STOCKMAN KAST RYAN + COMPANY

UNITED STATES HANG GLIDING & PARAGLIDING ASSOCIATION AND SUBSIDIARY

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

And

Independent Auditors' Report

UNITED STATES HANG GLIDING & PARAGLIDING ASSOCIATION AND SUBSIDIARY

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STOCKMAN KAST RYAN + COMPANY

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INDEPENDENT AUDITORS' REPORT

The Members
United States Hang Gliding & Paragliding Association, Inc.
Colorado Springs, Colorado

We have audited the accompanying consolidated financial statements of United States Hang Gliding & Paragliding Association, Inc. (a non-profit organization) and Recreation Risk Retention Group, Inc. (collectively the Association), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Recreation Risk Retention Group, Inc., a 68% owned subsidiary, which statements reflect total assets of $3,864,485 as of December 31, 2017, and total revenues of $237,119 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Recreation Risk Retention Group, Inc., is based solely on the report of the other auditors. We conducted our audit 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 qualified audit opinion.

Basis for Qualified Opinion

The opinion of the other auditors on the 2017 financial statements of Recreation Risk Retention Group, Inc. was qualified because Recreation Risk Retention Group, Inc. excluded certain required disclosures about short-duration contracts. Disclosure of this information is required by accounting principles generally accepted in the United States of America beginning in 2017. Additionally, they included in shareholders' equity, surplus notes payable to certain members of the United States Hang Gliding & Paragliding Association, Inc., this is not in accordance with accounting principles generally accepted in the United States of America, which would require the surplus notes to be recorded as liabilities, as described in Note 7. Had Recreation Risk Retention Group, Inc. included such obligations in the balance sheet, the amounts reported for liabilities and shareholders' equity would have been materially affected.

Qualified Opinion

In our opinion, based on our audit and the report of the other auditors, except for the effects discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the United States Hang Gliding & Paragliding Association, Inc. and subsidiary as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited United States Hang Gliding & Paragliding Association, Inc.'s 2016 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated October 9, 2017 due to certain required disclosures about short-duration contracts being excluded and surplus notes payable to certain members of United States Hang Gliding & Paragliding Association being included in shareholders' equity. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan + Co, LLP

October 2, 2018

UNITED STATES HANG GLIDING & PARAGLIDING ASSOCIATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017 (with comparative totals for 2016)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 853,151	$ 3,482,914
Investments	3,183,106	808,357
Premiums receivable	240,248	323,497
Accounts receivable	6,870	2,561
Reinsurance recoverable – unpaid losses	5,856	81,153
Inventory	29,520	23,676
Deferred policy acquisition costs	34,084	50,081
Prepaid expenses and other assets	105,970	76,905
Total current assets	4,458,805	4,849,144
PROPERTY AND EQUIPMENT, NET	133,772	288,773
TOTAL ASSETS	$ 4,592,577	$ 5,137,917
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 213,923	$ 308,604
Accrued liabilities	101,881	47,943
Deferred revenue	633,797	633,946
Unearned premiums	231,951	359,537
Losses and loss adjustment expenses	419,732	217,350
Unsettled securities payable		600,000
Total liabilities	1,601,284	2,167,380
NET ASSETS		
Unrestricted:		
United States Hang Gliding & Paragliding Association	1,618,256	1,618,787
Non-controlling interest in subsidiary	1,373,037	1,351,750
Total net assets	2,991,293	2,970,537
TOTAL LIABILITIES AND NET ASSETS	$ 4,592,577	$ 5,137,917

See notes to consolidated financial statements.

UNITED STATES HANG GLIDING & PARAGLIDING ASSOCIATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017 (with comparative totals for 2016)

	2017	2016
REVENUE AND SUPPORT		
Membership	$ 1,622,026	$ 1,407,980
Premiums earned	213,043	74,277
Magazine advertising and merchandise sales	46,036	24,949
Investment gain (loss)	31,800	(381,258)
Contributions	28,554	1,132,882
Gain (loss) on sale of property and equipment	(221,687)	145,565
Miscellaneous income	12,719	6,714
Total revenue and support	1,732,491	2,411,109
EXPENSES		
Program services:		
Insurance	415,455	207,952
Membership support	249,457	678,920
Sport development	226,081	182,077
Magazine publishing and distribution	202,428	191,998
Total program services	1,093,421	1,260,947
Support services:		
General and administrative	627,814	494,224
Total expenses	1,721,235	1,755,171
CHANGE IN NET ASSETS, prior to issuance of stock and surplus notes	11,256	655,938
ISSUANCE OF STOCK AND SURPLUS NOTES	9,500	1,325,002
CHANGE IN NET ASSETS	$ 20,756	$ 1,980,940
NET ASSETS, Beginning of year	2,970,537	989,597
NET ASSETS, End of year	$ 2,991,293	$ 2,970,537

See notes to consolidated financial statements.

UNITED STATES HANG GLIDING & PARAGLIDING ASSOCIATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017 (with comparative totals for 2016)

	2017							
	Program Services							
	Insurance	Membership Support	Sport Development	Magazine Publishing and Distribution	Total Program	General and Administrative	Total	2016 Total
Insurance	$ 415,455	$ 6,364			$ 421,819	$ 361,417	$ 783,236	$ 566,810
Salaries		107,438	$ 94,472	$ 17,150	219,060	100,112	319,172	297,403
Professional fees			30,000	74,470	104,470		104,470	122,468
Legal and accounting		38,146	33,522	5,780	77,448	37,275	114,723	374,055
Printing		12,554	3,426	55,167	71,147	56	71,203	63,803
Computer expense		21,879			21,879	32,618	54,497	47,156
Shipping and handling		13,748	629	35,900	50,277	1,595	51,872	60,604
Travel		1,387	5,269		6,656	31,626	38,282	40,522
Bank and credit card expense		33,975	1,135	1,000	36,110	618	36,728	49,466
Depreciation		11,016	9,687	1,758	22,461	10,265	32,726	17,140
Donations			30,000		30,000		30,000	19,055
Facility maintenance						20,762	20,762	13,549
Dues and subscriptions			11,722	228	11,950	7,940	19,890	25,179
Committee expense			5,441		5,441	7,838	13,279	4,288
Contributor fees				10,975	10,975		10,975	9,100
Telephone						6,702	6,702	5,820
Equipment lease and maintenance						1,728	1,728	3,563
Event marketing		201	378		579		579	10,675
Real estate taxes						442	442	2,401
Other		2,749	400		3,149	6,820	9,969	22,114
Total expenses	$ 415,455	$ 249,457	$ 226,081	$ 202,428	$ 1,093,421	$ 627,814	$ 1,721,235	
Percentage of totals	24%	15%	13%	12%	64%	36%	100%	
Comparative totals - 2016	$ 207,952	$ 678,920	$ 182,077	$ 191,998	$ 1,260,947	$ 494,224		$ 1,755,171
Percentage of totals - 2016	12%	39%	10%	11%	72%	28%		100%

See notes to consolidated financial statements.

UNITED STATES HANG GLIDING & PARAGLIDING ASSOCIATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 (with comparative totals for 2016)

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	$ 11,256	$ 655,938
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	33,784	16,549
(Gain) loss on sale of fixed assets	221,687	(145,565)
Donation of investments		(354,406)
Unrealized (gain) loss on investments	(7,749)	385,631
Changes in operating assets and liabilities:		
Accounts receivable	(4,309)	24,114
Premiums receivable	83,249	(323,497)
Reinsurance recoverable – unpaid losses	75,297	(81,153)
Inventory	(5,844)	7,162
Prepaid expenses and other assets	(29,065)	100,512
Deferred policy acquisitions costs	15,997	(50,081)
Accounts payable	(94,681)	166,305
Accrued liabilities	53,938	15,463
Deferred revenue	(149)	126,816
Loss and loss adjustment expense reserves	202,382	217,350
Unearned premiums	(127,586)	359,537
Unsettled securities payable	(600,000)	600,000
Net cash provided by (used in) operating activities	(171,793)	1,720,675
INVESTING ACTIVITIES		
Purchase of property and equipment	(100,470)	(102,861)
Proceeds from sale of property and equipment		432,054
Proceeds from sale of investments		100,751
Purchase of investments	(2,367,000)	(800,000)
Net cash used in investing activities	(2,467,470)	(370,056)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of stock	9,500	725,002
Issuance of surplus notes		600,000
Net cash provided by financing activities	9,500	1,325,002
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,629,763)	2,675,621
CASH AND CASH EQUIVALENTS, Beginning of year	3,482,914	807,293
CASH AND CASH EQUIVALENTS, End of year	$ 853,151	$ 3,482,914

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — United States Hang Gliding & Paragliding Association (Hang Gliding) is a non-profit corporation, organized in the state of California. The Association is the national governing body for the sports of hang gliding and paragliding in the United States of America.

Recreation Risk Retention Group, Inc. (RRRG) was incorporated in the state of Vermont on February 18, 2016 and received its Certificate of Authority from the Department of Financial Regulation (the Department), permitting it to operate as a risk retention group. The Association owns 68% of RRRG as of December 2017 and 2016; other investors include the Foundation for Free Flight, PASA (Professional Air Sports Association), and the commercial schools. RRRG was established by the Association, together with the Foundation for Free Flight, the Professional Air Sports Association, Inc. and various for profit hang gliding and paragliding flight schools, to provide specialized general and professional liability coverages for these entities as insureds and their members, chapters and flying site landowners as additional insureds.

During 2017 and 2016, facilities located in three states (Colorado, North Carolina, and Wyoming) accounted for approximately 76% and 90% of gross written premiums, respectively.

Shareholders of RRRG are also policyholders and premiums and losses relate to the exposures of RRRG policyholders. RRRG has no employees. Accounting functions, records retention, regulatory compliance and other management services are provided by Strategic Risk Solutions (VT), Ltd. (SRS), as more fully described at Note 6.

Principles of Consolidation — The financial statements include the accounts of Hang Gliding and RRRG (collectively, the Association) through December 31, 2017. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation — The accompanying financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. As of December 31, 2017 and 2016, the Association had no temporarily or permanently restricted net assets.

Cash and Cash Equivalents — The Association considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of cash on hand, demand deposits and money market accounts.

Premiums Receivable and Accounts Receivable — Premiums receivable and accounts receivable are stated at the amount billed to customers for services premiums receivable and fees. The Association provides an allowance for doubtful accounts which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on specific circumstances of the customer and other economic factors. As of December 31, 2017 and 2016, management believes all premiums receivable and accounts receivable are collectible; accordingly, no valuation allowance has been recorded.

Reinsurance Recoverable - Unpaid Losses — The reinsurance recoverable is comprised of estimated amounts of unpaid losses and loss adjustment expenses (LAE), which are expected to be recoverable from reinsurers pursuant to reinsurance agreements and have been estimated using actuarial assumptions consistent with those used in establishing the liability for losses and loss adjustment expenses. Management believes that reinsurance recoverable as recorded represents its best estimate of such amounts; however, as changes in the estimated ultimate liability for losses and LAE are determined, the estimated ultimate amount recoverable from reinsurers will also change. Accordingly, the ultimate recoverable could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

RRRG relies on ceded reinsurance to limit its retained insurance risk as described further in Note 5. In the event that any or all of the reinsuring companies are unable to meet their obligations under existing reinsurance agreements, RRRG would be contingently liable for such amounts. In preparing financial statements, management makes estimates of the amounts recoverable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible based on an assessment of factors including management's assessment of the creditworthiness of the reinsurers. As of December 31, 2017 and 2016, management evaluated the creditworthiness of its reinsurers and determined that no specific valuation allowance was required for amounts deemed uncollectible.

Significant Changes in Methodologies and Assumptions - Losses and LAE — A material change in actuarial assumptions was made in the actuarial analysis from 2016 to 2017. For gross unpaid loss and LAE, the change entailed relying more heavily on shorter reporting and payment patterns than used in the prior year. In addition, the initial expected claim frequency and severity for the accident period beginning May 1, 2016 was revised to more closely resemble the potential exposure. For unpaid ceded losses and LAE, the expectation in the prior analysis was based on the average unpaid ceded losses and LAE while the current analysis relies on the average relationship of retained loss to direct loss and LAE.

Significant Risks – Losses and LAE — One large claim could significantly impact capital and surplus.

Inventory — Inventory consists of promotional materials, manuals, calendars and audio-visual material recorded at the average cost or market. Inventory is stated at the lower of cost or net realizable value, on a first-in-first-out basis.

Investments and Investment Return — Investments are carried at fair value in the statement of financial position. Net investment return consists of interest and dividend income and the realized and unrealized gains and losses on the investments, less investment management and custodial fees. Earnings on restricted investments are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the earnings are recognized. All other earnings on donor restricted investments are recognized as an increase in temporarily restricted net assets according to the nature of the restrictions on the original gift. See Note 2 for additional information on fair value measurements.

Property and Equipment — Property and equipment are carried at cost. Donated property and equipment is carried at fair value at the time of the donation. All acquisitions of property and equipment in excess of $5,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 27.5 years.

Deferred Revenue — Membership dues are deferred and recognized over the periods to which the fees relate. In addition, other funds received in advance are deferred and recognized when earned.

Liability for Losses and Loss Adjustment Expenses — The liability for unpaid losses and loss adjustment expenses reported in the financial statements includes case-basis estimates of reported losses, plus supplemental amounts for projected incurred but not reported losses (IBNR), calculated based upon loss projections prepared by a consulting actuary, utilizing certain actuarial assumptions and industry data. IBNR reserves are derived from the difference between the projected ultimate losses and loss expenses incurred and the sum of case-basis losses and loss expense reserves, and inception-to-date paid losses and loss expense. Methods utilized by the consulting actuary include the loss development method and the Bornhuetter-Ferguson method on an incurred and paid basis and the Monte Carlo simulations.

Management believes that the aggregate liability for unpaid losses and loss adjustment expenses at year-end represents its best estimate of the amount necessary to cover the ultimate cost of losses, based upon the available data and an actuarial analysis prepared by the consulting actuary. However, because of uncertainty related to the limited population of insured risks, limited historical data, economic conditions, judicial decisions, legislation and other matters, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in estimating the liability at the balance sheet date. As a result, the actual liability could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Premiums — Premiums written are earned ratably over the underlying policy term. Premiums written relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums. Premiums ceded pursuant to reinsurance agreements are expensed over the terms of the underlying policies to which they relate and are netted against earned premiums. Ceded premiums relating to the unexpired portion of underlying reinsurance agreements are recorded as prepaid reinsurance premiums. Premiums ceded are adjustable based on loss experience as more fully described in Note 5.

RRRG recognizes a premium deficiency when there is a probable loss on an insurance contract. Premium deficiencies are recognized if the sum of expected losses and loss adjustment expenses, unamortized deferred acquisition costs and maintenance costs exceed unearned premiums and investment income. No premium deficiency reserves were recorded as of December 31, 2017 and

2016.

Deferred Policy Acquisition Costs — Commissions and premium taxes incurred in the production of new and renewal business, primarily policy commissions, have been deferred and amortized over the terms of the policies to which they relate. Due to the nature of the Company's business, all policy acquisition costs relate to successfully placed business.

Unsettled Securities Payable — Unsettled securities payable represents amounts payable related to pending purchases of certificates of deposit.

Contributions — Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Donated Services — Donated services are recorded as both a revenue and expenditure in the accompanying statements of activities at their estimated values.

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

During the years ended December 31, 2017 and 2016, the Association received contributed legal services and advertising of $8,800 and $54,274, respectively, and donated advertising of $110,381 in 2016 which was recognized as contribution revenue.

Income Taxes — The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, (Code) from income generated by activities carried on in furtherance of its exempt purpose and certain other specified income and, in addition, is qualified to receive tax deductible contributions. Income from certain activities not directly related to the Association's tax exempt purpose is subject to taxation as unrelated business income. RRRG is subject to federal income tax and has elected to file under section 831(b) of the Code. RRRG's federal tax liability is based on taxable investment income less certain administrative expenses.

The Association believes that it does not have any uncertain tax positions that are material to the financial statements.

Functional Allocation of Expenses — The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program services and supporting activities benefitted, based on the percentages of time dedicated to that category or on the actual expenses incurred.

Use of Estimates — The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Advertising — Advertising costs are expensed as incurred.

Subsequent Events — The Association has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Association is required to use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Investments in equity securities and money market accounts are priced at quoted prices in active markets. Certificates of deposit are carried at cost which approximates fair market value.

The following table sets forth by level, within the fair value hierarchy, the Association's financial instruments at fair value as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017:				
Cash and money market funds	$ 3,034	$ 3,034		
Domestic common stock	13,072	13,072		
Certificates of deposit	3,167,000		$ 3,167,000	
Total	$ 3,183,106	$ 16,106	$ 3,167,000	$ —
2016:				
Cash and money market funds	$ 3,009	$ 3,009		
Domestic common stock	5,348	5,348		
Certificates of deposit	800,000		$ 800,000	
Total	$ 808,357	$ 8,357	$ 800,000	$ —

Investment gain (loss) consisted of the following for the years ended December 31:

	2017	2016
Realized and unrealized investment gain (loss)	$ 7,749	$ (385,631)
Interest and dividend income	24,051	4,373
Total	$ 31,800	$ (381,258)

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of:

	2017	2016
Construction in progress	$ 100,470	$ 174,064
Website	36,980	262,460
Furniture, fixtures, and equipment	15,434	15,434
Total	152,884	451,958
Less accumulated depreciation and amortization	19,112	163,185
Total	$ 133,772	$ 288,773

4. DEFERRED REVENUE

Deferred revenue consists of the following at December 31:

	2017	2016
Deferred memberships	$ 631,725	$ 630,751
Deferred subscriptions	2,072	2,205
Deferred advertising		990
Total	$ 633,797	$ 633,946

5. INSURANCE ACTIVITY

Effective May 1, 2016, RRRG provides general liability and professional liability insurance to its shareholders. The recreational sports covered by RRRG are those related to hang gliding and paragliding. Each policy provides coverage on an occurrence basis with limits ranging from $250,000 to $3,000,000 per occurrence, subject to deductibles ranging from $2,500 to $5,000 per occurrence. Recreation cedes $750,000 in excess of $250,000 per occurrence or $1,500,000 (occurrence and aggregate) in excess of $500,000 for multiple claims related to a single event with an annual aggregate of $4,500,000 to unaffiliated reinsurers. On a direct basis, defense and cost containment expenses (DCC) are included within the limits of liability. On a ceded basis, DCC are in addition to the reinsurance limit for general liability coverage, and are shared pro-rata between the primary and excess layers. For professional liability coverage, DCC is included within the limits. Limits in excess of $1,000,000 are retained by RRRG.

Reinsurance premium under the reinsurance agreement is subject to an adjustable rate based on actual losses ceded, subject to policy period minimum and maximum rates. As of December 31, 2017, RRRG recorded a retrospectively rated premium expense of $12,053 based on the estimated ultimate premiums due under the adjustable rate provisions, that was included in premiums earned, net of reinsurance on the statement of activities. In addition, RRRG has recorded a receivable as of December 31, 2017 in the amount of $75,394 for return premiums due from reinsurers related to the adjustable rate provision. As of December 31, 2016, no accrual was considered necessary by the company and none has been recorded. A reconciliation of direct to net premiums, on both a written and an earned basis is as follows for the period ended December 31, 2017 and 2016:

	2017		2016	
	Written	**Earned**	**Written**	**Earned**
Direct	$ 818,136	$ 952,087	$ 970,366	$ 558,254
Ceded	(167,053)	(167,053)	(155,000)	(103,333)
Net	$ 651,083	$ 785,034	$ 815,366	$ 454,921

The components of the liability for losses and loss adjustment expenses and related reinsurance recoverable are as follows as of December 31, 2017 and 2016:

	2017		2016	
	Gross	**Reinsurance**	**Gross**	
	Reinsurance			
	Liability	**Recoverable**	**Liability**	**Recoverable**
Cash-basis reserves	$ 151,975		$ 40,850	
IBNR reserves	267,757	$ (5,856)	176,500	$ (81,153)
Total	$ 419,732	$ (5,856)	$ 217,350	$ (81,153)

Losses and loss adjustment expense activity is as follows for the period ended December 31, 2017 and 2016:

	2017	2016
Liability as of beginning of year, net of reinsurance recoverable of $81,153	$ 136,197	
Incurred related to:		
Current year	327,334	$ 140,547
Prior year	(35,385)	
Net incurred during the year	291,949	140,547
Paid related to:		
Current year	(12,150)	(4,350)
Prior year	(2,120)	
Net paid during the year	(14,270)	(4,350)
Liability as of December 31, net of reinsurance recoverable of $5,856 and $81,153	$ 413,876	$ 136,197

6. RELATED PARTY TRANSACTIONS AND SERVICE AGREEMENTS

RRRG entered into a management agreement with SRS. Under the terms of the agreement, SRS provides certain management and administrative services to the Company. An employee of SRS serves as a director of Recreation. Management fees incurred under this agreement for the period ended December 31, 2017 and 2016 were $65,000 and $51,683, respectively, and are included as a component of general and administrative expenses.

Policy issuance, premium billing, and collection services are provided by First Flight Insurance Group, Inc. (First Flight). Under the terms of the agreement, First Flight collects 10% of premiums as compensation for services. Fees expensed in 2017 and 2016 amounted to $93,016 and $54,576, respectively, and are included as a component of policy acquisition costs.

RRRG entered into a consulting agreement with an officer of RRRG. The consultant provides various services related to the on-going management of RRRG. The consultant's compensation amounted to $105,000 and $26,248 for the years ended December 31, 2017 and 2016, respectively, and are included as a component of general and administrative expenses. In addition, this consultant has been engaged to provide claims handling services at an hourly rate, with fees totaling $13,200 and $4,350 in 2017 and 2016, respectively, which are included as a component of general and administrative expenses.

Effective August 1, 2017, RRRG entered into a consulting agreement with a director of RRRG. The consultant provides various services related to the planning and execution of RRRG's customer-service service strategies. The compensation associated with this agreement is a flat rate of $5,000 per month to a maximum of $50,000 annually. Total compensation recorded in 2017 amount to $25,000, which is included as a component of general and administrative expenses.

A majority of directors and officers of RRRG are current or former directors or officers of USHPA.

As more fully disclosed in Note 7, various members of USHPA provided funds to RRRG in the form of surplus notes. These surplus note holders are not policyholders or shareholders of RRRG.

7. CAPITAL AND SURPLUS

In accordance with laws of the State of Vermont, for the purpose of submitting its financial statements to the State for regulatory purposes, RRRG is required to use GAAP with the exception of variances prescribed by Vermont laws and regulations or permitted by the Department.

Pursuant to laws of the State of Vermont, RRRG is required to maintain minimum unimpaired capital and surplus of $1,000,000. Capital and surplus (shareholders' equity) amounted to $3,005,106 and $2,958,932 as of December 31, 2017 and 2016, respectively.

Vermont law provides that no dividends or distributions may be paid to shareholders or surplus note holders, respectively, without prior approval of the Insurance Commissioner of the Department. No dividends have been declared or paid during 2017 or 2016.

Class A shares are designated for each founding nonprofit 501(c)(3) shareholder. Class B shares are designated for each insured other than a founding nonprofit 501(c)(3) shareholder. Class A and B shareholders have unlimited voting rights and shall be entitled to receive the net assets of the corporation upon dissolution. During 2017, one Class B member was terminated and 500 shares of Class B stock were redeemed for $0 under the terms of subscription agreement.

During 2016, various USHPA members contributed $600,000 to RRRG in exchange for non-negotiable, non-interest bearing, surplus notes. Surplus notes are subject to pro-rata participation of outstanding surplus notes to the total investment of capital by the owners of RRRG in modified pre-tax profits, capped at 10% of outstanding surplus notes. Principal is due in five years, with no prepayment penalty subject to approval from the Department. The surplus notes will be subordinated to the prior payment of, or provision for, all general liabilities of RRRG and the claims of policyholders, beneficiaries and all classes of creditors of RRRG other than other surplus note holders, but shall rank superior to the claim, interest and equity of all shareholders of RRRG. Profit accrued for the benefit of the promissory note holders amounts to $30,756 and $21,000 as of December 31, 2017 ad 2016, respectively, and are included in the accrued expenses on the balance sheets.

8. MERCHANDISE SALES

Merchandise sales consist of the following at December 31:

	2017	**2016**
Sales	$ 60,039	$ 54,074
Cost of goods sold	(61,433)	(75,963)
Depreciation	(1,058)	(591)
Total	$ (2,452)	$ (22,480)

9. NON-CONTROLLING INTEREST IN SUBSIDIARY

The consolidated financial statements include all assets, liabilities, revenues and expenses of RRRG, which is 68% owned by the Association as of December 31, 2017. The following table summarizes the Association's consolidated changes in net assets segregated between controlling and non-controlling interest for the year ended December 31, 2017:

	Controlling Interest	Non-controlling Interest	Total
Net assets, January 1, 2016	$ 989,597		$ 989,597
Issuance of surplus notes		$ 600,000	600,000
Issuance of common stock Class A, no par value, 5 million shares authorized, 500,000 issued and outstanding		500,000	500,000
Issuance of common stock Class B, no par value, 5 million shares authorized, 212,001 issued and outstanding		225,002	225,002
Excess of revenues over expenses	629,190	26,748	655,938
Net assets, December 31, 2016	1,618,787	1,351,750	2,970,537
Issuance of surplus notes			
Issuance of common stock Class B, no par value, 5 million shares authorized, 9,500 issued and 234,002 outstanding		9,500	9,500
Excess of revenues over expenses	(531)	11,787	11,256
Net assets, December 31, 2017	$ 1,618,256	$ 1,373,037	$ 2,991,293

10. CONCENTRATIONS AND CREDIT RISKS

The Association maintains its cash balances in one financial institution located in Colorado Springs, Colorado. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Association's balances exceeded FDIC insurance limits as of December 31, 2017 and 2016.

11. LEASES

The Association sold the building they owned in April 2016 and leases office space in the same building with an expiration date of April 2019. Rent under this lease for the year ended December 31, 2017 was $15,436. As of December 31, 2017, future minimum lease payments under this operating lease is as follows:

2018	$ 15,114
2019	5,715
Total minimum lease payments	$ 20,829

12. RETIREMENT BENEFIT PLAN

The Association has a Simple IRA retirement plan for the benefit of eligible employees. Each participant may contribute a percentage of compensation but not in excess of the maximum allowed by the Internal Revenue Code. The Association may make discretionary matching contributions. For the years ending December 31, 2017 and 2016, the Association matched up to 3% of the employee's salary deferral, with the matching contributions totaling $7,408 and $4,954, respectively.

13. THE FOUNDATION FOR FREE FLIGHT

The Association matches members' donations to The Foundation for Free Flight. Matching gifts were $30,000 and $19,055 for the years ended December 31, 2017 and 2016, respectively.