Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Aircraft Owners and Pilots Association and Affiliates

December 31, 2012 and 2011

C O N T E N T S

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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, 2012 and 2011, 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 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.

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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 Aircraft Owners and Pilots Association and Affiliates on page 24 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 established by the American Institute of Certified Public Accountants. 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, 2012 and 2011, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Baltimore, Maryland
April 16, 2013

CONSOLIDATED FINANCIAL STATEMENTS

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

December 31,	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 3,559,000	$ 4,679,000
Insurance premiums receivable net of allowances of $4,000 in 2012 and $2,000 in 2011.	1,433,000	2,041,000
Advertising, services and other receivables net of allowances of $177,000 in 2012 and $135,000 in 2011.	1,525,000	1,881,000
Contract fees and other receivables	3,373,000	1,020,000
Advances and prepaid expenses	1,904,000	1,847,000
	11,794,000	11,468,000
Investments, at fair value	77,960,000	76,332,000
Deferred income taxes	2,594,000	1,647,000
Property and equipment, net	13,027,000	10,381,000
Other assets	5,765,000	5,779,000
Total Assets	$ 111,140,000	$ 105,607,000
Liabilities and Net Assets		
Current Liabilities		
Accounts payable:		
Insurance premiums	$ 2,537,000	$ 3,240,000
Trade payables	1,868,000	892,000
Accrued expenses:		
Wages and benefits	2,198,000	2,344,000
Other accrued expenses	3,399,000	3,651,000
Deferred revenue:		
Membership dues and subscriptions	9,419,000	9,914,000
Other deferred revenue	3,528,000	4,114,000
	22,949,000	24,155,000
Long-term obligations	7,913,000	4,480,000
Total Liabilities	30,862,000	28,635,000
Net Assets, unrestricted	80,278,000	76,972,000
Total Liabilities and Net Assets	$ 111,140,000	$ 105,607,000

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

Year ended December 31,	2012	2011
Revenue		
Program Services:		
Membership dues and subscriptions	$ 16,278,000	$ 15,964,000
Advertising fees	8,165,000	8,652,000
Product sales and services	18,686,000	17,691,000
AOPA Insurance Agency commission	6,495,000	6,586,000
	49,624,000	48,893,000
Contributions, contracts, and grants	2,188,000	1,565,000
Other income	1,511,000	1,577,000
	53,323,000	52,035,000
Expense		
Program Services:		
Advocacy and representation	16,666,000	15,204,000
Publications	13,185,000	12,641,000
Membership development	9,541,000	9,586,000
Member products and services	7,999,000	7,484,000
AOPA Insurance Agency	4,610,000	4,114,000
	52,001,000	49,029,000
Support Services:		
Management and general	4,170,000	3,756,000
Fundraising	163,000	323,000
	4,333,000	4,079,000
	56,334,000	53,108,000
Change in net assets from operations before income taxes	(3,011,000)	(1,073,000)
Income tax (benefit) provision	(162,000)	562,000
Change in net assets from operations	(2,849,000)	(1,635,000)
Non-operating activity:		
Real estate investment revenue	697,000	633,000
Real estate investment expense	(629,000)	(579,000)
Real estate investment, net	68,000	54,000
Return on investments, net	5,751,000	(2,078,000)
Aviation life insurance reserves	—	919,000
Aviation AD&D insurance reserves	336,000	300,000
Change in net assets	3,306,000	(2,440,000)
Net assets, beginning of year	76,972,000	79,412,000
Net assets, end of year	$ 80,278,000	$ 76,972,000

The accompanying notes are an integral part of these statements.

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

December 31,	2012	2011
Cash Flows from Operating Activities		
Change in net assets	$ 3,306,000	$ (2,440,000)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized and realized investment gains	6,416,000	4,052,000
Depreciation	1,462,000	1,581,000
Amortization	105,000	49,000
Deferred income taxes	(947,000)	(84,000)
Provision for losses on accounts receivable	44,000	31,000
Changes in operating assets and liabilities:		
Receivables	(1,732,000)	(393,000)
Prepaid expenses	242,000	409,000
Other assets	(91,000)	14,000
Accounts payable	273,000	(529,000)
Accrued wages and benefits	(146,000)	6,000
Other accrued liabilities	(252,000)	480,000
Deferred revenue	(1,081,000)	632,000
Long-term obligations	(140,000)	(1,054,000)
Net cash provided by operating activities	7,459,000	2,754,000
Cash Flows from Investing Activities		
Proceeds from sales of investments	32,155,000	13,990,000
Purchases of investments	(40,199,000)	(14,929,000)
Purchase of aviation insurance policies	—	(392,000)
Payment for purchase of remaining interest in AOPAIA	—	(996,000)
Capital expenditures	(4,108,000)	(1,301,000)
Net cash used in investing activities	(12,152,000)	(3,628,000)
Cash Flows from Financing Activities		
Financing lease	4,201,000	—
Lease repayment	(628,000)	—
Net cash provided by financing activities	3,573,000	—
Net change in cash and cash equivalents	(1,120,000)	(874,000)
Cash and cash equivalents, beginning of year	4,679,000	5,553,000
Cash and cash equivalents, end of year	$ 3,559,000	$ 4,679,000

The accompanying notes are an integral part of these statements.

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 Corp ("AHC") and its affiliate AOPA Political Action Committee ("PAC") (collectively, the "Association"). AMPI produces and distributes AOPA publications to the Association membership and pilot population, primarily the AOPA PILOT magazine, Flight Training magazine, the AOPA Airport Directory, AOPA ePilot and other publications as needed, and also provides communications-related services (public relations and website management) to the Association. ASCO coordinates the delivery of products and services to AOPA members and pilots and also provides marketing services related to the Association's products and services. AOPAIA is an aircraft insurance broker. AFTI engages in the business of developing and promoting aviation software and applications. AHC engages in business development activities to provide support for AOPA's mission. PAC is a federal political action committee that solicits contributions from donors and contributes to the political campaign of federal election candidates.

In 2006, the Board of Directors of AOPAIA approved a resolution to reorganize its ownership structure. The amendment to AOPAIA's Shareholders' Agreement was executed by AOPA and AON Risk Services, Inc. ("ARS") effective March 1, 2007. Under the amendment, AOPA's percentage of ownership increased to 60% and ARS's percentage of ownership decreased to 40%. On March 30, 2009, AOPA and ARS entered into a stock purchase agreement. Under the agreement, AOPA paid $1,700,000 to acquire ARS's remaining 40% ownership. In addition to the cash payment, through 2011, AOPA was required to make contingent payments to ARS based on AOPAIA meeting certain performance targets. Amounts earned in 2011 were accrued as of December 31, 2011 and are included in other accrued expenses in the Consolidated Statements of Financial Position.

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.

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

Cash and Cash Equivalents - continued

Cash and cash equivalents includes $3,559,000 and $4,679,000 held in separate accounts at December 31, 2012 and 2011, respectively. These funds include insurance premiums collected from AOPAIA customers but not yet remitted to insurance companies and are restricted as to use by laws in certain states in which AOPAIA operates.

Investments

The Association reports investments in money market 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, 2012 and 2011, $1,581,000 and $1,549,000, 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.

Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 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"). Due to participation in a special program with the commercial bank, all of the Association's cash was FDIC insured at December 31, 2012 and 2011.

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

Revenue Recognition

Membership dues and 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.

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.

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.

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, 2012 and 2011 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.

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

Income Taxes - continued

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.

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. If quoted market prices are not available or accessible, then 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.

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

Fair Value Measurements - continued

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.

NOTE B - INVESTMENTS

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

	2012		2011	
	Cost	Market Value	Cost	Market Value
Common stock and mutual funds	$ 5,864,000	$ 5,654,000	$56,044,000	$57,368,000
Money market funds	31,751,000	31,751,000	2,950,000	2,950,000
Alternative investments	9,850,000	10,494,000	8,987,000	9,037,000
Bond backed mutual funds	14,379,000	15,233,000	4,277,000	4,163,000
Bonds and mortgage backed securities	14,852,000	14,828,000	2,959,000	2,814,000
	$76,696,000	$77,960,000	$75,217,000	$76,332,000

NOTE B - INVESTMENTS - Continued

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)
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	14,828,000	14,828,000	-	-
	$77,960,000	$67,466,000	$4,920,000	$5,574,000
2011:				
Common stock and mutual funds	$57,368,000	$57,368,000	$ -	$ -
Money market funds	2,950,000	2,950,000	-	-
Alternative investments	9,037,000	-	4,665,000	4,372,000
Bonds backed mutual funds	4,163,000	4,163,000	-	-
Bonds and mortgage backed securities	2,814,000	2,814,000	-	-
	$76,332,000	$67,295,000	$4,665,000	$4,372,000

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, 2012 and 2011.

- *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 and a fund of 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.

NOTE B - INVESTMENTS - Continued

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, including the additional requirement to classify securities by major category defined as the major security type classifications within ASC 320:

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

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, 2011:

	Beginning balance at 1/1/2011	Total realized/ unrealized losses	Purchases, issuances and sales, net	Ending balance at 12/31/2011
Hedge funds and partnerships	$5,074,000	$(149,000)	$(553,000)	$4,372,000

The table below presents additional information for the Association's investments, as of December 31, 2012, 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 12/31/2012
Hedge funds [(a)]	$10,494,000	$ -	Daily	Daily	None	None
	$10,494,000					

(a) This class includes several hedge funds and funds of 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.

NOTE B - INVESTMENTS - Continued

Return on investments consisted of the following at December 31:

	2012	2011
Realized gains	$5,008,000	$ 1,794,000
Dividends	1,196,000	2,184,000
Unrealized gains (losses)	190,000	(5,846,000)
Interest	62,000	66,000
Investment expenses relating to deferred compensation and retention arrangements	(472,000)	(78,000)
Money manager fees	(233,000)	(198,000)
	$5,751,000	$(2,078,000)

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	10 years
Equipment, vehicles and other	3-10 years

Property and equipment consisted of the following at December 31:

	2012	2011
Equipment, vehicles and other	$ 8,113,000	$ 7,555,000
Building and improvements - headquarters building	6,937,000	6,632,000
Investment property	3,933,000	3,933,000
Aircraft	2,151,000	2,151,000
Land and improvements	1,279,000	1,279,000
Assets in progress	3,942,000	697,000
	26,355,000	22,247,000
Less accumulated depreciation	(13,328,000)	(11,866,000)
	$ 13,027,000	$ 10,381,000

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

NOTE C - PROPERTY AND EQUIPMENT - Continued

Furniture, equipment, and software with an original cost and accumulated depreciation of $1,332,000, were disposed of in 2011. There are no asset disposals in 2012.

Depreciation expense was $1,462,000 and $1,581,000 for 2012 and 2011, respectively.

NOTE D - OTHER ASSETS

Other assets consisted of the following at December 31:

	2012	2011
AOPAIA purchase intangible	$4,445,000	$4,445,000
Flight Training magazine intangible	836,000	836,000
Aviation insurance policy purchase intangible	525,000	392,000
Lease accounting income accrual	113,000	146,000
	5,919,000	5,819,000
Less accumulated amortization	(154,000)	(40,000)
	$5,765,000	$5,779,000

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 2012 and 2011; 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 $105,000 and $49,000 for the years ended December 31, 2012 and 2011, respectively.

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"). Under the terms of the purchase agreement, ARS received three payments representing 15 percent of the net commissions of AOPAIA which were conditional upon AOPAIA achieving certain performance targets. As of December 31, 2011, the Association determined that the three payments were no longer conditional as AOPAIA achieved the required performance target during all years. As a result, the Association recorded a liability as of December 31, 2011 for the final payment in the amount of $996,000, which is recorded as additional goodwill.

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, 2012. The carrying value for goodwill as of December 31, 2012 and 2011 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 (benefit) provision consisted of the following for the years ended December 31:

	2012	2011
Current	$ 786,000	$646,000
Deferred	(948,000)	(84,000)
	$(162,000)	$562,000

NOTE E - INCOME TAXES - Continued

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

	2012	2011
Deferred compensation	$1,302,000	$1,254,000
Other (federal and state)	736,000	(215,000)
Accrued legal service plan	624,000	611,000
Accrued paid time off	85,000	87,000
Bad debt reserves	69,000	52,000
Depreciation & amortization	39,000	(54,000)
Prepaid	(12,000)	(11,000)
Unrealized gain	(249,000)	(77,000)
	$2,594,000	$1,647,000

Income taxes paid totaled $548,000 and $606,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2012 and 2011 consist of the following:

	2012	2011
Deferred compensation and retirement plan accruals	$3,351,000	$3,406,000
Financing lease payable	2,624,000	-
Legal service plan reserves	479,000	514,000
Facility related reserves	213,000	293,000
Aircraft reserves	196,000	156,000
Other long-term accrued liabilities	1,050,000	111,000
	$7,913,000	$4,480,000

NOTE F - LONG-TERM OBLIGATIONS - Continued

In February 2012, the Association entered a lease agreement with Banc of America Leasing & Capital. The total amount financed was $4,201,000 and to be repaid in 3-5 years. Principal of $628,000 was repaid in 2012. Future lease payments are as follows:

2013	$1,053,000
2014	1,053,000
2015	836,000
2016	684,000
2017	182,000
Total	3,808,000
Less interest	(234,000)
	3,574,000
Less current portion	(950,000)
Total long-term obligation	$2,624,000

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, 2012:

Minimum Lease Contract Payments	
2013	$ 790,000
2014	800,000
2015	839,000
2016	335,000
2017	266,000
Thereafter	1,108,000
Total minimum lease payments	$4,138,000

Rental expense, net of sublease income, was $1,084,000 and $1,062,000 for 2012 and 2011, respectively.

NOTE G - COMMITMENTS - Continued

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, 2012:

2013	$ 524,000
2014	420,000
2015	181,000
2016	68,000
2017	35,000
Total minimum lease receipts	$1,228,000

As of December 31, 2012, $113,000 of deferred rent assets relating to the above lease agreement was included in other assets.

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 $404,000 in 2012 and $390,000 in 2011.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the years ended December 31, 2012 and 2011, matching contributions were $786,000 and $757,000, respectively.

Other Deferred Compensation Plan

The Association has entered into various deferred compensation/retirement agreements with certain executives. Amounts due and funded under these arrangements total $3,351,000 and $3,406,000 as of December 31, 2012 and 2011, respectively.

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 $1,491,000 and $1,425,000 in 2012 and 2011, 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, 2012 and 2011 and totaled $49,000 and $209,000, respectively. AOPAIA made a contribution of $500,000 and $400,000 to the AOPA Foundation, Inc. for the years ended December 31, 2012 and 2011, respectively. ASCO made a contribution of $75,000 to the AOPA Foundation, Inc. for the year ended December 31, 2011.

AOPAIA leased office space from ARS through August 31, 2011. Lease expense to ARS totaled $80,000 for the year ending December 31, 2011.

NOTE J - SUBSEQUENT EVENTS

The Association evaluated its December 31, 2012 financial statements for subsequent events through April 16, 2013, the date the financial statements were available to be issued. The Association is not aware of any 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, 2012

	AOPA	Consolidated Subsidiaries and Affiliates, net of Eliminating Entries	AOPA Consolidated
Total revenue	$ 30,582,000	$ 22,741,000	$ 53,323,000
Total expenses	33,640,000	22,694,000	56,334,000
Change in net assets from operations before income taxes	(3,058,000)	47,000	(3,011,000)
Income tax provision (benefit)	4,000	(166,000)	(162,000)
Change in net assets from operations	(3,062,000)	213,000	(2,849,000)
Non-operating Activity:			
Real estate investment revenue	697,000	—	697,000
Real estate investment expense	(629,000)	—	(629,000)
Real estate investment, net	68,000	—	68,000
Return on investments, net	5,501,000	250,000	5,751,000
Aviation AD&D insurance reserves	336,000	—	336,000
Change in net assets	2,843,000	463,000	3,306,000
Net assets, beginning of year	76,320,000	652,000	76,972,000
Net assets, end of year	$ 79,163,000	$ 1,115,000	$ 80,278,000