

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

**Aircraft Owners and Pilots Association and
Affiliates**

December 31, 2020 and 2019

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GRANT THORNTON LLP

1000 Wilson Boulevard, Suite 1400
Arlington, VA 22209

D +1 703 847 7500

F +1 703 848 9580

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, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of activities and changes in net assets for the year ended December 31, 2020 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. 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, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Arlington, Virginia
April 20, 2021

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

December 31,

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,327,000	\$ 3,620,000
Restricted cash	1,837,000	1,948,000
Contract fees and other receivables, net	1,487,000	757,000
Advertising and services receivables, net	451,000	169,000
Advances and prepaid expenses	2,739,000	2,367,000
Total current assets	10,841,000	8,861,000
INVESTMENTS, AT FAIR VALUE	114,284,000	103,978,000
DEFERRED INCOME TAXES	-	550,000
PROPERTY AND EQUIPMENT, NET	11,944,000	12,675,000
OTHER ASSETS	6,000	1,000
	126,234,000	117,204,000
Total assets	\$ 137,075,000	\$ 126,065,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,126,000	\$ 191,000
Accrued expenses	4,271,000	5,276,000
Deferred revenue:		
Membership dues and subscriptions	12,623,000	13,028,000
Other deferred revenue	3,067,000	2,461,000
Financing loan payable	710,000	679,000
Other obligations	205,000	213,000
	22,002,000	21,848,000
LONG-TERM OBLIGATIONS		
Other obligations	3,482,000	3,904,000
Financing loan payable	3,248,000	3,958,000
	6,730,000	7,862,000
Total liabilities	28,732,000	29,710,000
NET ASSETS WITHOUT DONOR RESTRICTIONS	108,343,000	96,355,000
Total liabilities and net assets	\$ 137,075,000	\$ 126,065,000

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

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31,

	2020	2019
Revenue		
Program services		
Membership dues and subscriptions	\$ 24,088,000	\$ 22,323,000
Advertising fees	5,448,000	6,529,000
Commissions and royalties	4,523,000	5,422,000
Products and services	3,799,000	4,960,000
	37,858,000	39,234,000
Contributions, contracts, and grants	9,285,000	11,072,000
Other income	604,000	704,000
	47,747,000	51,010,000
Expense		
Program services		
Mission (See Note A)	36,027,000	41,351,000
Products and services	6,748,000	8,193,000
	42,775,000	49,544,000
Support services		
General and administrative	5,715,000	5,981,000
Fundraising	531,000	590,000
	6,246,000	6,571,000
	49,021,000	56,115,000
Change in net assets from operating activities	(1,274,000)	(5,105,000)
Non-operating activities		
Return on investments, net	13,328,000	16,250,000
Total non-operating activities	13,328,000	16,250,000
Change in net assets from operating and non-operating activities, before income taxes	12,054,000	11,145,000
Income tax provision	66,000	317,000
Change in net assets	11,988,000	10,828,000
Net assets, beginning of year	96,355,000	85,527,000
Net assets, end of year	\$ 108,343,000	\$ 96,355,000

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

Aircraft Owners and Pilots Association and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2020

	Program Services			Supporting Services			Total Expenses
	Mission	Products and Services	Total	General and Administrative	Fundraising	Total	
Compensation and benefits	\$ 21,311,000	\$ 4,683,000	\$ 25,994,000	\$ 2,303,000	\$ 38,000	\$ 2,341,000	\$ 28,335,000
Professional services and software fees	3,208,000	1,133,000	4,341,000	1,838,000	228,000	2,066,000	6,407,000
Production and distribution	4,471,000	330,000	4,801,000	166,000	240,000	406,000	5,207,000
Meetings, events, membership	2,341,000	132,000	2,473,000	3,000	-	3,000	2,476,000
Depreciation and amortization	1,335,000	48,000	1,383,000	537,000	-	537,000	1,920,000
Regulatory fees	1,201,000	308,000	1,509,000	231,000	25,000	256,000	1,765,000
Rentals and maintenance	786,000	92,000	878,000	637,000	-	637,000	1,515,000
Contributions	1,374,000	22,000	1,396,000	-	-	-	1,396,000
Total expenses reported by function	<u>\$ 36,027,000</u>	<u>\$ 6,748,000</u>	<u>\$ 42,775,000</u>	<u>\$ 5,715,000</u>	<u>\$ 531,000</u>	<u>\$ 6,246,000</u>	<u>\$ 49,021,000</u>

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

Aircraft Owners and Pilots Association and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2019

	Program Services			Supporting Services			Total Expenses
	Mission	Products and Services	Total	General and Administrative	Fundraising	Total	
Compensation and benefits	\$ 21,701,000	\$ 4,604,000	\$ 26,305,000	\$ 2,446,000	\$ 37,000	\$ 2,483,000	\$ 28,788,000
Professional services and software fees	4,499,000	2,032,000	6,531,000	1,810,000	224,000	2,034,000	8,565,000
Production and distribution	5,622,000	435,000	6,057,000	166,000	305,000	471,000	6,528,000
Meetings, events, membership	4,221,000	367,000	4,588,000	44,000	-	44,000	4,632,000
Rentals and maintenance	1,678,000	343,000	2,021,000	729,000	-	729,000	2,750,000
Depreciation and amortization	1,320,000	81,000	1,401,000	552,000	-	552,000	1,953,000
Regulatory fees	1,190,000	324,000	1,514,000	234,000	24,000	258,000	1,772,000
Contributions	1,120,000	7,000	1,127,000	-	-	-	1,127,000
Total expenses reported by function	<u>\$ 41,351,000</u>	<u>\$ 8,193,000</u>	<u>\$ 49,544,000</u>	<u>\$ 5,981,000</u>	<u>\$ 590,000</u>	<u>\$ 6,571,000</u>	<u>\$ 56,115,000</u>

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

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 11,988,000	\$ 10,828,000
Adjustments to reconcile change in net assets to net cash, including restricted cash, used in operating activities:		
Loss on disposal of fixed assets	50,000	-
Unrealized gains	(11,287,000)	(13,936,000)
Realized gains	(1,852,000)	(2,123,000)
Reinvested dividends and interest, net of investment expense	(340,000)	(456,000)
Investment expenses related to deferred compensation	151,000	265,000
Depreciation	1,915,000	1,953,000
Amortization	5,000	-
Deferred income taxes	550,000	(113,000)
Changes in operating assets and liabilities:		
Receivables	(1,012,000)	996,000
Advances and prepaid expenses	(377,000)	77,000
Other assets	(5,000)	-
Accounts payable	935,000	(219,000)
Accrued expenses	(1,013,000)	(6,630,000)
Deferred revenue	201,000	1,366,000
Long-term obligations	(422,000)	92,000
Net cash used in operating activities	(513,000)	(7,900,000)
Cash flows from investing activities:		
Proceeds from sale of investments	45,525,000	47,415,000
Purchases of investments	(42,503,000)	(35,217,000)
Proceeds from sale of fixed assets	-	159,000
Purchases of property and equipment	(1,234,000)	(4,728,000)
Net cash provided by investing activities	1,788,000	7,629,000
Cash flows from financing activities:		
Loan proceeds	-	2,714,000
Repayment on loans and leases	(679,000)	(631,000)
Net cash (used in) provided by financing activities	(679,000)	2,083,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	596,000	1,812,000
Cash and cash equivalents and restricted cash, beginning of year	5,568,000	3,756,000
Cash and cash equivalents and restricted cash, end of year	\$ 6,164,000	\$ 5,568,000
Supplemental Disclosure of Cash Flow Information		
Interest paid during the year	\$ 201,000	\$ 203,000

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, 2020 and 2019

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 fostering the health of general aviation worldwide, providing our members with high value products and services, and attracting the financial support to make it all happen.

The accompanying consolidated financial statements include the accounts of AOPA and its wholly owned taxable subsidiary AOPA Holdings Corporation (“AHC”) and its affiliate AOPA Political Action Committee (“PAC”) (collectively, the “Association”). AHC coordinates the delivery of products and services to AOPA members and pilots, provides marketing services related to the Association’s products and services, and engages in business activities to provide support for AOPA’s mission. AOPA’s program services includes two programs: mission and product and services. AOPA’s mission activities include advocacy and representation, publications, member engagement and member development. PAC is a federal political action committee that solicits contributions from donors and contributes to the political campaign of federal election candidates. AOPA Insurance Agency, Inc. (“AOPAIA”) is a wholly owned subsidiary of AOPA Holdings Corporation that provided marketing and program support for non-aviation insurance programs. AOPAIA was dissolved as of December 31, 2020 and, as a result, all assets and liabilities were transferred to its parent company, AHC.

Basis of Accounting

The consolidated financial statements of the Association have been prepared on the accrual basis, which conforms to accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The consolidated financial statements include the accounts of AOPA and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Recently Adopted Accounting Standards

Effective January 1, 2019, the Association adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with ASU 2018-08, the Association evaluates whether a transfer of assets is: (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Association applies guidance under Topic 606. If the transfer of assets is determined to be a contribution, the Association evaluates whether the contribution is conditional based upon whether the agreement includes both: (1) one or more barriers that must be overcome before the Association is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets.

Cash and Cash Equivalents

The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents except for short-term investments managed by the Associations’ investment manager as part of the long-term investment strategies.

Restricted Cash

Restricted cash includes PAC contributions of \$1,837,000 and \$1,948,000 at December 31, 2020 and 2019, respectively. The funds are restricted as to use by PAC federal campaign activities.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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, 2020 total approximately \$5,646,000. These funds are maintained for traditionally high first-quarter funding requirements.

Liquidity

The Association's financial assets available for one year for general expenditures at December 31, 2020 and 2019 totaled \$7,699,000 and \$8,313,000, respectively. The financial assets are not subject to contractual restrictions that make them unavailable for general expenditures within one year. The accounts receivable is subject to implied time restrictions but are expected to be collected within one year. In addition, the Association currently holds investments with a redemption period of one year or less, excluding SERP investments, totaling approximately \$110,313,000 and \$99,921,000 as of December 31, 2020 and 2019, respectively. It is the intention of management to hold investments in excess of one year; therefore, all investments are excluded from the liquidity table below.

	2020	2019
Cash and cash equivalents	\$ 4,327,000	\$ 3,620,000
Money market funds - investments	1,210,000	1,700,000
Contract fees and other receivables, net	910,000	757,000
Cash and cash equivalents - investments	801,000	2,067,000
Advertising and services receivables, net	451,000	169,000
Financial assets available within one year	\$ 7,699,000	\$ 8,313,000

Investments

The Association reports investments in money market funds, mutual funds, bond-backed mutual funds, and alternative investments at fair value.

Investment gains and losses, net of management fees, are included in the consolidated statements of activities and changes in net assets and are reported as non-operating activity.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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, 2020 and 2019, \$371,000 and \$393,000, respectively, was accrued for estimated claims and related costs under the plan.

Net Assets

Net assets without donor restrictions are a result of operations and, accordingly, are available to meet the general operating needs of the Association.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the consolidated statements of activities.

Revenue Recognition

The Association adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), effective January 1, 2019. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five steps of the model include: 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the Association satisfies a performance obligation.

The Association recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration the Association expects to be entitled to in exchange for those goods or services. ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amounts, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Association has identified membership dues and subscriptions, advertising fees, commissions and royalties, products and services, and contracts as revenue categories subject to the adoption of ASC 606.

The results of applying ASC 606 using the modified retrospective approach did not have a material impact on the consolidated financial positions, changes in net assets, cash flows, business processes, controls or systems of the Association for the years ending December 31, 2020 and 2019.

A description of the Association's revenue categories accounted for under ASC 606 follows:

- Membership dues, subscriptions, and products and services revenues are recognized over the period that member services are provided.
- Advertising fees are recognized in the period in which the advertisements appear in the Association's media channels.
- Contract royalty and marketing fees are recognized over time as performance obligations are satisfied per each contract.
- Aviation Finance Brokerage commission income is recorded at the closing date of the loan or periodically as payments are received.
- Sponsorship revenue is considered earned when the Association has substantially met its obligations in accordance with the terms of sponsorship agreement.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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

In accordance with ASU 2018-08, The Association reports contributions and grants, 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 for doubtful accounts.

Advances and Prepaid Expenses

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received.

Income Taxes

Under the provisions of the Internal Revenue Code Section 501(c)(4) and the applicable local income tax regulations, the Association is exempt on income other than unrelated business income and income derived from the taxable subsidiary AHC. For the years ended December 31, 2020, 2019, 2018 and 2017, 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 Association has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program costs charged to each program based on the direct costs charged to each program. The expenses are presented by natural classification and functional classification in the consolidated statement of functional expenses.

Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

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

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

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

Measure of Operations

The change in net assets from operating activities reflected on the accompanying consolidated statements includes primarily activities closely related to mission and product and services functions of the Association. Amounts not included in the measure of operations consists of the net return on investments including realized and unrealized gains and losses.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE B - INVESTMENTS

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

	2020	2019
Alternative investments	\$ 76,386,000	\$ 62,230,000
Common stock and mutual funds	30,191,000	31,444,000
Bond-backed mutual funds	5,696,000	6,537,000
Cash and cash equivalents	1,210,000	1,700,000
Money market funds	801,000	2,067,000
	<u>\$114,284,000</u>	<u>\$103,978,000</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)
2020:				
Common stock and mutual funds	\$ 30,191,000	\$ 30,191,000	\$ -	\$ -
Bonds backed market funds	5,696,000	5,696,000	-	-
Money mutual funds	801,000	801,000	-	-
	36,688,000	36,688,000	-	-
Investment measured at NAV ^(a)	76,386,000	-	-	-
Cash and cash equivalents	1,210,000	-	-	-
	<u>\$114,284,000</u>	<u>\$ 36,688,000</u>	<u>\$ -</u>	<u>\$ -</u>
2019:				
Common stock and mutual funds	\$ 31,444,000	\$ 31,444,000	\$ -	\$ -
Bonds backed mutual funds	6,537,000	6,537,000	-	-
Money market funds	2,067,000	2,067,000	-	-
	40,048,000	40,048,000	-	-
Investments measured at NAV ^(a)	62,230,000	-	-	-
Cash and cash equivalents	1,700,000	-	-	-
	<u>\$103,978,000</u>	<u>\$ 40,048,000</u>	<u>\$ -</u>	<u>\$ -</u>

^(a) In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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, 2020 and 2019.

- *Money market funds, bond backed mutual funds, common stocks, and mutual funds:* Valued at the closing price reported on the active market on which the individual (or similar) securities are traded.
- *Alternative investments:* This category includes investments in commingled, hedge funds, or private equity funds, which are valued by applying the Association's ownership percentage in the partnership to the total value of the underlying investments of the fund.
- *Cash and cash equivalents:* This category includes holdbacks on sales of alternative investments at December 31, 2020 that will be reinvested in alternative investments in 2021.

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, 2020, 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 Restriction at 12/31/2020</u>
Commingled	\$ 8,890,000	\$ -	Daily	Daily	Yes	Yes
Commingled	51,841,000	-	Monthly	Monthly	Yes	
Commingled	<u>4,178,000</u>	<u>-</u>	Quarterly	Quarterly	Yes	Yes
	<u>\$ 64,909,000</u>	<u>\$ -</u>				
Hedge funds ^(a)	\$ 8,465,000	\$ -	Quarterly	Quarterly	Yes	Yes
Hedge funds ^(a)	1,626,000	-	Annually	Annually	Yes	Yes
Hedge funds ^(a)	<u>314,000</u>	<u>-</u>	N/A	N/A	N/A	N/A
	<u>\$ 10,405,000</u>	<u>\$ -</u>				
Private equity ^(a)	<u>\$ 1,572,000</u>	<u>\$ -</u>	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, 2020 and 2019

The table below presents additional information for the Association's investments, as of December 31, 2019, whose fair value is estimated using the practical expedient of reported 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 Restriction at 12/31/2019</u>
Commingled	\$ 9,989,000	\$ -	Daily	Daily	Yes	Yes
Commingled	37,884,000	-	Monthly	Monthly	Yes	Yes
Commingled	4,966,000	-	Quarterly	Quarterly	Yes	Yes
	<u>\$ 52,839,000</u>	<u>\$ -</u>				
Hedge funds ^(a)	\$ 9,388,000	\$ -	Quarterly	Quarterly	Yes	Yes
Hedge funds ^(a)	959,000	-	Annually	Annually	Yes	Yes
Hedge funds ^(a)	201,000	-	N/A	N/A	N/A	N/A
	<u>\$ 10,548,000</u>	<u>\$ -</u>				
Private equity ^(a)	<u>\$ 1,342,000</u>	<u>\$ -</u>	N/A	N/A	N/A	N/A

^(a) This class includes several commingled, hedge funds, or private equity funds that invest primarily in international and domestic equity securities to achieve capital appreciation. The fair values of the investments have been estimated by using the NAV per share of the funds.

Return on investments consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Realized gains	\$ 1,852,000	\$ 2,123,000
Reinvested dividends and interest	682,000	809,000
Investment expenses relating to deferred compensation and retention arrangements	(151,000)	(265,000)
Investment fees	(342,000)	(353,000)
Unrealized gains	11,287,000	13,936,000
	<u>\$ 13,328,000</u>	<u>\$ 16,250,000</u>

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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:

	2020	2019
Building and improvements	\$ 14,151,000	\$ 14,151,000
Equipment, vehicles and other	12,224,000	12,523,000
Aircraft	4,877,000	4,835,000
Land and improvements	1,279,000	1,279,000
Assets in progress	1,032,000	595,000
	33,563,000	33,383,000
Accumulated depreciation	(21,619,000)	(20,708,000)
	\$ 11,944,000	\$ 12,675,000

Depreciation expense was \$1,915,000 and \$1,953,000 for 2020 and 2019, respectively.

NOTE D - INCOME TAXES

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

	2020	2019
Current	\$ 118,000	\$ 301,000
Deferred	(52,000)	16,000
	\$ 66,000	\$ 317,000

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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

	2020	2019
Net operating losses	\$ 516,000	\$ 989,000
Other	162,000	(80,000)
Deferred compensation	137,000	298,000
Accrued legal service plan	102,000	108,000
Accrued paid time off and other payroll	38,000	49,000
Unrealized gains	-	(59,000)
Depreciation and amortization	(7,000)	(12,000)
Prepaid and bad debt reserves	(11,000)	(22,000)
Valuation allowance	(937,000)	(721,000)
	\$ -	\$ 550,000

Income taxes paid totaled \$81,000 and \$6,533,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE E - OTHER OBLIGATIONS

Short-term obligations consist of \$205,000 and \$213,000 for the legal service plan reserve for the years ended December 31, 2020 and 2019, respectfully

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

	2020	2019
AOPA lifetime memberships	\$ 2,136,000	\$ 2,151,000
Deferred compensation and retirement plan accruals	693,000	1,193,000
Other long-term accrued liabilities	411,000	287,000
Legal service plan reserves	166,000	180,000
Aircraft reserves	76,000	93,000
	\$ 3,482,000	\$ 3,904,000

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

NOTE F - FINANCING

In July 2020, the Association entered into a discretionary demand line of credit note agreement with U.S. Bank National Association in the amount of \$5,000,000 which is secured by investments. The Association did not draw on the line of credit as of December 31, 2020. In February 2019, the Association entered into a financing agreement with 1st Source Bank in the amount of \$2,714,000 which is secured by the financed aircraft with an outstanding balance of \$2,480,000 as of December 31, 2020. In July 2018, the Association converted its revolving Line of Credit ("LOC") agreement with Bank of America, N.A. into a five-year term note. There was an outstanding balance of \$1,478,000 as of December 31, 2020.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2020 and 2019

At December 31, 2020, future minimum payments are as follows:

2021		\$ 880,000
2022		880,000
2023		568,000
2024		257,000
2025		257,000
Thereafter		<u>1,951,000</u>
Total		4,793,000
Less: interest		<u>(835,000)</u>
		3,958,000
Less: current portion		<u>(710,000)</u>
Total long-term financing loan payable		<u>\$ 3,248,000</u>

The Association entered into an interest rate swap agreement, with an effective date of February 25, 2019.

The Association agreed to swap its variable interest rate of one month of London Interbank Offered Rate ("LIBOR") plus 2.05% for a fixed rate equal to 4.88%. The fair value of the interest rate swap agreement was recorded on the consolidated statements of financial position in long-term obligations and the change in fair value is recorded in the consolidated statements of activities as unrealized investment gains or losses.

As of and for the years ended December 31, 2020 and 2019, amounts included within the consolidated financial statements relating to the interest rate swap agreement are as follows:

Effective Date	Notational Amount	Rate	Termination Date	Fair Value at December 31, 2020
February 25, 2019	\$ 2,480,000	4.88%	February 15, 2029	\$ 346,000
Effective Date	Notational Amount	Rate	Termination Date	Fair Value at December 31, 2019
February 25, 2019	\$ 2,610,000	4.88%	February 15, 2029	\$ 194,000

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE G - COMMITMENTS

The Association is committed under various long-term, non-cancelable leases and contracts for office space, hangar rental and equipment expiring at various times through December 2033. 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, 2020:

Minimum lease contract payments

2021	\$ 515,000
2022	229,000
2023	285,000
2024	294,000
2025	281,000
Thereafter	2,257,000
Total minimum lease payments	\$ 3,861,000

Rental expense, net of sublease income, was \$550,000 and \$1,122,000 for 2020 and 2019, respectively.

The Association entered into non-cancelable lease agreements, as landlord, relating to a commercial real estate property. The future rental receipts expected under the non-cancelable operating leases are as follows at December 31, 2020:

2021	\$ 262,000
2022	195,000
2023	39,000
Total minimum lease receipts	\$ 496,000

Leased costs associated with office space in the amount of \$10,000 and \$3,000, respectively, was amortized for the years ended December 31, 2020 and 2019. Leased costs are amortized over the life of the lease.

NOTE H - 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% to 10% of aggregated participants' eligible compensation at the discretion of the Board of Trustees. For the years ended December 31, 2020 and 2019, contribution expense under the DC Plan was \$597,000 and \$583,000, respectively.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the years ended December 31, 2020 and 2019, matching contributions were \$826,000 and \$830,000, respectively.

Other Deferred Compensation Plan

The Association entered into various deferred compensation/retirement agreements with certain executives. For years ended December 31, 2020 and 2019, amounts due and funded under these arrangements totaled \$693,000 and \$1,193,000, respectively.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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 \$602,000 and \$697,000 in 2020 and 2019, respectively. The Association received grants from the AOPA Foundation, Inc. in the amount of \$6,500,000 and \$8,459,000 in 2020 and 2019, respectively, which is included in the contributions, contracts, and grants line item on the consolidated statements of activities and changes in net assets. The amount due from the AOPA Foundation, Inc. at December 31, 2020 and 2019 was \$297,000 and \$212,000, respectively, and is included in accounts receivable in the consolidated statements of financial position.

NOTE J - RISKS AND UNCERTAINTIES

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Association is unable to determine if it will have a material impact to its operations.

NOTE K - SUBSEQUENT EVENTS

On January 1, 2021, the operations of the You Can Fly programs administered by the Association were transferred to the AOPA Foundation, Inc. As a result, \$609,000 of assets and \$217,000 of liabilities were transferred at cost to the AOPA Foundation, Inc. The excess of assets over liabilities was recorded as contribution expense.

The Association evaluated its December 31, 2020 consolidated financial statements for subsequent events through April 20, 2021, the date the consolidated financial statements were available to be issued and concluded that, except as described above, there are no additional disclosures required.

SUPPLEMENTARY INFORMATION

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2020

	<u>AOPA</u>	<u>Consolidated Affiliate, net of Eliminating Entries</u>	<u>AOPA Consolidated</u>
Total revenue	\$ 44,422,000	\$ 3,325,000	\$ 47,747,000
Total expenses	<u>45,432,000</u>	<u>3,589,000</u>	<u>49,021,000</u>
Operating revenues in excess of operating expense before non-operating activities	(1,010,000)	(264,000)	(1,274,000)
Non-operating activities			
Return on investments, net	<u>13,307,000</u>	<u>21,000</u>	<u>13,328,000</u>
Total non-operating activities	13,307,000	21,000	13,328,000
Income tax provision	<u>1,000</u>	<u>65,000</u>	<u>66,000</u>
Change in net assets	12,296,000	(308,000)	11,988,000
Net assets, beginning of year	<u>99,526,000</u>	<u>(3,171,000)</u>	<u>96,355,000</u>
Net assets, end of year	<u>\$ 111,822,000</u>	<u>\$ (3,479,000)</u>	<u>\$ 108,343,000</u>