010,000)	194,000	(13,816,000)
Discontinued operations			
Discontinued operations	-	24,060,000	24,060,000
Income tax provisions - discontinued operations	<u>-</u>	<u>6,589,000</u>	<u>6,589,000</u>
<i>Gain from discontinued operations</i>	-	17,471,000	17,471,000
Change in net assets	(14,010,000)	17,665,000	3,655,000
Net assets, beginning of year	80,617,000	1,255,000	81,872,000
Dividends	<u>20,750,000</u>	<u>(20,750,000)</u>	<u>-</u>
Net assets, end of year	<u>\$ 87,357,000</u>	<u>\$ (1,830,000)</u>	<u>\$ 85,527,000</u>