

CIVIL AIR PATROL, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

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## Independent Auditors' Report

To the National Board  
Civil Air Patrol, Inc.  
Maxwell Air Force Base, Alabama

We have audited the accompanying statement of financial position of Civil Air Patrol, Inc., (a nonprofit organization) as of September 30, 2005, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Civil Air Patrol, Inc.'s management. We did not audit the financial statements of certain wings of Civil Air Patrol, Inc., which statements reflect total assets of \$4,647,491, as of September 30, 2005, and total revenues, gains and other support of \$3,893,227 for the year then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our report, insofar as it relates to the amounts and disclosures included for the regions and wings of Civil Air Patrol, Inc., for the year ended September 30, 2005, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Notes 1 and 2 to the financial statements, the accompanying financial statements do not include the accounts and financial transactions of the units below wing level of Civil Air Patrol, Inc., which are unaudited and maintained on the cash basis. In our opinion, accounting principles generally accepted in the United States of America require that the accounts and financial transactions of the units below wing level of Civil Air Patrol, Inc., be presented in the accompanying financial statements. The effects of this departure from accounting principles generally accepted in the United States of America on financial position and change in net assets are not reasonably determinable.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary if the accompanying financial statements included the accounts and financial transactions of the units below wing level of the Civil Air Patrol, Inc., the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Civil Air Patrol, Inc. as of September 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated May 17, 2006, on our consideration of the Civil Air Patrol, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Wilson, Price, Bannock, Blankenship & Bellingaly, P.C.*

May 17, 2006

**CIVIL AIR PATROL, INC.**  
STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2005

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 7,171,503
Short-term investments	4,618,592
Accounts, grants and loans receivable, net of allowance for doubtful accounts of \$83,355	2,834,227
Unconditional promises to give:	
Unrestricted	41,250
Inventories	456,049
Prepaid expenses	<u>847,152</u>
 Total current assets	 <u>15,968,773</u>

**NONCURRENT ASSETS**

Cash – restricted	2,663,856
Long-term investments	904,557
Unconditional promises to give:	
Restricted	11,431,812
Property and equipment, net of accumulated depreciation	44,145,165
Other noncurrent assets	<u>1,951</u>
 Total noncurrent assets	 <u>59,147,341</u>

**TOTAL ASSETS** \$ 75,116,114

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**LIABILITIES AND NET ASSETS****CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 3,590,872
Line of credit	704,449
Current maturities of long term debt	2,098
Other current liabilities	<u>23,574</u>

**TOTAL CURRENT LIABILITIES** 4,320,993

**NONCURRENT LIABILITIES**

Long term debt	<u>85,404</u>
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**TOTAL LIABILITIES** 4,406,397

**NET ASSETS**

Unrestricted:	
Undesignated	10,898,080
Board designated	<u>3,539,139</u>
	14,437,219
Temporarily restricted	55,909,249
Permanently restricted	<u>363,249</u>

Total net assets 70,709,717

**TOTAL LIABILITIES AND NET ASSETS** \$ 75,116,114

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Governmental appropriations and grants	\$ 24,256,471	\$ 300,972	\$ -	\$ 24,557,443
Revenue from CAP organizations	280,703	184,339	-	465,042
CAPMart sales	1,530,072	-	-	1,530,072
Other program revenue	2,089,920	2,713	-	2,092,633
Membership dues	2,381,540	-	-	2,381,540
Contributions	3,646,757	13,881,765	-	17,528,522
Special events	460,671	-	-	460,671
Registration fees and events	152,773	-	-	152,773
Publications and advertising	20,747	-	-	20,747
Sale of materials, supplies and surplus property	21,633	-	-	21,633
Investment income	177,717	61,069	164	238,950
Other	509,459	-	-	509,459
Net assets released from restrictions	8,074,204	(8,065,940)	(8,264)	-
<b>Total operating revenues and other support</b>	<b>43,602,667</b>	<b>6,364,918</b>	<b>(8,100)</b>	<b>49,959,485</b>
<b>OPERATING EXPENSES</b>				
Program services:				
Aerospace education and training	2,316,433	-	-	2,316,433
Cadet program	4,986,602	-	-	4,986,602
Communication maintenance	1,542,367	-	-	1,542,367
Counterdrug	1,534,626	-	-	1,534,626
Drug demand reduction	587,742	-	-	587,742
Emergency services	12,788,294	-	-	12,788,294
<b>Total program services</b>	<b>23,756,064</b>	<b>-</b>	<b>-</b>	<b>23,756,064</b>
Supporting services:				
Fundraising	206,869	-	-	206,869
Management and general	14,780,909	-	-	14,780,909
Membership development	1,350,785	-	-	1,350,785
Public affairs	929,657	-	-	929,657
CAPMart	1,731,760	-	-	1,731,760
<b>Total supporting services</b>	<b>18,999,980</b>	<b>-</b>	<b>-</b>	<b>18,999,980</b>
<b>Total operating expenses</b>	<b>42,756,044</b>	<b>-</b>	<b>-</b>	<b>42,756,044</b>
<b>Change in net assets from operations</b>	<b>846,623</b>	<b>6,364,918</b>	<b>(8,100)</b>	<b>7,203,441</b>

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<b>NONOPERATING GAINS AND LOSSES</b>				
Gain (loss) on disposition of property and equipment	\$ (6,675)	\$ 342,967	\$ -	\$ 336,292
Net unrealized and realized gain on investments	179,936	31,561	8,023	219,520
Total nonoperating gains and losses	<u>173,261</u>	<u>374,528</u>	<u>8,023</u>	<u>555,812</u>
<b>CHANGE IN NET ASSETS BEFORE PRIOR PERIOD ADJUSTMENTS</b>	1,019,884	6,739,446	(77)	7,759,253
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>(373,632)</u>	<u>551,968</u>	<u>25</u>	<u>178,361</u>
<b>CHANGE IN NET ASSETS</b>	646,252	7,291,414	(52)	7,937,614
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>13,790,967</u>	<u>48,617,835</u>	<u>363,301</u>	<u>62,772,103</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 14,437,219</u>	<u>\$ 55,909,249</u>	<u>\$ 363,249</u>	<u>\$ 70,709,717</u>

See independent auditors' report and notes to financial statements.



**CIVIL AIR PATROL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<b>Program Services</b>					
	<b>Aerospace Education &amp; Training</b>	<b>Cadet Program</b>	<b>Communication Maintenance</b>	<b>Counterdrug</b>	<b>Drug Demand Reduction</b>	<b>Emergency Services</b>
Advertising	\$ 15,343	\$ 526	\$ 140	\$ 280	\$ 140	\$ 701
Aircraft maintenance	322,202	464,474	76,494	349,499	47,398	3,936,965
Aircraft rental	-	-	-	-	-	33,617
Awards	5,177	77,672	529	215	409	3,211
Bad debts	391	2,201	126	83	64	6,861
Cadet activities	2,323	1,690,056	4,970	4,012	21,551	45,666
Conference	72,299	63,511	8,391	5,498	3,861	31,277
Contingency	-	-	-	-	-	39
Cost of goods sold	-	-	-	-	-	-
Depreciation	30,721	29,487	30,706	7,668	2,731	4,422,108
Equipment maintenance	11,061	(5,432)	1,006,731	10,538	7,344	114,179
Expenses with CAP Units						
below Wings	106,515	76,218	3,267	122,793	6,277	275,889
Facility maintenance	355,718	478,992	90,429	285,034	45,888	786,368
Insurance	350	641	361	244	164	2,472
Interest expense	-	-	-	-	-	-
Legal and accounting	3,742	3,055	603	3,237	702	14,965
Lobbying	36	36	7	24	5	72
Maintenance and equipment rental	-	43,430	-	-	-	4,820
Miscellaneous	6,591	6,899	753	(96,824)	368	72,397
Mission support	213,280	195,075	3,851	481,256	8,730	1,136,484
Payroll taxes and benefits	141,473	103,438	29,368	46,342	15,618	118,915
Professional services	25,623	1,603	-	-	1,929	1,392
Professional development	35,607	33,657	96	96	48	6,515
Postage	2,217	76,934	18,649	2,594	424	6,716
Publications	1,861	2,984	471	578	105	3,630
Salaries	768,094	555,869	146,417	241,632	90,302	745,877
Senior activities	27,553	5,024	79	77	53	65,222
Supplies	30,762	676,055	93,411	9,775	278,195	430,712
Telephone	21,199	22,597	3,408	18,538	2,062	96,815
Travel	77,168	300,309	10,702	23,515	49,103	204,454
Vehicle maintenance	39,056	80,718	12,201	17,875	3,953	217,498
Workers compensation	71	573	207	47	318	2,457
	<u>\$ 2,316,433</u>	<u>\$ 4,986,602</u>	<u>\$ 1,542,367</u>	<u>\$ 1,534,626</u>	<u>\$ 587,742</u>	<u>\$ 12,788,294</u>

**Supporting Services**

Fundraising	Management and General	Membership Development	Public Affairs	CAPMart	Total
\$ 245	\$ 17,209	\$ 24,282	\$ 148,741	\$ -	\$ 207,607
25,121	291,600	85,429	-	-	5,599,182
-	-	-	-	-	33,617
119	12,849	18,784	-	-	118,965
20	83,680	49	-	348	93,823
2,425	14,507	3,195	-	-	1,788,705
4,758	583,120	64,327	-	8,831	845,873
-	14,085	-	-	-	14,124
-	-	-	-	851,041	851,041
1,891	1,129,463	3,395	-	28,865	5,687,035
1,595	231,339	2,836	-	-	1,380,191
5,445	61,330	13,450	-	-	671,184
32,970	1,268,071	260,761	57,448	91,861	3,753,540
90	1,838,901	271	-	10,959	1,854,453
-	61,124	-	-	-	61,124
70	322,659	714	-	-	349,747
-	48	12	-	-	240
-	265,003	-	-	9,175	322,428
250	204,087	2,266	-	51,969	248,756
1,497	(48,149)	10,918	2	-	2,002,944
16,306	852,874	108,698	90,988	90,836	1,614,856
-	374,381	111,786	5,337	19,040	541,091
48	50,361	16,988	1,005	-	144,421
640	63,056	25,474	-	161,269	357,973
232	45,369	502	144,946	-	200,678
91,988	4,691,513	515,878	431,445	339,604	8,618,619
52	1,262	11,130	-	-	110,452
2,332	382,796	51,969	4,855	14,711	1,975,573
3,864	1,180,430	6,920	-	44,391	1,400,224
12,320	627,145	3,423	44,890	1,184	1,354,213
2,591	128,730	7,188	-	374	510,184
-	32,066	140	-	7,302	43,181
<b>\$ 206,869</b>	<b>\$ 14,780,909</b>	<b>\$ 1,350,785</b>	<b>\$ 929,657</b>	<b>\$ 1,731,760</b>	<b>\$ 42,756,044</b>

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 7,937,614
Prior period adjustment	(178,361)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,687,035
Net unrealized and realized gain on investments	(219,520)
Gain on disposition of property and equipment	(336,292)
Noncash contributions	(13,053)
Changes in operating assets and liabilities:	
Receivables	2,794,205
Prepaid expenses	3,144,988
Inventories	385,531
Unconditional promises to give	4,447,465
Other noncurrent assets	(1,951)
Accounts payable and accrued expenses	(1,098,779)
Other current liabilities	(388,580)
Assets restricted for long-term purposes	(262,454)
Net cash provided from operating activities	<u>21,897,848</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sale of property and equipment	433,004
Purchase of property and equipment	(20,875,663)
Proceeds from sale of investments	2,083,478
Purchase of investments	(1,617,359)
Net cash used by investing activities	<u>(19,976,540)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from borrowings	3,492,550
Payment of borrowings	(4,100,498)
Payment of lease obligation	(53,160)
Net cash used by financing activities	<u>(661,108)</u>

<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,260,200
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>5,911,303</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 7,171,503</u></u>

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities*

Civil Air Patrol, Inc., (the "Organization" or "CAP"), a civilian auxiliary of the United States Air Force (USAF), is a private nonprofit corporation chartered July 1, 1946, under federal law. Civil Air Patrol, Inc.'s principal activities are to provide voluntary contributions of private citizens, and adequate facilities to assist in meeting local and national emergencies, to promote aerospace education and training, and to provide a cadet training and motivation program. The Organization's activities are supported primarily by governmental appropriations, contributions and grants, membership dues, and program fees.

CAP is organized into eight geographic regions. These regions are subdivided into wings by the states falling within their boundaries. Additionally, the District of Columbia and Commonwealth of Puerto Rico have CAP wings. These 52 wings are then subdivided into groups, squadrons, and flights depending upon size.

*Basis of Accounting*

The financial statements of the Organization have been prepared on the accrual basis, and include the accounts and financial transactions of the National Headquarters, CAPMart (a retail mail order facility) and the regions and wings of Civil Air Patrol, Inc. All material transactions between the divisions of the Organization have been eliminated. The financial statements do not include the accounts and financial transactions of the Organization's units below wing level, which are unaudited.

*Financial Statement Presentation*

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Advertising*

Advertising costs are expensed as incurred. Total advertising costs expensed for the year ended September 30, 2005, was \$207,607.

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Cash and Cash Equivalents*

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude temporarily and permanently restricted cash and cash equivalents.

At various times during the fiscal year, the Organization's cash in bank exceeded the federally insured limits. As of September 30, 2005, the Organization's uninsured cash balances totaled \$6,518,806.

The Organization has not experienced any losses in such accounts.

Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

*Investments*

The Organization has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized and realized gains and losses are included in the change in net assets in the statement of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

*Accounts, Grants and Loans Receivable*

Accounts, grants and loans receivable consist primarily of amounts due from members, CAP organizations and governmental agencies, related to exchange transactions with those parties.

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific receivables.

*Inventories*

Inventories for use and sale are stated at the lower of cost or market, with cost determined by the first-in, first-out method.

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Property and Equipment***

Property and equipment are recorded at cost or, if contributed, at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. It is the Organization's policy to capitalize property and equipment with a fair value or cost over \$5,000.

***Compensated Absences***

Employees of the Organization earn and accrue annual leave. The cumulative amount of unused annual leave is included in accounts payable and accrued expenses in the statement of financial position.

***Income Tax Status***

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

***Contributions***

The Organization has adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period the contribution is received, the Organization reports the support as unrestricted. Contributions of utilities and use of long-lived assets and contributions of materials for use by the Organization are recorded at fair value.

***Functional Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

**2. UNITS BELOW WING LEVEL**

These financial statements do not include the accounts and financial transactions of approximately 1,468 units below wing level of Civil Air Patrol, Inc.

An unaudited summary of cash receipts and disbursements and changes in cash balance for the year ended September 30, 2005, for units below wing level of the corporation is presented below:

Receipts	\$ 7,070,052
Less disbursements	<u>6,640,078</u>
Excess of receipts over disbursements	429,974
Cash in bank per units' records, beginning of year	<u>4,371,718</u>
Cash in bank per units' records, end of year	<u>\$ 4,801,692</u>

**3. CASH**

Cash which has been either restricted by the donor or designated by the governing board of the organization is presented below:

<b>Contractually restricted by the USAF for:</b>	
Future aircraft maintenance, modernization and procurement	\$ 2,367,177
Administrative and other operational expenses	3,546
Counterdrug administration	60,194
<b>Restricted by donors for:</b>	
Cadet scholarships and activities	72,458
Other activities	<u>160,481</u>
Total restricted cash	<u>2,663,856</u>
<b>Designated by the governing board for:</b>	
Vehicle self-insurance program	77,329
Other activities	<u>51</u>
Total designated cash	<u>77,380</u>
<b>Cash unrestricted and not designated</b>	<u>7,094,123</u>
Total cash	<u>\$ 9,835,359</u>
Balance sheet presentation	
Cash and cash equivalents	\$ 7,171,503
Cash – restricted	<u>2,663,856</u>
Total	<u>\$ 9,835,359</u>

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

**4. INVESTMENTS**

Investments are presented at fair market value. Below is a summary of investments by major types:

Certificates of deposit	\$ 1,251,690
Common stocks	275,329
Corporate bonds	9,450
Mutual funds	<u>3,986,680</u>
<b>Total</b>	<b><u>\$ 5,523,149</u></b>

The composition of the return on investments is as follows:

Investment income	\$ 238,950
Net unrealized and realized gain on investments	<u>219,520</u>
<b>Total</b>	<b><u>\$ 458,470</u></b>

Investments which have been either restricted by the donor or designated by the governing board of the Organization are presented below:

<u>Description</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
<b>Restricted by donors:</b>			
Crossfield Fund	\$ 18,995	\$ 942	\$ 19,937
Clara Livingston Fund	135,387	6,738	142,125
Historical Fund	1,573	83	1,656
Wing and Region investments restricted for cadet scholarships and aerospace education	<u>564,939</u>	<u>9,617</u>	<u>574,556</u>
	<u>720,894</u>	<u>17,380</u>	<u>738,274</u>
<b>Designated by the governing board:</b>			
Reserve investments	2,354,502	146,104	2,500,606
Scholarship Fund	<u>904,812</u>	<u>56,341</u>	<u>961,153</u>
	<u>3,259,314</u>	<u>202,445</u>	<u>3,461,759</u>
<b>Investments unrestricted and undesignated</b>	<u>1,327,076</u>	<u>(3,960)</u>	<u>1,323,116</u>
<b>Total</b>	<b><u>\$ 5,307,284</u></b>	<b><u>\$ 215,865</u></b>	<b><u>\$ 5,523,149</u></b>



**CIVIL AIR PATROL, INC.**  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2005

**4. INVESTMENTS (Continued)**

Balance sheet presentation:	
Short-term investments	\$ 4,618,592
Long-term investments	<u>904,557</u>
Total	<u>\$ 5,523,149</u>

The Crossfield Fund is restricted for the benefits of the Aerospace Education Program. The Clara Livingston Fund is restricted for the Cadet Program. The Historical Fund is restricted to defray cost of the historical committee.

The governing board has designated unrestricted investments for the following specific purposes:

*Reserve Investments* - Reserve investments are intended for use only in cases of extreme emergency and only when approved by a resolution of three-fourths of the National Executive Committee.

*Scholarship Fund* - Investments designated in a quasi-endowment sense to provide cadet scholarships.

**5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE**

Accounts, grants and loans receivable are due from the following:

CAP – Units below wing level	\$ 110,023
USAF	1,960,591
Others	846,968
Less allowance for doubtful accounts	<u>(83,355)</u>
Total	<u>\$ 2,834,227</u>

**6. UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consist of the following:

<b>Restricted unconditional promises to give:</b>	
Restricted for the purchase of aircraft	\$ 8,675,957
Restricted for the purchase of communications equipment	616,734
Restricted for the purchase of imaging equipment	<u>2,139,121</u>
Total restricted unconditional promises to give	<u>11,431,812</u>
<b>Unrestricted unconditional promises to give:</b>	
Operations	<u>41,250</u>
Total	<u>\$ 11,473,062</u>

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**6. UNCONDITIONAL PROMISES TO GIVE (Continued)**

Amounts due in:	
Less than one year – unrestricted	\$ 41,250
Less than one year – restricted	<u>11,431,812</u>
Total	<u>\$ 11,473,062</u>

As of September 30, 2005, the Organization received from the USAF conditional promises to give of \$9,232,907 that are not recognized as assets in the statement of financial position. The promises are conditioned upon the Organization entering into legally binding USAF approved purchase orders for equipment.

**7. INVENTORIES**

Inventories for use and sale consist of the following:

Educational materials	\$ 408,536
Aircraft parts and other materials	<u>47,513</u>
Total	<u>\$ 456,049</u>

**8. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land	\$ 79,478
Building and improvements	3,075,239
Aircraft	82,831,077
Computers	501,265
Vehicles	15,077,015
Office furniture and equipment	283,878
Communication equipment	891,347
Building under capital lease	253,148
Other equipment	9,167,208
Construction in progress	526,280
Deposits on aircrafts	<u>2,904,901</u>
	115,590,836
Accumulated depreciation	<u>71,445,671</u>
Net property and equipment	<u>\$ 44,145,165</u>

As of September 30, 2005, improvements with a book value of \$544,599 have been made to leased facilities.

Depreciation expense for the period ending September 30, 2005	<u>\$ 5,687,035</u>
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**CIVIL AIR PATROL, INC.**  
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**8. PROPERTY AND EQUIPMENT (Continued)**

Property and equipment donated directly or indirectly by the Department of Defense (DOD) can only be used for mission accomplishment, must be kept a minimum of one year before disposal action, and must be returned to the donor unless a waiver is granted, or unless the equipment is classified by the donor as nonreturnable.

Property and equipment purchased with funding from the DOD is restricted for mission support. Disposition of these assets requires approval and instructions from CAP USAF. As of September 30, 2005, restricted property and equipment amounted to \$103,339,078 less accumulated depreciation of \$66,701,412 resulting in a balance of \$36,637,666.

**9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses are scheduled as follows:

CAP – Units below wing level	\$	108,838
Others		<u>3,482,034</u>
Total	\$	<u>3,590,872</u>

**10. NOTE PAYABLE**

The Organization has a note payable secured by a building with a book value of \$526,280. The mortgage, with an interest rate of 7% and monthly payments of \$688, matures July 1, 2010.

Total obligations	\$	87,502
Less current maturities		<u>2,098</u>
Total long term debt	\$	<u>85,404</u>

The future scheduled maturities of long term debt are as follows:

Years ending September 30:		
2006	\$	2,098
2007		2,252
2008		2,401
2009		2,593
2010		<u>78,158</u>
Total	\$	<u>87,502</u>

Total interest expense included in the statement of activities is \$61,124. Of this amount, \$878 was related to the above note and the remaining \$60,246, was related to the line of credit and capital leases.

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**11. NET ASSETS**

*Temporarily Restricted Net Assets*

Temporarily restricted net assets are available for the following purposes or periods:

Aerospace education and training program activities:	
Education materials	\$ 19,939
Scholarships	16,787
Other	16,212
Cadet program activities:	
Scholarships	188,570
Other	84,591
Other general activities:	
Subsequent years' use of property, equipment and inventories	52,287,061
Support, maintenance and modernization of aircraft fleet	3,018,458
Other	<u>277,631</u>
Total	<u>\$ 55,909,249</u>

*Permanently Restricted Net Assets*

Permanently restricted net assets are restricted for:

Scholarships	\$ 338,202
Other	<u>25,047</u>
Total	<u>\$ 363,249</u>

*Unrestricted Net Assets - Designated*

The governing board has designated unrestricted net assets for:

Reserve funds	\$ 2,500,620
Vehicle self-insurance program	77,329
Scholarships	<u>961,190</u>
Total	<u>\$ 3,539,139</u>

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**12. PRIOR PERIOD ADJUSTMENTS**

Net assets at the beginning of 2005 have been adjusted for the following classification errors relating to the prior year. The following corrections have no effect on the results of the current year's activity.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Overstated fixed assets at wing locations	\$ (633)	\$ -	\$ -	\$ (633)
Overstated receivables at wing locations	(1,759)	(15,239)	25	(16,973)
Understated payables at wing locations	(24,883)	-	-	(24,883)
Overstated inventory at wing locations	(164,340)	-	-	(164,340)
Overstated deferred revenue at wing locations	-	376,688	-	376,688
Correction of restrictions at wing locations	<u>(182,017)</u>	<u>190,519</u>	<u>-</u>	<u>8,502</u>
	<u>\$ (373,632)</u>	<u>\$ 551,968</u>	<u>\$ 25</u>	<u>\$ 178,361</u>

**13. DESCRIPTION OF LEASING ARRANGEMENTS**

The Organization conducts a portion of its activities from leased facilities. Land, storage, office and hangar space is leased under operating leases ranging from month-to-month periodic leases to fifty (50) year term leases, expiring at various dates up to 2027. Many of these operating leases require no rental payments, or payments at less than fair rental value. Some of these leases have options to renew with automatic increases in rental payments, while other leases may be canceled during the lease term. Also, a facility is leased from a governmental municipality with a lease term (including automatic renewals) expiring in 2044. The Organization also leases various other equipment which is classified as operating leases. The majority of the leases require the Organization to pay taxes, insurance, and repairs and maintenance. In most cases, management expects that, in the normal course of activities, leases will be renewed or replaced by other leases.

**14. OPERATING LEASES**

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2005:

Years ending September 30:	
2006	\$ 9,699
2007	-
2008	-
2009	-
2010	-
Total	<u>\$ 9,699</u>

Total rental expense for all operating leases is \$2,990 for the year ended September 30, 2005.

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**15. CAPMart SCHEDULE OF ACTIVITIES**

The activities of CAPMart, a retail mail order facility, for the year ended September 30, 2005, are summarized as follows and include intercompany transactions:

Sales	\$ 1,643,911
Less cost of goods sold or distributed	<u>777,834</u>
Gross profit	866,077
Less operating expenses	<u>1,051,043</u>
Operating loss	(184,966)
Other income	<u>93,812</u>
Change in net assets	<u>\$ (91,154)</u>

**16. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 2,594,609
Expiration of time restrictions	<u>5,479,595</u>
Total	<u>\$ 8,074,204</u>

**17. SELF-ADMINISTERED RISK RETENTION PROGRAM**

The Organization has elected to establish self-insurance programs for property damage to corporate vehicles. This program is funded by assessments to the regions and wings having custody of the vehicles. The assessments are placed in investment and cash accounts and are designated by the governing board to repair or replace vehicles due to loss or damage.

**18. EMPLOYEE BENEFIT PLAN**

The Organization sponsors a 401(k) and defined contribution plan for the benefit of its employees, substantially all of whom are eligible to participate after meeting minimum qualifying standards. Under the plan, employees may elect to defer a portion of their salary, subject to Internal Revenue Code limits. The Organization may contribute a discretionary amount to the plan with immediate vesting. Organization contributions to the plan were \$297,728 for the year ended September 30, 2005.

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**19. RELATED PARTY TRANSACTIONS**

Civil Air Patrol, Inc. is an auxiliary of the USAF. The USAF can significantly influence the management and operating policies of the Organization by the restrictions on its contributions and contractual restrictions placed on exchange transactions. Accordingly, the USAF is a party related to the Organization. The Organization conducts emergency missions authorized by the USAF and receives reimbursement as an exchange transaction. Additionally, the Organization receives contributions of property, equipment, and use of facilities and utilities at no charge from the USAF to enable the Organization to continue programs and activities.

The Organization's units below wing level are subordinate divisions of the corporation and are under the control of the Organization's governing board. Financial transactions of the units below wing level are not included in the accompanying financial statements. Accordingly, material transactions with the units below wing level are disclosed as related party transactions.

A description of significant related party transactions with amounts is presented below:

**Transactions Providing Revenue:**

From the USAF for:	
Governmental appropriations	\$ 21,277,115
Contributions for:	
Use of facilities and utilities	1,573,109
Property, equipment and inventory	<u>13,587,422</u>
Total	<u>\$ 36,437,646</u>
From CAP units below wing level for:	
Aircraft insurance assessments	\$ 13,802
Vehicle insurance assessments	8,969
Other	<u>522,243</u>
Total	<u>\$ 545,014</u>

**Transactions Incurring Expenses:**

Expenses with the USAF for:	
Facilities	<u>\$ 1,573,109</u>
Expenses with units below wing level	<u>\$ 671,184</u>

**20. CONTINGENCIES AND COMMITMENTS**

*Legal Proceedings*

There were legal proceedings against the Organization that arose in the normal course of business. While it is not feasible to predict or determine the outcome of these cases, the majority of these potential legal damages are adequately covered by insurance or by adequate defenses. It is the opinion of management that the outcome will not have a material adverse effect on the financial position of the Organization.

In 2005, CAP was named as a defendant in two wrongful death suits filed on behalf of CAP members who perished in a North Carolina aircraft accident on July 17, 2002. Currently, there is some ambiguity as to whether the members were performing an Air Force assigned mission. Resolution of this issue will determine the next phase of the litigation. Currently, CAP's private insurance will continue to defend this action.

*Concentration of Support*

The Organization receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's programs and activities.

*Self-Insured Accident Benefits*

The Organization has established self-insured accident coverage for its senior and cadet members which provides benefits in the event of injuries or death incurred on authorized CAP activities. The benefits have been set at \$10,000 for accidental death, and \$8,000 per accident for medical expenses. Management has not arrived at an estimate of this risk retention exposure. Accordingly, no provision for liability has been established in the accompanying financial statements. Management believes exposure not to be significant at September 30, 2005.

**21. SUBSEQUENT EVENTS**

Subsequent to September 30, 2005, the Organization received notice that a portion of their 2007 funding would be reduced by \$3,875,000. CAP is optimistic that this funding will be restored. However, they have initiated a staff reduction and other cost saving measures to balance the 2007 appropriated budget.

Subsequent to September 30, 2005, the Organization developed a plan to discontinue the operations of CAPMart, a retail mail order facility. The Organization has entered into an agreement with a third party who will continue to provide these services to members.