



Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

**Aircraft Owners and Pilots Association  
and Affiliates**

December 31, 2015 and 2014

# CONTENTS

---

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3-4
CONSOLIDATED FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	6
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-23
SUPPLEMENTARY INFORMATION	
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS	25
CONSOLIDATED SCHEDULE OF REVENUE AND OPERATING EXPENSES BY NATURAL ACCOUNT	26



## Report of Independent Certified Public Accountants

Board of Trustees  
Aircraft Owners and Pilots Association and Affiliates

Grant Thornton LLP  
1 South Street, Suite 2400  
Baltimore, MD 21202-7304  
T 410.685.4000  
F 410.837.0587  
[www.GrantThornton.com](http://www.GrantThornton.com)

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, 2015 and 2014, 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.

## 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 revenue and operating expenses by natural account for the year ended December 31, 2015 on page 25 and 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, 2015 and 2014, 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.



McLean, Virginia

April 11, 2016

## **CONSOLIDATED FINANCIAL STATEMENTS**

**Aircraft Owners and Pilots Association And Affiliates**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<i>December 31,</i>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,029,000	\$ 4,662,000
Insurance premiums receivable, net	1,925,000	2,146,000
Advertising, services and other receivables, net	1,045,000	1,351,000
Contract fees and other receivables	456,000	873,000
Assets held for sale	—	3,555,000
Advances and prepaid expenses	1,828,000	1,674,000
	<hr/>	<hr/>
	11,283,000	14,261,000
<b>Investments, at fair value</b>	75,431,000	77,335,000
<b>Deferred income taxes</b>	2,984,000	3,187,000
<b>Property and equipment, net</b>	14,212,000	11,498,000
<b>Restricted cash</b>	3,802,000	3,492,000
<b>Intangibles, net</b>	882,000	956,000
<b>Goodwill</b>	4,445,000	4,445,000
<b>Other assets</b>	253,000	282,000
	<hr/>	<hr/>
<b>Total Assets</b>	\$ 113,292,000	\$ 115,456,000
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 4,344,000	\$ 4,742,000
Accrued expenses	4,161,000	4,444,000
Deferred revenue:		
Membership dues and subscriptions	10,279,000	9,484,000
Other deferred revenue	5,904,000	6,626,000
Other obligations	1,761,000	1,951,000
	<hr/>	<hr/>
	26,449,000	27,247,000
<b>Long-term Obligations</b>	<hr/>	<hr/>
	9,502,000	7,332,000
<b>Total Liabilities</b>	35,951,000	34,579,000
<b>Net Assets, unrestricted</b>	<hr/>	<hr/>
	77,341,000	80,877,000
<b>Total Liabilities and Net Assets</b>	\$ 113,292,000	\$ 115,456,000

*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>	<b>2015</b>	<b>2014</b>
<b>Revenue</b>		
<i>Program Services:</i>		
Membership dues and subscriptions	\$ 17,111,000	\$ 15,001,000
Commissions and royalties	14,036,000	14,223,000
Advertising fees	8,080,000	8,325,000
Product sales and services	4,558,000	4,474,000
	<hr/>	<hr/>
	43,785,000	42,023,000
Contributions, contracts, and grants	3,072,000	2,855,000
Other income	1,485,000	1,417,000
	<hr/>	<hr/>
	48,342,000	46,295,000
<b>Expense</b>		
<i>Program Services:</i>		
Advocacy and representation	13,442,000	14,893,000
Publications	13,071,000	12,647,000
Products and services	9,814,000	9,410,000
Membership development	5,921,000	6,144,000
Member engagement	2,728,000	2,644,000
	<hr/>	<hr/>
	44,976,000	45,738,000
<i>Support Services:</i>		
Management and general	4,798,000	4,550,000
Fundraising	518,000	435,000
	<hr/>	<hr/>
	5,316,000	4,985,000
	<hr/>	<hr/>
	50,292,000	50,723,000
<b>Change in net assets from operations before income taxes</b>	(1,950,000)	(4,428,000)
Income tax provision	530,000	296,000
	<hr/>	<hr/>
<b>Change in net assets from operations</b>	(2,480,000)	(4,724,000)
<i>Non-operating activity:</i>		
Real estate investment revenue	297,000	561,000
Real estate investment expense	(517,000)	(397,000)
Real estate investment, net	<hr/>	<hr/>
	(220,000)	164,000
Return on investments, net	(836,000)	3,818,000
Aviation AD&D insurance reserves	—	10,000
	<hr/>	<hr/>
	(1,056,000)	3,992,000
<b>Change in net assets</b>	(3,536,000)	(732,000)
<b>Net assets, beginning of year</b>	<hr/>	<hr/>
	80,877,000	81,609,000
<b>Net assets, end of year</b>	<hr/>	<hr/>
	\$ 77,341,000	\$ 80,877,000

*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>	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (3,536,000)	\$ (732,000)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Return on investment, net	836,000	(3,818,000)
Depreciation	2,325,000	2,152,000
Amortization	74,000	123,000
Deferred income taxes	203,000	(25,000)
Changes in operating assets and liabilities:		
Receivables	944,000	(78,000)
Advances and prepaid expenses	(154,000)	(135,000)
Assets held for sale	3,555,000	(1,825,000)
Restricted cash	(310,000)	(1,912,000)
Other assets	29,000	(9,000)
Accounts payable	(399,000)	1,914,000
Accrued expenses	(456,000)	33,000
Deferred revenue	73,000	2,699,000
Long-term obligations	(197,000)	381,000
<b>Net cash provided by (used in) operating activities</b>	<b>2,987,000</b>	<b>(1,232,000)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	156,392,000	11,129,000
Purchases of investments	(155,324,000)	(3,611,000)
Purchase and reclassification of property and equipment	(5,039,000)	(1,995,000)
<b>Net cash (used in) provided by investing activities</b>	<b>(3,971,000)</b>	<b>5,523,000</b>
<b>Cash Flows from Financing Activities</b>		
Loan payable	3,793,000	—
Lease repayment	(1,442,000)	(1,606,000)
<b>Net cash provided by (used in) financing activities</b>	<b>2,351,000</b>	<b>(1,606,000)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,367,000</b>	<b>2,685,000</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>4,662,000</b>	<b>1,977,000</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,029,000</b>	<b>\$ 4,662,000</b>

*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, 2015 and 2014

---

### 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 subsidiaries, AOPA Insurance Agency, Inc. (AOPAIA), AOPA Flight Technologies, Inc. (AFTI), AOPA Holdings Corporation (AHC) and its affiliate AOPA Political Action Committee (PAC) (collectively, the Association). The assets of AOPA Flight Technologies, Inc. were transferred to AHC as of January 1, 2015. 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. AOPAIA is an aircraft insurance broker and provides marketing and program support for non-aviation insurance programs. PAC is a federal political action committee that solicits contributions from donors and contributes to the political campaign of federal election candidates.

#### **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 the Association and 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 \$3,802,000 and \$3,492,000 at December 31, 2015 and 2014, respectively. The funds are restricted as to use by laws in states in which AOPAIA operates and PAC federal campaign activities.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

---

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

#### Investments

The Association reports investments in money market funds, mutual funds, bonds and mortgage backed securities, 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, 2015 and 2014, \$855,000 and \$859,000, 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, 2015 total approximately \$8,747,000. These funds are maintained for traditionally high first quarter funding requirements.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

---

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

#### **Reclassification**

Certain 2014 amounts were reclassified between program services expense categories to conform to the December 31, 2015 presentation. Such reclassifications did not change the changes in net assets reflected in the 2014 consolidated financial statements.

#### **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 publications. Sponsorship revenue is recognized over the term of the contract. Mobile application revenue is recognized when software is downloaded.

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.

#### **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.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

---

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

#### 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 subsidiaries AOPAIA and AHC. For the years ended December 31, 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.

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, 2015, 2014, 2013 and 2012 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.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

---

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

#### 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.

#### Impact of Recent Accounting Standards

In May 2015, FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, *Fair Value Measurement*, from categorization within the fair value hierarchy and related disclosures. Instead, entities are required to separately disclose the information required under ASC 820 for assets measured using the NAV practical expedient. Entities are also required to show the carrying amount of investments measured using the NAV practical expedient as a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the financial statements. The guidance requires retrospective application and is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted.

AOPA did early adopt the new accounting pronouncement and does not believe it will have an effect on the disclosures in the financial statements.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

---

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

#### Measure of Operations

The decrease 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, results of the investment property owned, and significant items of an unusual or nonrecurring nature.

### NOTE B - INVESTMENTS

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

	2015		2014	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Alternative investments	\$ 48,310,000	\$ 47,199,000	\$ 20,419,000	\$ 23,318,000
Common stock and mutual funds	15,505,000	14,516,000	38,880,000	42,404,000
Money market funds	10,281,000	10,281,000	7,323,000	7,323,000
Bonds and mortgage backed securities	—	—	1,906,000	2,544,000
Bonds backed mutual funds	<u>3,539,000</u>	<u>3,435,000</u>	<u>1,709,000</u>	<u>1,746,000</u>
	<u>\$ 77,635,000</u>	<u>\$ 75,431,000</u>	<u>\$ 70,237,000</u>	<u>\$ 77,335,000</u>

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

### NOTE B - INVESTMENTS - Continued

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

	<u>Total Amount</u>	<u>Quoted prices in active market for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<b>2015:</b>				
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 <sup>(a)</sup>	<u>47,199,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$75,431,000</u>	<u>\$ 28,232,000</u>	<u>\$ —</u>	<u>\$ —</u>
<b>2014:</b>				
Common stock and mutual funds	\$42,404,000	\$ 42,404,000	\$ —	\$ —
Money market funds	7,323,000	7,323,000	—	—
Bonds backed mutual funds	2,544,000	2,544,000	—	—
Bonds and mortgage backed securities	<u>1,746,000</u>	<u>1,746,000</u>	<u>—</u>	<u>—</u>
	54,017,000	54,017,000	—	—
Investments measured at NAV <sup>(a)</sup>	<u>23,318,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$77,335,000</u>	<u>\$ 54,017,000</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.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

### 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, 2015 and 2014.

- *Money market funds, bonds and mortgage backed securities, 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.

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, 2015, 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 12/31/2015</u>
Commingled <sup>(a)</sup>	\$ 1,678,000	\$ —	Daily	Daily	Yes	Yes
Commingled <sup>(a)</sup>	14,809,000	\$ —	Monthly	Monthly	Yes	Yes
Commingled <sup>(a)</sup>	<u>5,229,000</u>	\$ —	Quarterly	Quarterly	Yes	Yes
	<u>\$ 21,716,000</u>					
Hedge funds <sup>(a)</sup>	\$ 1,505,000	\$ —	Daily	Daily	Yes	Yes
Hedge funds <sup>(a)</sup>	2,897,000	\$ —	Monthly	Monthly	Yes	Yes
Hedge funds <sup>(a)</sup>	15,208,000	\$ —	Quarterly	Quarterly	Yes	Yes
Hedge funds <sup>(a)</sup>	<u>2,476,000</u>	\$ —	Annual	Annual	Yes	Yes
	<u>\$ 22,086,000</u>					
Private equity <sup>(a)</sup>	<u>\$ 3,397,000</u>	\$ 1,209,000	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, 2015 and 2014

#### NOTE B - INVESTMENTS - Continued

Return on investments consisted of the following at December 31:

	2015	2014
Realized gains (losses)	\$ 1,325,000	\$ (172,000)
Reinvested dividends	527,000	1,056,000
Investment expenses relating to deferred compensation and retention arrangements	7,000	(156,000)
Reinvested interest	3,000	1,000
Investment fees	(310,000)	(146,000)
Unrealized (losses) gains	(2,388,000)	3,235,000
	\$ (836,000)	\$ 3,818,000

#### 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:

	2015	2014
Equipment, vehicles and other	\$ 14,301,000	\$ 13,217,000
Building and improvements - headquarters building	7,116,000	6,352,000
Aircraft	5,021,000	4,644,000
Investment property	4,574,000	—
Land and improvements	638,000	638,000
Assets in progress	582,000	542,000
	32,232,000	25,393,000
Less accumulated depreciation	(18,020,000)	(13,895,000)
	\$ 14,212,000	\$ 11,498,000

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

### NOTE C - PROPERTY AND EQUIPMENT - Continued

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. In July 2014, the investment real estate property was listed for sale. Total assets of \$3,555,000, net of accumulated depreciation of \$1,587,000, were reclassified to assets held for sale on the consolidated statements of financial position. The investment real estate property is no longer listed for sale and was placed back into service as of July 2015. Total assets of \$3,555,000, net of accumulated depreciation of \$1,587,000, were reclassified to property and equipment, net on the consolidated statements of financial position. 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.

Furniture and fixture, software and hardware with an original cost of \$1,720,000 and accumulated depreciation of \$1,711,000 were disposed of in 2014. There were no disposals in 2015.

Depreciation expense, excluding the investment real estate property, was \$2,325,000 and \$2,152,000 for 2015 and 2014, respectively.

### NOTE D - OTHER ASSETS

Other assets consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Long-term advance	\$260,000	\$260,000
Lease accounting income accrual	<u>(7,000)</u>	<u>22,000</u>
	<u>\$ 253,000</u>	<u>\$282,000</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 2015 and 2014; hence, no recoverability testing was warranted.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

### NOTE E - 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 \$74,000 and \$123,000 for the years ended December 31, 2015 and 2014, respectively.

#### 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).

Beginning in 2010, the Association adopted the guidance in ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which required not-for-profit entities to cease amortization of previously recognized goodwill and perform a transitional impairment test. AOPAIA performs an impairment assessment test annually as of December 31st or more frequently if indicators of impairment exist. The fair value of AOPAIA is first assessed by modeling and analyzing its five-year projected net income. If the fair value of AOPAIA is less than its carrying value, a second step is performed, to allocate the fair value of AOPAIA to the individual assets and liabilities so as to determine the implied fair value of goodwill. Any excess of the carrying value of goodwill over the implied fair value of goodwill is written off as non-operating charge to the consolidated statement of activities. The Association has not identified any impairment of its goodwill as of December 31, 2015. The carrying value for goodwill as of December 31, 2015 and 2014 was \$4,445,000.

### NOTE F - INCOME TAXES

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

	<u>2015</u>	<u>2014</u>
Current	\$327,000	\$321,000
Deferred	<u>203,000</u>	<u>(25,000)</u>
	<u>\$530,000</u>	<u>\$282,000</u>

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

---

### NOTE F - INCOME TAXES - Continued

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

	<u>2015</u>	<u>2014</u>
Other (federal and state)	\$ 1,209,000	\$ 1,430,000
Deferred compensation	971,000	1,190,000
Depreciation and amortization	372,000	442,000
Accrued legal service plan	337,000	338,000
Bad debt reserves	119,000	117,000
Accrued paid time off	43,000	27,000
Prepaid	(36,000)	(15,000)
Unrealized gain	(31,000)	(342,000)
	<u>\$ 2,984,000</u>	<u>\$ 3,187,000</u>

Income taxes paid totaled \$438,000 and \$355,000 for the years ended December 31, 2015 and 2014, respectively.

### NOTE G - OTHER OBLIGATIONS

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

	<u>2015</u>	<u>2014</u>
Financing lease payable	\$ 1,225,000	\$ 1,442,000
Legal service plan reserves	335,000	345,000
Financing loan payable	201,000	—
Aircraft reserves	—	111,000
Facility related reserves	—	53,000
	<u>\$ 1,761,000</u>	<u>\$ 1,951,000</u>

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

### NOTE G - OTHER OBLIGATIONS - Continued

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

	2015	2014
Financing loan payable	\$ 3,592,000	\$ —
Deferred compensation and retirement plan accruals	2,511,000	3,066,000
AOPA lifetime memberships	2,051,000	1,509,000
Financing lease payable	595,000	1,820,000
Legal service plan reserves	519,000	514,000
Other long-term accrued liabilities	190,000	192,000
Aircraft reserves	44,000	231,000
	\$ 9,502,000	\$ 7,332,000

The Association calculates the value of the lifetime membership annually, based upon the demographic information of the group as well as expected investment earnings and annual payments for membership dues. At December 31, 2015, this lifetime value was approximated at \$715 per member.

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. Principal of \$1,588,000 and \$1,608,000 was repaid in 2015 and 2014, respectively.

Future lease payments are as follows:

2016	\$ 1,615,000
2017	777,000
2018	534,000
2019	352,000
2020	352,000
Thereafter	2,832,000
Total	6,462,000
Less interest	(849,000)
	5,613,000
Less current portion	(1,426,000)
Total long-term lease obligations	\$ 4,187,000

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

### NOTE H - COMMITMENTS

The Association is committed under various long-term, non-cancelable leases and contracts for office space, 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, 2015:

<u>Minimum Lease Contract Payments</u>	
2016	\$ 507,000
2017	422,000
2018	412,000
2019	384,000
2020	336,000
Thereafter	<u>489,000</u>
Total minimum lease payments	<u>\$ 2,550,000</u>

Rental expense, net of sublease income, was \$962,000 and \$1,359,000 for 2015 and 2014, 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, 2015:

<u>Minimum Lease Receipts</u>	
2016	\$ 182,000
2017	91,000
2018	31,000
2019	32,000
2020	<u>30,000</u>
Total minimum lease receipts	<u>\$ 366,000</u>

As of December 31, 2015, \$8,000 of deferred rent liability relating to the above lease agreement was included in other assets on the consolidated statements of financial position.

# Aircraft Owners and Pilots Association and Affiliates

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2015 and 2014

---

### 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 \$389,000 in 2015 and \$426,000 in 2014.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the years ended December 31, 2015 and 2014, matching contributions were \$613,000 and \$486,000, respectively.

#### Other Deferred Compensation Plan

The Association entered into various deferred compensation/retirement agreements with certain executives. Amounts due and funded under these arrangements totaled \$2,511,000 as of December 31, 2015.

### 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 \$1,594,000 and \$1,237,000 in 2015 and 2014, respectively. The Association received grants from the AOPA Foundation, Inc. in the amount of \$1,846,000. The amount due from the AOPA Foundation, Inc. at December 31, 2015 and 2014 was \$210,000 and \$354,000, respectively, and is included in other receivables in the consolidated statements of financial position. AOPAIA made a contribution of \$380,000 and \$390,000 to the AOPA Foundation, Inc. for the years ended December 31, 2015 and 2014, respectively.

### NOTE K - SUBSEQUENT EVENTS

The Association evaluated its December 31, 2015 financial statements for subsequent events through April 11, 2016, the date the financial statements were available to be issued. Effective January 1, 2016, ownership of the AOPA Insurance Agency (AOPAIA) was transferred from AOPA to AOPA Holdings Corporation (AHC).

## **SUPPLEMENTARY INFORMATION**



**Aircraft Owners and Pilots Association And Affiliates**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year ended December 31, 2015**

	AOPA	Consolidated Subsidiaries and Affiliates, net of Eliminating Entries	AOPA Consolidated
<b>Total revenue</b>	\$ 39,184,000	\$ 9,158,000	\$ 48,342,000
<b>Total expenses</b>	42,551,000	7,741,000	50,292,000
<b>Change in net assets from operations before income taxes</b>	(3,367,000)	1,417,000	(1,950,000)
Income tax provision	—	530,000	530,000
<b>Change in net assets from operations</b>	(3,367,000)	887,000	(2,480,000)
<b>Non-operating activity:</b>			
Real estate investment revenue	329,000	(32,000)	297,000
Real estate investment expense	(517,000)	—	(517,000)
Real estate investment, net	(188,000)	(32,000)	(220,000)
Return on investments, net	(916,000)	80,000	(836,000)
<b>Total non-operating activity</b>	(1,104,000)	48,000	(1,056,000)
<b>Change in net assets</b>	(4,471,000)	935,000	(3,536,000)
<b>Net assets, beginning of year</b>	78,709,000	2,168,000	80,877,000
Dividends	2,700,000	(2,700,000)	—
<b>Net assets, end of year</b>	\$ 76,938,000	\$ 403,000	\$ 77,341,000

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

**Aircraft Owners and Pilots Association And Affiliates**

**CONSOLIDATING SCHEDULE OF REVENUE AND  
OPERATING EXPENSES BY NATURAL ACCOUNT**

Year ended December 31, 2015

	<b>AOPA Consolidated</b>
<b>Total revenue</b>	\$ 48,342,000
<b>Expenses:</b>	
Salaries and benefits	22,831,000
Professional fees	7,095,000
Production costs	3,459,000
Travel and meetings	2,912,000
Distribution costs	2,567,000
Depreciation and amortization	2,399,000
Communications & technology	2,202,000
Rent & maintenance	2,177,000
Contributions	1,150,000
Credit card, bank charges and interest	1,147,000
Dues, license & subscriptions	780,000
Taxes and insurance	600,000
Member premiums	534,000
Supplies	400,000
Other	39,000
	<u>50,292,000</u>
<b>Total expenses</b>	<u>50,292,000</u>
<b>Change in net assets from operations before income taxes</b>	\$ <u>( 1,950,000 )</u>

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



© Grant Thornton LLP  
All rights reserved  
U.S. member firm of Grant Thornton International Ltd