



Consolidated Financial Statements and Report of
Independent Certified Public Accountants

**Aircraft Owners and Pilots Association
and Affiliates**

December 31, 2013 and 2012

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
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
SUPPLEMENTARY INFORMATION	
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS	25
CONSOLIDATED SCHEDULE OF OPERATING EXPENSES BY NATURAL ACCOUNT	26



Audit • Tax • Advisory

Grant Thornton LLP
2010 Corporate Ridge, Suite 400
McLean, VA 22102-7838
T 703.847.7500
F 703.848.9580
www.GrantThornton.com

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, 2013 and 2012, 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 operating expenses by natural account for the year ended December 31, 2013 on page 24 and 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

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

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, 2013 and 2012, 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

May 2, 2014

CONSOLIDATED FINANCIAL STATEMENTS

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

<i>December 31,</i>	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,366,000	\$ 2,069,000
Insurance premiums receivable, net of allowances of \$0 in 2013 and \$4,000 in 2012.	1,536,000	1,433,000
Advertising, services and other receivables, net of allowances of \$368,000 in 2013 and \$181,000 in 2012.	1,034,000	1,525,000
Contract fees and other receivables	1,722,000	3,099,000
Assets held for sale	1,730,000	—
Advances and prepaid expenses	1,539,000	1,904,000
	<hr/>	
	8,927,000	10,030,000
Investments, at fair value	81,035,000	77,960,000
Deferred income taxes	3,162,000	2,594,000
Property and equipment, net	11,655,000	13,027,000
Restricted cash	1,580,000	1,490,000
Other assets	5,797,000	6,039,000
	<hr/>	
Total Assets	\$ 112,156,000	\$ 111,140,000
Liabilities and Net Assets		
Current Liabilities		
Accounts payable:		
Insurance premiums	\$ 2,304,000	\$ 2,537,000
Trade payables	524,000	1,868,000
Accrued expenses:		
Wages and benefits	2,432,000	2,198,000
Other accrued expenses	1,368,000	2,297,000
Deferred revenue:		
Membership dues and subscriptions	7,964,000	9,773,000
Other deferred revenue	5,447,000	3,174,000
Other obligations	2,113,000	2,131,000
	<hr/>	
	22,152,000	23,978,000
Long-term obligations	8,395,000	6,884,000
	<hr/>	
Total Liabilities	30,547,000	30,862,000
Net Assets, unrestricted	81,609,000	80,278,000
	<hr/>	
Total Liabilities and Net Assets	\$ 112,156,000	\$ 111,140,000

The accompanying notes are an integral part of these statements.

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

<i>Year ended December 31,</i>	2013	2012
Revenue		
<i>Program Services:</i>		
Membership dues and subscriptions	\$ 16,065,000	\$ 16,312,000
Commissions and royalties	14,228,000	19,313,000
Advertising fees	7,941,000	8,165,000
Product sales and services	6,161,000	6,006,000
	<hr/>	<hr/>
	44,395,000	49,796,000
Contributions, contracts, and grants	2,091,000	2,017,000
Other income	1,113,000	1,640,000
	<hr/>	<hr/>
	47,599,000	53,453,000
Expense		
<i>Program Services:</i>		
Advocacy and representation	14,843,000	15,544,000
Publications	12,468,000	13,553,000
Products and services	11,506,000	11,041,000
Membership development	6,261,000	9,894,000
Member engagement	3,977,000	2,720,000
	<hr/>	<hr/>
	49,055,000	52,752,000
<i>Support Services:</i>		
Management and general	3,969,000	3,545,000
Fundraising	328,000	163,000
	<hr/>	<hr/>
	4,297,000	3,708,000
	<hr/>	<hr/>
	53,352,000	56,460,000
Change in net assets from operations before income taxes	(5,753,000)	(3,007,000)
Income tax provision (benefit)	301,000	(162,000)
	<hr/>	<hr/>
Change in net assets from operations	(6,054,000)	(2,845,000)
<i>Non-operating activity:</i>		
Real estate investment revenue	730,000	693,000
Real estate investment expense	(533,000)	(629,000)
Real estate investment, net	197,000	64,000
	<hr/>	<hr/>
Return on investments, net	6,439,000	5,751,000
Aviation AD&D insurance reserves	749,000	336,000
	<hr/>	<hr/>
	7,385,000	6,151,000
Change in net assets	1,331,000	3,306,000
Net assets, beginning of year	80,278,000	76,972,000
	<hr/>	<hr/>
Net assets, end of year	\$ 81,609,000	\$ 80,278,000

The accompanying notes are an integral part of these statements.

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

<i>December 31,</i>	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 1,331,000	\$ 3,306,000
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Return on investment, net	(6,439,000)	(5,751,000)
Depreciation	1,902,000	1,462,000
Amortization	122,000	105,000
Deferred income taxes	(568,000)	(947,000)
Provision for losses on accounts receivable	188,000	44,000
Changes in operating assets and liabilities:		
Receivables	1,577,000	(1,732,000)
Advances and prepaid expenses	365,000	242,000
Assets held for sale	(1,730,000)	—
Restricted cash	(90,000)	330,000
Other assets	242,000	(91,000)
Accounts payable	(1,577,000)	273,000
Accrued wages and benefits	234,000	(146,000)
Other accrued liabilities	(929,000)	(252,000)
Deferred revenue	464,000	(1,081,000)
Long-term obligations	1,511,000	(140,000)
Net cash used in operating activities	(3,397,000)	(4,378,000)
Cash Flows from Investing Activities		
Proceeds from sales of investments	114,841,000	44,321,000
Purchases of investments	(111,069,000)	(40,199,000)
Purchase of property and equipment	(2,372,000)	(4,108,000)
Net cash provided by investing activities	1,400,000	14,000
Cash Flows from Financing Activities		
Draws on financing lease	2,393,000	4,201,000
Lease repayment	(1,099,000)	(627,000)
Net cash provided by financing activities	1,294,000	3,574,000
Net change in cash and cash equivalents	(703,000)	(790,000)
Cash and cash equivalents, beginning of year	2,069,000	2,859,000
Cash and cash equivalents, end of year	\$ 1,366,000	\$ 2,069,000

The accompanying notes are an integral part of these statements.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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 Membership Publications, Inc. (AMPI), AOPA Service Corporation (ASCO), 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 activities of AMPI were transferred to AOPA as of January 1, 2013. The assets and liabilities of the company were merged with AOPA and AHC as of July 31, 2013. The activities of ASCO were transferred to AHC and AOPAIA as of July 31, 2013 and the assets were merged into the appropriate company. 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. AFTI engages in the business of developing and promoting aviation software and applications. 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 subsidiaries. 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 investments intended to be held for long-term purposes.

Cash and cash equivalents includes \$1,366,000 and \$2,069,000 held in separate accounts at December 31, 2013 and 2012, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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

Restricted Cash

Restricted cash includes insurance premiums of \$1,580,000 and \$1,490,000 at December 31, 2013 and 2012, respectively, collected from AOPAIA customers but not yet remitted to insurance companies. The funds are restricted as to use by laws in states in which AOPAIA operates.

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, 2013 and 2012, \$861,000 and \$1,581,000, 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 statement of activities.

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

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).

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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

Concentration of Credit Risk - continued

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, 2013 total approximately \$2,680,000. These funds are maintained for traditionally high first quarter funding requirement.

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, 2013 and 2012

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 AMPI, ASCO, AOPAIA, AFTI and AHC. For the years ended December 31, 2013 and 2012 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 recognizes or derecognizes tax positions on a “more likely than not” threshold. This applies to a position taken or expected to be taken in a tax return. The Association does not believe it has any material uncertain tax positions.

Functional Expense Allocation

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

Use of Estimates

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

Fair Value Measurements

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

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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

Fair Value Measurements - continued

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

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

Impact of Recent Accounting Standards

There are no recent accounting standards that management believes will impact the Association's consolidated financial statements.

Measure of Operations

The increase or 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.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE B - INVESTMENTS

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

	2013		2012	
	Cost	Market Value	Cost	Market Value
Common stock and mutual funds	\$ 42,492,000	\$ 44,918,000	\$ 4,319,000	\$ 5,654,000
Alternative investments	19,816,000	21,779,000	9,887,000	10,494,000
Money market funds	9,204,000	9,204,000	31,751,000	31,751,000
Bond backed mutual funds	1,740,000	2,851,000	14,026,000	15,233,000
Bonds and mortgage backed securities	<u>1,287,000</u>	<u>2,283,000</u>	<u>16,477,000</u>	<u>14,828,000</u>
	<u>\$74,539,000</u>	<u>\$81,035,000</u>	<u>\$76,460,000</u>	<u>\$77,960,000</u>

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

	Amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
2013:				
Common stock and mutual funds	\$ 44,918,000	\$ 44,918,000	\$ -	\$ -
Money market funds	9,204,000	9,204,000	-	-
Alternative investments	21,779,000	-	13,025,000	8,754,000
Bonds backed mutual funds	2,851,000	2,851,000	-	-
Bonds and mortgage backed securities	<u>2,283,000</u>	<u>2,283,000</u>	<u>-</u>	<u>-</u>
	<u>\$81,035,000</u>	<u>\$59,256,000</u>	<u>\$13,025,000</u>	<u>\$8,754,000</u>
2012:				
Common stock and mutual funds	\$ 5,654,000	\$ 5,654,000	\$ -	\$ -
Money market funds	31,751,000	31,751,000	-	-
Alternative investments	10,494,000	-	4,920,000	5,574,000
Bonds backed mutual funds	15,233,000	15,233,000	-	-
Bonds and mortgage backed securities	<u>14,828,000</u>	<u>14,828,000</u>	<u>-</u>	<u>-</u>
	<u>\$77,960,000</u>	<u>\$67,466,000</u>	<u>\$4,920,000</u>	<u>\$5,574,000</u>

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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, 2013 and 2012.

- *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 hedge funds, a fund of 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 following table summarizes the changes in fair value of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2013, including the additional requirement to classify securities by major category defined as the major security type classifications within ASC 320:

	Beginning balance at <u>1/1/2013</u>	Total realized/ unrealized <u>gains</u>	Purchases, issuances and <u>sales, net</u>	Ending balance at <u>12/31/2013</u>
Hedge funds and partnerships	\$5,574,000	\$760,000	\$2,420,000	\$8,754,000

The following table summarizes the changes in fair value of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2012:

	Beginning balance at <u>1/1/2012</u>	Total realized/ unrealized <u>losses</u>	Purchases, issuances and <u>sales, net</u>	Ending balance at <u>12/31/2012</u>
Hedge funds and partnerships	\$4,372,000	\$576,000	\$626,000	\$5,574,000

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE B - INVESTMENTS - Continued

The table below presents additional information for the Association's investments, as of December 31, 2013, 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:

	Fair value	Unfunded commitments	Expected Liquidation term	Redemption terms	Redemption restrictions	Redemption restrictions at 12/31/2013
Hedge funds (a)	\$21,779,000	\$ -	Quarterly	Quarterly	Yes	Yes

- (a) This class includes several hedge funds, funds of funds, and 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:

	2013	2012
Unrealized gains	\$4,995,000	\$ 422,000
Reinvested dividends	1,158,000	1,196,000
Realized gains	976,000	4,776,000
Reinvested interest	3,000	62,000
Investment expenses relating to deferred compensation and retention arrangements	(529,000)	(472,000)
Money manager fees	(164,000)	(233,000)
	<u>\$6,439,000</u>	<u>\$5,751,000</u>

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	10 years
Equipment, vehicles and other	3-10 years

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE C - PROPERTY AND EQUIPMENT - Continued

Property and equipment consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Equipment, vehicles and other	\$ 14,210,000	\$ 8,113,000
Building and improvements - headquarters building	7,020,000	6,937,000
Investment property	3,933,000	3,933,000
Land and improvements	1,279,000	1,279,000
Aircraft	189,000	2,151,000
Assets in progress	<u>8,000</u>	<u>3,942,000</u>
	26,639,000	26,355,000
Less accumulated depreciation	<u>(14,984,000)</u>	<u>(13,328,000)</u>
	<u>\$ 11,655,000</u>	<u>\$ 13,027,000</u>

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

Furniture & fixture, software and hardware with an original cost and accumulated depreciation of \$343,000 were disposed of in 2013. There were no asset disposals in 2012. Two aircraft with an original cost of \$1,962,000 and net book value of \$1,730,000 were reclassified to assets held for sale on the consolidated statements of financial position.

Depreciation expense was \$1,902,000 and \$1,462,000 for 2013 and 2012, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE D - OTHER ASSETS

Other assets consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
AOPAIA purchase intangible	\$4,445,000	\$4,445,000
Flight Training magazine intangible	836,000	836,000
Aviation insurance policy purchase intangible	510,000	525,000
Long-term advance	231,000	274,000
Lease accounting income accrual	<u>50,000</u>	<u>113,000</u>
	6,072,000	6,193,000
Less accumulated amortization	<u>(275,000)</u>	<u>(154,000)</u>
	<u>\$5,797,000</u>	<u>\$6,039,000</u>

The Association's intangible assets are a result of the purchase of Flight Training magazine, which is a publication targeted toward student pilots, AOPA Insurance Agency, Inc. (AOPAIA), and aviation insurance policies from another aviation insurance broker. Intangible assets include copyrights, costs of completing the acquisitions, and goodwill.

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 2013 and 2012; hence, no recoverability testing was warranted.

The intangible associated with the purchase of aviation insurance policies has been determined to have a finite useful life of four years based on the average active policy term. Amortization expense was \$122,000 and \$105,000 for the years ended December 31, 2013 and 2012, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE D - OTHER ASSETS - Continued

Goodwill

Goodwill represents the excess of the purchase price over the net amount assigned to identifiable assets acquired and liabilities assumed in the purchase of the minority interest in AOPA Insurance Agency, Inc. (AOPAIA), under a purchase agreement with AON Risk Services, Inc. (ARS).

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 September 30th 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. AOPAIA has not identified any impairment of its goodwill as of December 31, 2013. The carrying value for goodwill as of December 31, 2013 and 2012 was \$4,445,000.

Intangible assets, net of amortization and impairments, are classified as other assets in the consolidated statements of financial position.

NOTE E - INCOME TAXES

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

	<u>2013</u>	<u>2012</u>
Current	\$ 868,000	\$786,000
Deferred	(568,000)	(947,000)
	<u>\$300,000</u>	<u>\$(161,000)</u>

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE E - INCOME TAXES - Continued

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

	2013	2012
Other (federal and state)	\$1,644,000	\$736,000
Deferred compensation	1,334,000	1,302,000
Accrued legal service plan	339,000	624,000
Bad debt reserves	92,000	69,000
Accrued paid time off	23,000	85,000
Depreciation & amortization	19,000	39,000
Prepaid	(12,000)	(12,000)
Unrealized gain	<u>(254,000)</u>	<u>(249,000)</u>
	<u>\$3,162,000</u>	<u>\$2,594,000</u>

Income taxes paid totaled \$762,000 and \$548,000 for the years ended December 31, 2013 and 2012, respectively.

NOTE F – OTHER OBLIGATIONS

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

	2013	2012
Financing lease payable	\$1,608,000	\$949,000
Legal service plan reserves	323,000	1,102,000
Aircraft reserves	102,000	-
Facility related reserves	<u>80,000</u>	<u>80,000</u>
	<u>\$2,113,000</u>	<u>\$2,131,000</u>

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

	2013	2012
Deferred compensation and retirement plan accruals	\$3,431,000	\$3,351,000
Financing lease payable	3,260,000	2,624,000
AOPA lifetime membership	840,000	-
Legal service plan reserves	538,000	479,000
Other long-term accrued liabilities	158,000	101,000
Aircraft reserves	115,000	196,000
Facility related reserves	<u>53,000</u>	<u>133,000</u>
	<u>\$8,395,000</u>	<u>\$6,884,000</u>

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE F – OTHER OBLIGATIONS- Continued

The AOPA Lifetime Membership program and the associated liability were transferred from the AOPA Foundation in July 2013. This program was previously administered by the Foundation for AOPA and AOPA has now assumed management responsibilities of this program. 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, 2013, this lifetime value was approximated at \$560 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. Principal of \$1,099,000 and \$627,000 was repaid in 2013 and 2012, respectively. Future lease payments are as follows:

2014	\$1,737,000
2015	1,521,000
2016	1,263,000
2017	425,000
2018	<u>181,000</u>
Total	5,127,000
Less interest	<u>(259,000)</u>
	4,868,000
Less current portion	<u>(1,608,000)</u>
Total long-term obligation	<u>\$3,260,000</u>

NOTE G – COMMITMENTS

The Association is committed under various long-term, non-cancelable leases and contracts for an airplane, 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, 2013:

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE G - COMMITMENTS - Continued

<u>Minimum Lease Contract Payments</u>	
2014	\$ 782,000
2015	835,000
2016	342,000
2017	273,000
2018	276,000
Thereafter	<u>835,000</u>
Total minimum lease payments	<u>\$3,343,000</u>

Rental expense, net of sublease income, was \$943,000 and \$1,062,000 for 2013 and 2012, 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, 2013:

2014	\$494,000
2015	257,000
2016	126,000
2017	<u>42,000</u>
Total minimum lease receipts	<u>\$919,000</u>

As of December 31, 2013, \$50,000 of deferred rent assets relating to the above lease agreement was included in other assets on the consolidated statements of financial position.

NOTE H - EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Association provides its employees with a defined contribution excess income sharing and 401(k) plan (the DC Plan). Association contributions to the excess income 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 \$0 in 2013 and \$404,000 in 2012.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the years ended December 31, 2013 and 2012, matching contributions were \$792,000 and \$786,000, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE H - EMPLOYEE BENEFIT PLANS

Other Deferred Compensation Plan

The Association entered into various deferred compensation/retirement agreements with certain executives. Amounts due and funded under these arrangements totaled \$3,431,000 as of December 31, 2013.

NOTE I - 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 \$962,000 and \$1,491,000 in 2013 and 2012, respectively. The amount due from the AOPA Foundation, Inc. was recorded in Advertising, services and other receivables in the consolidated statements of financial position at December 31, 2013 and 2012 and totaled \$219,000 and \$68,000, respectively. AOPAIA made a contribution of \$400,000 and \$500,000 to the AOPA Foundation, Inc. for the years ended December 31, 2013 and 2012, respectively. ASCO made a contribution of \$128,000 to the AOPA Foundation, Inc. for the year ended December 31, 2013.

NOTE J - SUBSEQUENT EVENTS

The Association evaluated its December 31, 2013 financial statements for subsequent events through May 2, 2014, the date the financial statements were available to be issued. The Association had two aircraft held for sale as of December 31, 2013 at a book value of \$1,730,000. The two aircraft were subsequently sold for \$1,850,000 in the first quarter of 2014. The Association is not aware of any other subsequent events which would require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended December 31, 2013

	AOPA	Consolidated Subsidiaries and Affiliates, net of Eliminating Entries	AOPA Consolidated
Total revenue	\$ 33,301,000	\$ 14,298,000	\$ 47,599,000
Total expenses	39,316,000	14,036,000	53,352,000
Change in net assets from operations before income taxes	(6,015,000)	262,000	(5,753,000)
Income tax provision	159,000	142,000	301,000
Change in net assets from operations	(6,174,000)	120,000	(6,054,000)
Non-operating activity:			
Real estate investment revenue	800,000	(70,000)	730,000
Real estate investment expense	(533,000)	—	(533,000)
Real estate investment, net	267,000	(70,000)	197,000
Return on investments, net	6,022,000	417,000	6,439,000
Aviation AD&D insurance reserves	749,000	—	749,000
Total non-operating activity	7,038,000	347,000	7,385,000
Change in net assets	864,000	467,000	1,331,000
Net assets, beginning of year	79,163,000	1,115,000	80,278,000
Net assets, end of year	\$ 80,027,000	\$ 1,582,000	\$ 81,609,000

AIRCRAFT OWNERS AND PILOTS ASSOCIATION AND AFFILIATES
CONSOLIDATING SCHEDULE OF OPERATING EXPENSES BY NATURAL ACCOUNT
Year ended December 31, 2013

	AOPA Consolidated
Total revenue	\$ 47,599,000
Salaries and benefits	22,726,000
Professional fees	10,746,000
Production costs	3,698,000
Travel and meetings	3,009,000
Distribution costs	2,803,000
Rent & maintenance	2,058,000
Depreciation and amortization	2,024,000
Dues, license & subscriptions	1,185,000
Contributions	1,144,000
Credit card and bank charges	1,077,000
Member insurance & premiums	897,000
Communications & technology	633,000
Taxes and insurance	581,000
Other	414,000
Supplies	325,000
Course related expense	32,000
	53,352,000
Total expenses	53,352,000
Change in net assets from operations before income taxes	\$ (5,753,000)



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