



**ALLIED PILOTS ASSOCIATION
AND SUBSIDIARIES**

Consolidated Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Board of Directors
Allied Pilots Association:

We have audited the accompanying consolidated financial statements of Allied Pilots Association and Subsidiaries (APA), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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.

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 APA as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
January 7, 2014

**ALLIED PILOTS ASSOCIATION
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Consolidated Statements of Financial Position

June 30, 2013 and 2012

Assets	2013	2012
Cash and cash equivalents	\$ 6,517,430	11,914,200
Accrued interest receivable	194,201	195,153
Dues receivable	1,481,666	1,417,904
Reimbursement receivable (note 12)	21,173,654	—
Receivables from furloughed pilots loan fund (net of allowance of \$899,953 for 2013 and \$1,279,090 for 2012) (note 4)	356,492	209,590
Flight pay loss receivable	184,930	136,078
Investments (note 2)	27,883,628	25,845,045
Noncurrent assets for postretirement plan (note 8)	—	29,818
Property, plant, and equipment, net (note 5)	3,457,210	3,748,563
Other assets, net	615,842	624,698
Total assets	\$ 61,865,053	44,121,049
Liabilities and Net Assets		
Accounts payable	\$ 924,619	2,321,061
Accrued liabilities	10,236,075	1,472,853
Dues refunds payable	61,840	60,683
Retirement contributions payable (note 7)	429,021	725,159
Postretirement benefits payable	37,005	—
Furloughed pilots loan fund payable (note 4)	1,945,518	1,584,986
Total liabilities	13,634,078	6,164,742
Unrestricted net assets	47,929,847	37,657,368
Temporarily restricted net assets	301,128	298,939
Total net assets	48,230,975	37,956,307
Commitments and contingencies (notes 4, 7, 8, 9, 10 and 11)	—	—
Total liabilities and net assets	\$ 61,865,053	44,121,049

See accompanying notes to consolidated financial statements.

**ALLIED PILOTS ASSOCIATION
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Consolidated Statements of Activities

Years ended June 30, 2013 and 2012

	2013	2012
Change in unrestricted net assets:		
Revenues and gains:		
Dues	\$ 17,160,088	20,261,874
Reimbursement revenue (note 12)	21,173,654	—
Flight pay loss recovery (note 6)	1,801,695	1,701,892
Investment income (note 2)	1,138,876	999,900
Net gain on sale of investments (note 2)	472,558	314,699
Unrealized gain on investments, net (note 2)	668,721	329,743
Rental income (note 9)	328,092	331,191
Exhibitor revenue	145,850	130,625
Net assets released from restrictions	43,284	117,284
Other expense, net	(38,598)	(74,062)
Total unrestricted revenues and gains	42,894,220	24,113,146
Expenses:		
National Officers	925,900	697,444
Board of Directors	1,745,351	1,900,435
Domiciles	870,454	793,059
	3,541,705	3,390,938
National committees:		
Safety	1,090,988	1,019,021
Training	142,228	77,714
Accident investigation	—	26,179
Security	172,721	126,203
Negotiations	896,114	877,110
Technical analysis and scheduling	304,106	315,909
Communications	329,557	304,829
Legislative affairs	428,770	531,503
Aero medical	191,072	187,549
Scope	146,500	268,999
Membership/furlough	48,351	23,728
Financial audit	9,250	4,697
Pension	41,917	80,898
Hotel	90,024	110,482
IT steering	852	145
Industry analysis	47,873	69,152
International alliance	75,581	69,995
Professional standards and jumpseat	65,709	62,630
Benefit review and appeal board	19,595	37,017
Family awareness	23,007	44,486
System board of adjustment	125,907	118,055
Captains authority	129	1,521
Contract compliance	2,120	6,478
CADC	262	1,736
CAPA	168,047	107,419
Strike preparation	44,571	123,506
Strategic campaign	10,155	58,307
Uniform	12,057	—
Appeals	11,820	—
Other	83,645	392,411
Total national committees	4,582,928	5,047,679
Ad Hoc Committees:		
Bankruptcy	166,048	—
Equity Distribution	854,502	—
Seniority	14,059	—
Supp-CC AA	349,193	—
Supp-CC-TWA	527,958	—
Total Ad Hoc Committees:	1,911,760	—

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Consolidated Statements of Activities

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
General and administrative:		
Staff payroll	\$ 3,675,749	3,566,187
Staff benefits and expense	1,547,841	1,628,037
Facility costs	570,053	514,095
Depreciation and amortization	502,952	533,160
Outside legal fees	4,211,138	3,228,755
Outside consultants	10,338,332	3,100,586
Outside services	94,432	166,420
Supplies	142,080	136,905
Postage and delivery	97,309	79,499
Computer software licenses	126,808	113,603
Meetings and seminars	108,459	108,205
Administrative support	1,057,731	743,670
Total general and administrative	<u>22,472,884</u>	<u>13,919,122</u>
Total unrestricted expenses	<u>32,509,277</u>	<u>22,357,739</u>
Change in unrestricted net assets before post retirement changes other than net periodic benefit cost	10,384,943	1,755,407
Post retirement changes other than net periodic benefit cost	<u>(112,464)</u>	<u>(782,364)</u>
Change in unrestricted net assets	10,272,479	973,043
Unrestricted net assets, beginning of year	<u>37,657,368</u>	<u>36,684,325</u>
Unrestricted net assets, end of year	<u>\$ 47,929,847</u>	<u>37,657,368</u>
Change in temporarily restricted net assets:		
Revenues and gains:		
Donations	\$ 51,629	49,748
Investment income	10,724	14,338
Unrealized (loss) gain on investments, net	(16,880)	3,554
Total temporarily restricted revenues and gains	45,473	67,640
Net assets released from restrictions	<u>(43,284)</u>	<u>(117,284)</u>
Change in temporarily restricted net assets	2,189	(49,644)
Temporarily restricted net assets, beginning of year	<u>298,939</u>	<u>348,583</u>
Temporarily restricted net assets, end of year	<u>\$ 301,128</u>	<u>298,939</u>

See accompanying notes to consolidated financial statements.

**ALLIED PILOTS ASSOCIATION
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Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 10,274,668	923,399
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	502,952	533,160
Net gain on sale of investments	(472,558)	(314,699)
Unrealized gain on investments	(651,841)	(333,297)
Decrease in accrued interest receivable	952	4,245
(Increase) decrease in dues receivable	(63,762)	49,125
Increase in reimbursement receivable	(21,173,654)	—
(Increase) decrease in receivables from furloughed pilots loan fund	(146,902)	157,440
(Increase) decrease in flight pay loss receivable	(48,852)	22,068
Decrease in noncurrent assets for postretirement plan	29,818	664,918
Decrease (increase) in other assets, net	8,856	(75,978)
(Decrease) increase in accounts payable	(1,396,442)	1,766,440
Increase in accrued liabilities	8,763,222	140,157
Increase in dues refunds payable	1,157	1,408
Decrease in deferred revenue	—	(2,860,198)
(Decrease) increase in retirement contributions payable	(296,138)	227,017
Increase in postretirement benefits payable	37,005	—
Increase in furloughed pilots loan fund payable	360,532	352
Net cash (used in) provided by operating activities	(4,270,987)	905,557
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(166,149)	(114,796)
Purchases of investments	(11,183,261)	(8,688,612)
Proceeds from sale of investments	10,223,627	7,574,140
Net cash used in investing activities	(1,125,783)	(1,229,268)
Net decrease in cash and cash equivalents	(5,396,770)	(323,711)
Cash and cash equivalents, beginning of year	11,914,200	12,237,911
Cash and cash equivalents, end of year	\$ 6,517,430	11,914,200

See accompanying notes to consolidated financial statements.

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(1) Summary of Significant Accounting Policies

(a) Organization

Allied Pilots Association and Subsidiaries (APA), the collective bargaining agent for American Airlines pilots, represents approximately 10,000 pilots. APA was organized in March 1963 and is headquartered in Fort Worth, Texas, near Dallas/Fort Worth International Airport.

The governing powers are vested in the board of directors and the officers in accordance with the Constitution and By-Laws. The objectives of APA are summarized below:

- To operate a nonprofit employee representing association.
- To protect the individual and collective rights of the members of APA and to promote their professional interests.
- To establish and to exercise the right of collective bargaining for the purpose of making and maintaining employment agreements covering rates of pay, rules, and working conditions for the members of APA and to promptly settle disputes and grievances which may arise between such members and their employer.
- To determine, negotiate and to continue to improve the rates of compensation, hours of employment, and working conditions, and to maintain uniform principles of seniority and the perpetuation thereof.
- To sponsor and support the passage of legislation and appropriate regulations affecting membership and the industry which may be beneficial to the profession or to the industry.
- To safeguard with ceaseless vigilance the safety of scheduled air transportation in recognition of the high degree of public trust, confidence, and responsibility placed on the members.
- To further scheduling with safety in any practical manner.
- To disseminate information in any manner to enhance the professional status of the membership.
- To levy dues and assessments upon the membership with which to provide the funds necessary to carry on the business and objectives of APA.
- To purchase, hold, acquire, lease, mortgage, and convey real estate and personal property of every kind, nature, and description, in any state, the District of Columbia, and any territory or possession of the United States, for the convenient conduct and execution of APA's business, including the purchasing, leasing, and maintaining of equipment, buildings, and improvements which may be necessary, directly or indirectly, in connection with any of the business and objectives of APA.
- To maintain Mutual Aid Plans.

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- To do any and all other acts consistent with and in furtherance of the objectives and purposes set forth in this Constitution and By-Laws, including the establishment of such legal entities as necessary to carry out the legitimate objectives and purposes of APA.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of Allied Pilots Association and its wholly owned subsidiaries, Allied Pilots Association Holding Corporation (holds title to APA's Headquarters – The O'Connell Building), and Allied Pilots Association Scholarship Fund (whose assets are to be used solely to provide scholarship funds to children of deceased American Airlines pilots). All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of APA and changes therein are classified and reported as follows:

- *Unrestricted net assets* – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.
- *Temporarily restricted net assets* – net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- *Permanently restricted net assets* – net assets that are subject to donor-imposed stipulations that they be maintained permanently by APA. APA has no permanently restricted net assets as of June 30, 2013 and 2012.

(d) Cash and Cash Equivalents

APA includes the following as cash and cash equivalents: (i) cash on hand, (ii) cash in banks, and (iii) highly liquid investments with original maturities of three months or less, which are used to fund current operations.

(e) Dues Receivable

Dues receivable represent monthly dues, which have been assessed and collected by American Airlines (AMR) but have not yet been received by APA.

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(f) Fair Value Measurements

APA follows the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the accounting standards establish a three-level hierarchy for inputs used in measuring fair value, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Significant observable inputs other than quoted prices in active markets for similar assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(g) Investments

Investment securities at June 30, 2013 and 2012 consist principally of corporate debt and equity securities. APA reports investments in marketable securities with readily determinable fair values, and all investments in debt securities, at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the consolidated statements of activities. APA's valuations utilize quoted market (level 1) inputs (see note 2).

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis for consolidated financial statement purposes over the following estimated useful lives:

Building	40 years
Furniture	7 years
Office equipment	3 years

Amortization of leasehold improvements and lease commissions are computed on a straight-line basis for consolidated financial statement purposes over the shorter of the respective lease term or estimated useful life of the asset.

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(i) Dues Refunds Payable

Pilots serving as APA's national officers or on APA's board of directors or negotiating committee are exempt from union dues. Additionally, all pilots who hold management positions with AMR are not required to pay union dues while in those management positions. The monthly dues receipts received in excess of these amounts are refunded by APA to the eligible pilots following the end of the fiscal year.

(j) Federal Income Taxes

APA is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(5) of the IRC. Allied Pilots Association Holding Corporation is exempt from federal income taxes under Section 501(a) of the IRC as an organization described in Section 501(c)(2) of the IRC. Allied Pilots Association Scholarship Fund is exempt from federal income taxes under Section 501(a) of the IRC as an organization described in Section 501(c)(3) of the IRC. These entities are exempt from federal income taxes except to the extent they have unrelated business income. APA and its subsidiaries did not have any material unrelated taxable business income for the years ended June 30, 2013 and 2012.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Accounting for Uncertainty in Income Taxes* (ASC 740), prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740 provides guidance on recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax provisions. The interpretation is effective for APA's fiscal years ended June 30, 2013 and 2012. APA and its subsidiaries have no financial reporting requirements pursuant to ASC 740 in fiscal years 2013 and 2012.

(k) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowances for doubtful accounts, and the valuation of the postretirement benefit plan.

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(2) Investments

The cost basis, carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of investments by major security type and class of security at June 30, 2013 and 2012 were as follows:

	<u>Aggregate cost basis</u>	<u>Gross unrealized holding gains</u>	<u>Gross unrealized holding (losses)</u>	<u>Aggregate fair value</u>
At June 30, 2013:				
Common stock	\$ 7,660,260	2,865,978	(639,654)	9,886,584
Corporate bonds	17,611,205	371,267	(311,775)	17,670,697
Short-term investments	322,739	3,608	—	326,347
	<u>\$ 25,594,204</u>	<u>3,240,853</u>	<u>(951,429)</u>	<u>27,883,628</u>
At June 30, 2012:				
Common stock	\$ 6,995,774	1,978,359	(913,813)	8,060,320
Corporate bonds	16,894,253	622,526	(70,660)	17,446,119
Short-term investments	317,435	21,171	—	338,606
	<u>\$ 24,207,462</u>	<u>2,622,056</u>	<u>(984,473)</u>	<u>25,845,045</u>

Maturities of debt securities were as follows at June 30, 2013:

	<u>Carrying amount</u>	<u>Fair value</u>
Due within 5 years	\$ 11,281,295	11,383,551
Due after 5 years through 10 years	6,329,910	6,287,146
	<u>\$ 17,611,205</u>	<u>17,670,697</u>

Proceeds from the sale of investments were \$10,223,627 in 2013. Gross realized gains from the sale of investments in 2013 was \$586,411, and gross realized losses from the sale of investments in 2013 was \$113,853.

Proceeds from the sale of investments were \$7,574,140 in 2012. Gross realized gains from the sale of investments in 2012 was \$463,875, and gross realized losses from the sale of investments in 2012 was \$149,176.

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Notes to Consolidated Financial Statements

June 30, 2013 and 2012

The following schedule summarizes investment return and its classification in the consolidated statements of activities for the years ended June 30, 2013 and 2012:

	2013	2012
Investment income (temporarily restricted)	\$ 10,724	14,338
Investment income (unrestricted)	1,138,876	999,900
Net gain on sale of investments	472,558	314,699
Unrealized gain (loss) on investments (temporarily restricted)	(16,880)	3,554
Unrealized gain on investments (unrestricted)	668,721	329,743
Total investment return	\$ 2,273,999	1,662,234

(3) Fair Value Measurements

(a) Fair Value of Financial Instruments

APA's financial instruments consist of the following:

Assets – cash and cash equivalents, accrued interest receivable, dues receivable, receivables from furloughed pilots loan fund, flight pay loss receivable and investments.

Liabilities – accounts payable, accrued liabilities, dues refunds payable, retirement contributions payable, postretirement benefits payable, and furloughed pilots loan fund payable.

The carrying amounts shown in the consolidated financial statements for these assets and liabilities approximate their fair values.

The fair values of the financial instruments listed above as of June 30, 2013 and 2012 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at those dates. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects APA's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by APA based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, accrued interest receivable, dues receivable, flight pay loss receivable, accounts payable, dues refunds payable and retirement contributions payable: the carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

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Receivables from furloughed pilots loan fund and furloughed pilots loan fund payable: these receivables and payables are carried at face value due to the short maturity of these loans and related payables. Additionally, the receivables are evaluated for impairment at each reporting date (see note 4).

Postretirement benefits payable: the carrying amount approximates fair value because the carrying value is based on an actuarial calculation of the amount of high-quality securities that would be required to fund the payment of the benefits due over time.

Investment securities: equity and debt securities are measured using quoted market prices at the reporting date multiplied by the quantity held.

(b) Fair Value Hierarchy

The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis at June 30, 2013, and 2012:

		2013			
		Fair value measurements at reporting date using			
		Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Assets:					
Common stock	\$	9,886,584	9,886,584	—	—
Corporate bonds		17,670,697	17,670,697	—	—
Short-term investments		326,347	326,347	—	—
	\$	<u>27,883,628</u>	<u>27,883,628</u>	<u>—</u>	<u>—</u>
		2012			
		Fair value measurements at reporting date using			
		Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
Assets:					
Common stock	\$	8,060,320	8,060,320	—	—
Corporate bonds		17,446,119	17,446,119	—	—
Short-term investments		338,606	338,606	—	—
	\$	<u>25,845,045</u>	<u>25,845,045</u>	<u>—</u>	<u>—</u>

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(4) Furloughed Pilots Loan Fund

In 1995, APA began a Furloughed Pilots Loan Fund (the Fund) to provide financial support for pilots on furlough. The Fund accepted voluntary contributions from members and used the proceeds of such contributions to provide noninterest-bearing loans to furloughed pilots in financial need. The members who contributed to the Fund received a full refund of their pro rata share in 1998. When loan payments are completed, all members will receive the remainder of their pro rata share, net of charge offs and net assets, if any. In connection with the establishment of the Fund and by resolution of APA's board of directors in April 1995, APA advanced \$203,736 to the Fund. The Fund had gross loans and advances outstanding from furloughed pilots of \$1,256,445 and \$1,488,680 as of June 30, 2013 and 2012, respectively, less an allowance for estimated unrecoverable furloughed pilot loans of \$899,953 and \$1,279,090 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, APA has \$1,945,518 and \$1,584,986 recorded as furloughed pilots loan fund payable, respectively, which represents members' cumulative contributions to the APA to be used to loan to members once they have been furloughed and income earned on contributions received less the portion of the allowance attributable to loans funded by members' contributions. As of June 30, 2013 and 2012, the Fund had restricted cash of \$1,589,025 and \$1,375,396, respectively.

(5) Property, Plant, and Equipment

APA capitalizes all fixed asset purchases in excess of \$2,000. Property, plant, and equipment are comprised of the following at June 30, 2013 and 2012:

	2013	2012
Land	\$ 870,200	870,200
Building	3,599,000	3,584,910
Furniture and equipment	5,239,824	5,146,100
Leasehold improvements	3,101,655	3,043,320
	12,810,679	12,644,530
Less accumulated depreciation and amortization	(9,353,469)	(8,895,967)
Property, plant, and equipment	\$ 3,457,210	3,748,563

Depreciation expense was \$457,502 and \$489,652 for 2013 and 2012, respectively.

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(6) Compensation

For the fiscal years ended June 30, 2013 and 2012, APA's officers were compensated on an accrual basis of accounting as follows:

	2013	2012
President:		
Bates	\$ 140,155	110,446
Wilson	107,756	—
Vice president:		
Chapman	67,337	52,960
Secretary-treasurer:		
Shankland	50,030	63,253
Total	\$ 365,278	226,659

Pilots other than APA officers received compensation of \$6,318,827 and \$5,340,625 for the years ended June 30, 2013 and 2012, respectively, while on leave from AMR for APA business. Generally, AMR bills APA for such compensation. APA remitted flight pay loss reimbursement payments to AMR less recoveries of \$1,801,695 and \$1,701,892 for the years ended June 30, 2013 and 2012, respectively, for the portion of services rendered by the pilots related to matters including safety, security and training programs that benefited AMR.

Included in the above expense and revenue amounts for the years ended June 30, 2013 and 2012 are \$326,824 and \$317,957, respectively, of contributed services related to compensation paid to pilots by AMR for time spent on APA business for which no reimbursement was paid to AMR in accordance with the applicable underlying agreement.

(7) Retirement Contributions

In addition to lost flight pay, APA makes contributions to the American Airlines Pilot Retirement Benefit Program, a plan which is administered by AMR consisting of a defined benefit plan (A Plan) and a defined contribution plan (B Plan). The defined benefit plan requires contributions based on an actuarially determined percentage of lost flight pay. For the fiscal years ended June 30, 2013 and 2012, APA's contribution to the defined benefit plan was based upon the actuarial rates of 8.09% and 11.12%, respectively. The defined contribution plan requires contributions based on 22% of lost pensionable wages. APA's contributions to both plans totaled \$263,293 and \$792,676 for the fiscal years ended June 30, 2013 and 2012, respectively.

Effective November 1, 2012, as a result of a collective bargaining agreement during AMR's bankruptcy, both the A Plan and B Plan were frozen and no additional benefits will accrue. In addition, the B Plan was terminated effective November 30, 2012 and plan assets were either distributed to participants or transferred to annuity contracts with Metlife.

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Effective for periods of service on and after November 1, 2012, AMR agreed to make a company contribution of 14% of pay to the American Airlines, Inc Capital Accumulation Plan (Super Saver) for employees of participating AMR Corporation Subsidiaries. For periods of union leave on and after, November 1, 2012, APA will make the Company's contributions. APA's contribution to Super Saver totaled \$498,165 for the fiscal year ended June 30, 2013.

As of June 30, 2013 and 2012, APA had \$429,021 and \$725,159, respectively, recorded as contributions payable for all AMR plans.

APA also maintains a defined contribution pension plan, which covers its administrative and office employees. The plan is a self-directed 401(k) plan with Fidelity Investments that enables participants to make pretax deferrals. APA's liability under this plan is equal to 10% of participant's annual earnings, plus a matching contribution of 100% of the participant's contribution up to 5% of a participant's earnings. APA uses Fidelity's master and prototype plan document which complies with the requirements of the Employee Retirement Income Security Act (ERISA) of 1974 and has received a favorable determination letter from the Internal Revenue Service as to the plan's qualification for tax-exempt status. APA's contributions to the plan totaled \$537,621 and \$500,831 for the fiscal years ended June 30, 2013 and 2012, respectively.

(8) Postretirement Benefits

APA maintains a group health plan and a life insurance plan for eligible retirees. These plans provide postretirement benefits. The retiree health plan provides medical and dental coverage for eligible retirees and the retiree life insurance plan provides life insurance for eligible retirees. The retiree health plan requires eligible retirees under age 65 to contribute toward the cost of the medical coverage and all retirees, irrespective of age, to contribute toward the cost of the retiree dental coverage. No retiree contributions are required for the retiree life insurance coverage. To be eligible for these plans, employees must retire at or after the age of 50 with 20 years of service or at or after the age of 55 with 10 years of service. APA recognizes the funded status of its postretirement plans as a net asset or liability. APA effected a funding of the postretirement health plan through a transfer of assets. APA continues to pay the required premium for the retiree life insurance plan.

Upon termination of the EBHP, any funds remaining in the separate subaccount after all benefit payments and expenses have been paid, shall be used as directed by APA in compliance with applicable law.

The accumulated postretirement benefit obligation as of June 30, 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Accumulated postretirement benefit obligation	\$ 3,178,419	2,818,081
Plan assets at fair value	<u>3,141,414</u>	<u>2,847,899</u>
Funded status	<u>\$ (37,005)</u>	<u>29,818</u>

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	2013	2012
Amounts recognized in the statements of financial position:		
Assets	\$ 3,141,414	2,847,898
Liabilities	(3,178,419)	(2,818,081)
Amounts not recognized as components of net periodic postretirement benefit costs	(906,514)	(1,018,978)
Net amount recognized	\$ (943,519)	(989,161)

Net periodic postretirement benefit cost for the years ended June 30, 2013 and 2012 included the following components:

	2013	2012
Service cost – benefits attributed to service during the period	\$ 113,197	109,180
Interest cost	95,925	101,548
Recognition of net gain	(63,528)	(137,375)
Expected return on plan assets	(191,235)	(190,799)
Net periodic postretirement benefit cost	\$ (45,641)	(117,446)

Postretirement changes other than net periodic cost:

	2013	2012
New net loss during the year	\$ 112,464	782,364

As of June 30, 2013 and 2012, the following amounts have not been recognized as components of net periodic postretirement benefit costs:

	2013	2012
Unrecognized net gain	\$ (906,514)	(1,018,978)

APA expects that \$54,709 of the unrecognized net gain amount reported above will be recognized as a component of net periodic postretirement benefit cost in the year ended June 30, 2014.

For measurement purposes, an 8% and 8.50% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2013 and 2012, respectively; the rate was assumed to decrease gradually to 5% by 2020 and remain at that level thereafter. The healthcare cost trend rate assumption affects the amounts reported. To illustrate, a change in the assumed healthcare cost trend rate by 1% in each year would change the accumulated postretirement benefit obligation as of June 30, 2013 and 2012, by approximately \$116,091 and \$56,428, respectively, and service cost of net periodic postretirement benefit cost for the years then ended by approximately \$6,156 and \$5,530, respectively.

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The weighted average discount rate as of June 30, 2013 and 2012 used in determining the accumulated postretirement benefit obligation was 4.17% and 3.55%, respectively. The weighted average discount rate as of June 30, 2013 and 2012 used in determining the net benefit cost was 3.55% and 5.00%, respectively.

APA's overall expected long-term rate of return on assets is 7.00% for the years ended June 30, 2013 and 2012. The rate is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns of APA's existing assets.

The weighted average rate of compensation increase as of June 30, 2013 and 2012 used in determining the accumulated postretirement benefit obligation and the net benefit cost was 0%.

The accumulated postretirement benefit obligation as of June 30, 2013 and 2012 includes the estimated effect of provisions in The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2011 (the Acts) related to the excise tax on certain health plans and the prohibition on limits on maximum benefits. Effective in the 2011 plan year, the plan was designated as a retiree-only plan. As a retiree-only plan, the plan is exempt from the prohibition on lifetime maximums on benefits as required by the Affordable Care Act. The obligation decreased as a result of recognizing this change.

The following table summarizes employer contributions, plan participants' contributions and benefits paid during the years ending June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Employer contribution	\$ —	—
Plan participants' contributions	1,736	2,159
Benefits paid	(84,000)	(67,557)

The target allocations for plan assets are 60% equity securities, 34% fixed income, and 6% to cash equivalents. Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries and U.S. Treasuries.

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The asset allocations of APA's postretirement benefits as of June 30, 2013 and 2012 were as follows:

Fair value measurements at June 30, 2013				
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category:				
Cash	\$ 162,251	162,251	—	—
Equity securities (a)	2,184,818	326,713	1,858,105	—
Fixed income securities:				
U.S. government securities (b)	334,529	334,529	—	—
Corporate bonds (c)	439,799	439,799	—	—
Asset-backed securities (d)	20,017	—	20,017	—
Total	\$ 3,141,414	1,263,292	1,878,122	—
Fair value measurements at June 30, 2012				
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category:				
Cash	\$ 85,404	85,404	—	—
Equity securities (a)	1,878,651	292,305	1,586,346	—
Fixed income securities:				
U.S. government securities (b)	471,800	471,800	—	—
Corporate bonds (c)	388,703	388,703	—	—
Asset-backed securities (d)	23,341	—	23,341	—
Total	\$ 2,847,899	1,238,212	1,609,687	—

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- (a) This category comprises investments in actively managed mutual funds.
- (b) This category represents U.S. government Treasuries and agency bonds.
- (c) This category represents primarily bonds of U.S. corporations.
- (d) This category represents primarily investments in securities collateralized by mortgages.

	Plan assets	
	2013	2012
Asset category:		
Equity securities	70.00%	66.00%
Fixed income securities	25.00	31.00
Cash and cash equivalents	5.00	3.00
Total	100.00%	100.00%

APA does not expect to contribute funds to its postretirement benefit plan beginning July 1, 2013, as benefit payments are expected to be made from plan assets.

The benefits expected to be paid from the postretirement benefit plan in each year ending June 30, 2014-2018 are \$195,464, \$225,729, \$241,866, \$266,564, and \$280,663, respectively. The aggregate benefits expected to be paid in the five years from 2019-2023 are \$1,334,228. The expected benefits are based on the same assumptions used to measure APA's benefit obligation at June 30, 2013 and include estimated future employee service.

(9) Leases

(a) Lease Obligations

APA leases certain office equipment and apartment buildings. At June 30, 2013, future noncancelable minimum rent commitments relating to these operating leases are as follows:

Year ending June 30:		
2014	\$	86,174
2015		72,204
2016		72,204
2017		72,204
2018		72,204
Total minimum lease obligations	\$	374,990

Total rent expense, which includes the leases above, was \$215,598 and \$192,593 for the years ended June 30, 2013 and 2012, respectively.

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(b) Lease Payment Receivable

APA Holding Corporation's leasing operations consist principally of the leasing of office space in the O'Connell Building. Lease terms and conditions vary for each tenant. Future minimum lease payments receivable under the noncancelable operating leases (with initial or remaining lease terms in excess of one year) are:

Year ending June 30:		
2014	\$	352,698
2015		316,820
2016		197,160
Beyond		<u>149,903</u>
Total minimum lease receivables	\$	<u><u>1,016,581</u></u>

Total rental income was \$328,092 and \$331,191 for the years ended June 30, 2013 and 2012, respectively.

(10) APA-Sponsored Benefit Programs

APA maintains several benefit plans for its employees and members. Four of these plans provide supplemental medical and disability coverages, and one provides additional life insurance and accident insurance coverage.

The APA Pilot Occupational Disability Plan (formerly the APA Disability Income (Loss of License) Plan), the APA Voluntary Supplemental Medical and Custodial Care Benefit Plan, the APA Group Term Life Insurance and Voluntary Accidental Death and Dismemberment Insurance Plan, and the Pilots Mutual Aid Plan are paid entirely by participating plan participants. The APA Catastrophic Major Medical Benefit Plan (CHIP) is a health and welfare benefit plan for the benefit of certain APA members and their dependents. In 2004, APA made its first contribution to the CHIP since 1993 in the amount of \$600,000. During 2013 and 2012, APA determined the CHIP was sufficiently funded to pay claims and expenses through investment income and, accordingly, no contributions were made.

(11) Contingencies

The APA is involved in various litigation arising in the ordinary course of operations. Management is of the opinion, after reviewing these matters with legal counsel, that the ultimate liability, if any, resulting from such litigation would not have a material adverse effect on the APA's financial position.

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(12) AMR Bankruptcy

On November 29, 2011, AMR and certain of its affiliates filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. As a part of AMR's restructuring, the APA membership ratified a new labor contract with the airline on December 7, 2012. The new labor contract contained a provision under which APA was allowed administrative expense claim for reimbursements of fees and expenses related to the AMR bankruptcy up to \$17,500,000 which would be payable upon emergence from bankruptcy. On December 9, 2013, AMR merged with US Airways, pursuant to its plan of reorganization, and emerged from bankruptcy. As a result, APA received reimbursement payments of \$17,500,000 from the new combined company, American Airlines Group, Inc. (AAL) intended to reimburse APA for its extraordinary expenses related to the bankruptcy and reorganization. In addition, APA also received 156,659 shares of AAL stock, valued at \$3,673,654, as a reimbursement for expenses related to equity distributions occurring as a result of the merger. Accordingly, APA has recorded a receivable related to the aforementioned reimbursements of fees and expenses in its June 30, 2013 consolidated financial statements.

As a result of the December 9, 2013 merger, APA was also required to pay additional legal and investment banking fees incurred relative to the bankruptcy and reorganization to Steptoe & Johnson and Lazard LTD., in the amounts of \$815,609 and \$7,500,000 respectively. Accordingly, APA has recorded liabilities related to these fees in its June 30, 2013 consolidated financial statements.

(13) Subsequent Events

APA has evaluated subsequent events from the balance sheet date through January 7, 2014, the date at which the financial statements were available to be issued. Except as disclosed in note 12, there are no subsequent events through January 7, 2014 that require recognition or disclosure in the financial statements.