

CIVIL AIR PATROL
FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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SEPTEMBER 30, 2007

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Civil Air Patrol (a nonprofit organization) as of September 30, 2007, 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's management.

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 provides 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 certain Units below Wing level of Civil Air Patrol, 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 certain Units below Wing level of Civil Air Patrol, 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, 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, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Civil Air Patrol as of September 30, 2007, 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 27, 2008, on our consideration of the Civil Air Patrol 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 & Bellinghly, P.C.

May 27, 2008

CIVIL AIR PATROL
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 11,603,571
Short-term investments	3,760,864
Accounts, grants and loans receivable	3,047,111
Inventories	103,387
Prepaid expenses	<u>399,877</u>
Total current assets	<u>18,914,810</u>

NONCURRENT ASSETS

Cash - restricted	7,656,221
Long-term investments	555,042
Unconditional promises to give	11,467,012
Property and equipment, net of accumulated depreciation	<u>65,241,447</u>
Total noncurrent assets	<u>84,919,722</u>

TOTAL ASSETS	<u><u>\$ 103,834,532</u></u>
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LIABILITIES AND NET ASSETS**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 3,355,552
Current maturities of long-term debt	4,209
Deferred revenue	295,863

TOTAL CURRENT LIABILITIES 3,655,624

NONCURRENT LIABILITIES

Noncurrent maturities of long-term debt	<u>60,645</u>
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TOTAL LIABILITIES 3,716,269

NET ASSETS

Unrestricted:	
Undesignated	15,135,440
Board designated	<u>5,222,197</u>
	20,357,637
Temporarily restricted	79,380,633
Permanently restricted	<u>379,993</u>

Total net assets 100,118,263

TOTAL LIABILITIES AND NET ASSETS \$ 103,834,532

See independent auditors' report and notes to financial statements.

CIVIL AIR PATROL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUES AND OTHER SUPPORT				
Governmental appropriations and grants	\$ 29,673,262	\$ 52,650	\$ -	\$ 29,725,912
Revenue from CAP Organizations	608,665	8,106	-	616,771
Other program revenue	2,273,781	76,124	-	2,349,905
Membership dues	2,601,596	3,047	-	2,604,643
Governmental contributions	3,030,622	20,641,555	-	23,672,177
Contributions	3,345,825	47,972	-	3,393,797
Fundraising	393,426	-	-	393,426
Registration fees and events	686,243	-	-	686,243
Publications and advertising	28,770	-	-	28,770
Sale of materials, supplies and surplus property	58,744	-	-	58,744
Interest income	125,740	19,697	379	145,816
Investment income	326,465	21,001	-	347,466
Other	785,382	-	-	785,382
Net assets released from restrictions	9,960,835	(9,960,835)	-	-
Total operating revenues and other support	<u>53,899,356</u>	<u>10,909,317</u>	<u>379</u>	<u>64,809,052</u>
OPERATING EXPENSES				
Program services:				
Aerospace education and training	2,569,696	-	-	2,569,696
Cadet programs	6,362,865	-	-	6,362,865
Communication maintenance	5,731,323	-	-	5,731,323
Counterdrug	1,030,187	-	-	1,030,187
Drug demand reduction	703,437	-	-	703,437
Emergency services	17,483,066	-	-	17,483,066
Total program services	<u>33,880,574</u>	<u>-</u>	<u>-</u>	<u>33,880,574</u>
Supporting services:				
Fundraising	200,120	-	-	200,120
Management and general	16,222,937	-	-	16,222,937
Membership development	1,697,788	-	-	1,697,788
Strategic communications	904,956	-	-	904,956
Total supporting services	<u>19,025,801</u>	<u>-</u>	<u>-</u>	<u>19,025,801</u>
Total operating expenses	<u>52,906,375</u>	<u>-</u>	<u>-</u>	<u>52,906,375</u>
Change in net assets from operations	<u>992,981</u>	<u>10,909,317</u>	<u>379</u>	<u>11,902,677</u>

See independent auditors' report and notes to financial statements.

CIVIL AIR PATROL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
NONOPERATING GAINS AND LOSSES				
Gain on disposition of property and equipment	\$ 11,242	\$ 1,315,544	\$ -	\$ 1,326,786
Net unrealized and realized gain on investments	283,887	11,836	19,756	315,479
Total nonoperating gains and losses	<u>295,129</u>	<u>1,327,380</u>	<u>19,756</u>	<u>1,642,265</u>
CHANGE IN NET ASSETS BEFORE PRIOR PERIOD ADJUSTMENTS	1,288,110	12,236,697	20,135	13,544,942
PRIOR PERIOD ADJUSTMENTS	<u>2,429,536</u>	<u>1,263,891</u>	-	<u>3,693,427</u>
CHANGE IN NET ASSETS	3,717,646	13,500,588	20,135	17,238,369
NET ASSETS AT BEGINNING OF YEAR	<u>16,639,991</u>	<u>65,880,045</u>	<u>359,858</u>	<u>82,879,894</u>
NET ASSETS AT END OF YEAR	<u>\$ 20,357,637</u>	<u>\$ 79,380,633</u>	<u>\$ 379,993</u>	<u>\$ 100,118,263</u>

See independent auditors' report and notes to financial statements.

CIVIL AIR PATROL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 7,152	\$ 9,132	\$ 1,189	\$ 1,978	\$ 794	\$ 11,895
Aircraft maintenance	295,351	740,757	1,114	388,506	743	3,750,446
Awards	46,149	118,296	165	274	110	3,190
Bad debts	-	-	-	-	-	-
Bank and credit card expense	49	65	10	16	7	98
Cadet activities	11,850	1,936,993	250	417	278	59,643
Conference	231,518	120,786	17,951	28,653	11,968	185,977
Contingency	-	-	-	-	-	-
Depreciation	26,965	34,368	22,523	7,400	2,961	5,638,610
Equipment maintenance	15,064	20,539	5,015,966	3,498	1,407	53,403
Expenses with CAP Units below Wings	69,935	93,244	13,984	22,857	9,326	140,320
Facility maintenance	672,907	884,091	127,546	201,113	80,358	1,299,865
Fundraising events	3,158	11,496	85	142	57	852
Insurance	7,945	10,391	1,559	2,670	1,068	15,868
Interest expense	83	111	17	28	11	166
Legal and accounting	2,813	3,750	562	937	375	5,626
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	-	13,810	-	-	-	19,962
Miscellaneous	7,816	10,411	1,559	2,480	1,037	16,481
Mission support	37,283	91,345	2,093	103,417	1,369	3,621,653
Payroll taxes and benefits	72,870	115,965	44,423	45,694	20,162	167,569
Professional services	40,785	48	39,880	12	94,515	51
Professional development	85,060	95,703	5	8	3	23,822
Postage	13,275	64,166	47,281	4,157	1,754	26,698
Printing and publications	8,026	10,695	1,604	2,630	1,067	16,089
Procurement	-	-	-	-	-	75,154
Salaries	413,518	656,519	245,188	107,266	119,063	870,981
Senior activities	111,371	88	1	1	-	41,820
Supplies	101,425	678,383	82,095	26,638	270,111	676,559
Telephone	55,894	72,184	11,710	16,975	7,177	202,114
Travel	106,404	403,769	26,033	25,130	61,088	246,827
Vehicle maintenance	125,030	165,760	26,530	37,290	16,628	311,327
	<u>\$ 2,569,696</u>	<u>\$ 6,362,865</u>	<u>\$ 5,731,323</u>	<u>\$ 1,030,187</u>	<u>\$ 703,437</u>	<u>\$ 17,483,066</u>

Supporting Services

Fundraising	Management and General	Membership Development	Strategic Communications	Total
\$ -	\$ 21,883	\$ 88,595	\$ 31,768	\$ 174,386
-	7,427	1,857	-	5,186,201
-	51,817	18,894	-	238,895
-	6,223	3,234	-	9,457
-	18,885	16	-	19,146
-	8,765	1,040	-	2,019,236
24,654	445,532	29,894	-	1,096,933
-	25,476	-	-	25,476
-	1,727,517	7,399	-	7,467,743
-	255,455	4,002	-	5,369,334
-	94,753	23,313	-	467,732
-	1,460,880	364,147	63,329	5,154,236
107,096	569	142	-	123,597
40	1,930,271	2,731	-	1,972,543
-	32,008	28	-	32,452
-	320,709	937	-	335,709
-	18,000	-	-	18,000
-	184,549	-	-	218,321
-	168,787	5,104	-	213,675
-	25,705	3,424	-	3,886,289
9,945	1,080,591	142,118	82,009	1,781,346
16,692	655,526	160,117	30,251	1,037,877
-	24,810	7,038	768	237,217
590	76,649	9,694	-	244,264
-	10,735	4,173	233,751	288,770
-	20	-	-	75,174
32,082	5,324,832	611,262	406,134	8,786,845
-	5	1	-	153,287
2,280	335,185	87,701	15,353	2,275,730
-	1,002,398	20,335	-	1,388,787
6,587	721,435	58,783	41,593	1,697,649
154	185,540	41,809	-	910,068
<u>\$ 200,120</u>	<u>\$ 16,222,937</u>	<u>\$ 1,697,788</u>	<u>\$ 904,956</u>	<u>\$ 52,906,375</u>

See independent auditors' report and notes to financial statements.

CIVIL AIR PATROL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 17,238,369
Prior period adjustment	(3,693,427)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,467,743
Net unrealized and realized gain on investments	(315,479)
Gain on disposition of property and equipment	(1,326,786)
Changes in operating assets and liabilities:	
Receivables	490,966
Prepaid expenses	321,423
Inventories	31,736
Unconditional promises to give	863,891
Accounts payable and accrued expenses	(3,037,728)
Funding advance	(1,489,594)
Deferred revenue	(7,693)
Assets restricted for long-term purposes	<u>2,402,455</u>
Net cash provided from operating activities	<u>18,945,876</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of property and equipment	2,276,751
Purchase of property and equipment	(20,794,281)
Proceeds from sale of investments	6,117,742
Purchase of investments	<u>(6,012,131)</u>
Net cash used by investing activities	<u>(18,411,919)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	4,186,368
Payment of borrowings	<u>(4,189,552)</u>
Net cash used by financing activities	<u>(3,184)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

530,773

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (RESTATED)

11,072,798

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 11,603,571

See independent auditors' report and notes to financial statements.

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Civil Air Patrol (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'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 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 and the Regions and Wings of Civil Air Patrol. 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. Contributions are reported in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions are recorded at their fair value in the period received.

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 certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates in these statements include useful lives for depreciation, contributed facilities and allocation of expenses by function. Actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. Total advertising costs expensed for the year ended September 30, 2007, were \$174,386.

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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.

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 as nonoperating gains and losses. Investment income reported as operating revenues consists of interest and dividend income from investments. 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
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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.

Deferred Revenue

Deferred revenues include advance payments of membership dues and fees. Dues are considered exchange transactions and recorded as revenues in the applicable membership period.

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

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or 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 are recorded at fair rental value, and contributed materials for use 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
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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.

An unaudited summary of cash receipts and disbursements and changes in cash balance for the year ended September 30, 2007, for Units below Wing level of the Organization is presented below:

Receipts	\$ 3,449,095
Less disbursements	<u>7,585,852</u>
Excess of disbursements over receipts	(4,136,757)
Cash in bank per Units' records, beginning of year	<u>4,430,840</u>
Cash in bank per Units' records, end of year	<u>\$ 294,083</u>

3. CASH

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

Contractually restricted by the USAF for:

Future aircraft maintenance, modernization and procurement	\$ 6,788,463
Administrative and other operational expenses	4,736
Counterdrug administration	16,790

Restricted by donors for:

Cadet scholarships and activities	250,228
Other activities	<u>596,004</u>

Total restricted cash 7,656,221

Designated by the governing board for:

Cadet scholarships and activities	283,152
Other activities	<u>676,555</u>

Total designated cash 959,707

Cash unrestricted and not designated 10,643,864

Total cash \$ 19,259,792

Balance sheet presentation:

Cash and cash equivalents	\$ 11,603,571
Cash – restricted	<u>7,656,221</u>

Total \$ 19,259,792

CIVIL AIR PATROL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

4. INVESTMENTS

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

Annuities	\$ 18,961
Common stock	159,078
Corporate bonds	194,091
Mutual funds	<u>3,943,776</u>
Total	<u>\$ 4,315,906</u>

The composition of the return on investments is as follows:

Investment income	\$ 347,466
Net unrealized and realized gain on investments	<u>315,479</u>
Total	<u>\$ 662,945</u>

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>
Restricted by donors:			
Clara Livingston Fund	\$ 166,987	\$ 1,352	\$ 168,339
Historical Fund	1,846	110	1,956
Jack Sorenson Aerospace Education Fund	7,603	(554)	7,049
Wing and Region investments restricted for cadet scholarships and aerospace education	<u>345,234</u>	<u>32,464</u>	<u>377,698</u>
	<u>521,670</u>	<u>33,372</u>	<u>555,042</u>
Designated by the governing board:			
Reserve investments	2,548,301	(6,573)	2,541,728
Scholarship Fund	<u>823,080</u>	<u>(2,310)</u>	<u>820,770</u>
	<u>3,371,381</u>	<u>(8,883)</u>	<u>3,362,498</u>
Investments unrestricted and undesigned	<u>378,984</u>	<u>19,382</u>	<u>398,366</u>
Total	<u>\$ 4,272,035</u>	<u>\$ 43,871</u>	<u>\$ 4,315,906</u>

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

4. INVESTMENTS (Continued)

Balance sheet presentation:	
Short-term investments	\$ 3,760,864
Long-term investments	<u>555,042</u>
Total	<u>\$ 4,315,906</u>

The Clara Livingston Fund is restricted for the Cadet Program. The Historical Fund is restricted to defray costs of the historical committee. The Jack Sorenson Aerospace Education Fund is restricted for aerospace education.

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	\$ 350,013
USAF	2,053,274
Others	<u>643,824</u>
Total	<u>\$ 3,047,111</u>

6. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are due in less than one year and consist of the following:

Restricted unconditional promises to give:	
Restricted for the purchase of aircraft	\$ 9,966,278
Restricted for the purchase of communications equipment	<u>1,500,734</u>
Total restricted unconditional promises to give	<u>\$ 11,467,012</u>

As of September 30, 2007, the Organization received from the USAF conditional promises to give of \$426,994 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.

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

7. INVENTORIES

Inventories for use and sale consist of the following:

Educational materials	\$ 59,989
Aircraft parts and other materials	<u>43,398</u>
Total	<u>\$ 103,387</u>

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 255,239
Building and improvements	4,450,086
Aircraft	94,645,720
Computers	3,356,842
Vehicles	18,149,892
Office furniture and equipment	157,155
Communication equipment	7,809,697
Building under capital lease	253,148
Office equipment under capital lease	9,995
Other equipment	9,430,634
Construction in progress	413,760
Deposits on aircraft	<u>620,000</u>
	139,552,168
Accumulated depreciation	<u>74,310,721</u>
Net property and equipment	<u>\$ 65,241,447</u>

As of September 30, 2007, improvements with a book value of \$290,054 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$139,191 and \$150,901, respectively.

Depreciation expense for the period ending September 30, 2007 \$ 7,467,743

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, 2007, property and equipment restricted for specific purposes amounted to \$123,251,320, accumulated depreciation of \$70,009,250 resulting in a balance of \$53,242,070.

CIVIL AIR PATROL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are scheduled as follows:

CAP – Units below Wing level	\$ 57,621
Accrued payroll and payroll taxes	791,948
Vendor payables	<u>2,505,983</u>
Total	<u>\$ 3,355,552</u>

10. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 246,641
Other	<u>49,222</u>
Total	<u>\$ 295,863</u>

11. 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	\$ 64,854
Less current maturities of long-term debt	<u>4,209</u>
Noncurrent maturities of long-term debt	<u>\$ 60,645</u>

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

Years ending September 30:	
2008	\$ 4,209
2009	4,141
2010	<u>56,504</u>
Total	<u>\$ 64,854</u>

Total interest expense included in the statement of activities is \$32,452. Of this amount, \$5,030 was related to the above note and the remaining \$27,422, was related to the line of credit.

CIVIL AIR PATROL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

12. NET ASSETS

Temporarily Restricted Net Assets

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

Emergency services	\$ 10,788
Cadet program activities:	
Scholarships	365,104
Other	97,631
Other general activities:	
Subsequent years' use of property, equipment and inventories	77,142,326
Support, maintenance and modernization of aircraft fleet	1,098,171
Other	<u>666,613</u>
Total	<u>\$ 79,380,633</u>

Permanently Restricted Net Assets

Permanently restricted net assets are restricted for:

Scholarships	\$ 365,092
Other	<u>14,901</u>
Total	<u>\$ 379,993</u>

Unrestricted Net Assets - Designated

The governing board has designated unrestricted net assets for:

Reserve funds	\$ 3,896,845
Scholarships	1,265,637
Other	<u>59,715</u>
Total	<u>\$ 5,222,197</u>

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
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13. PRIOR PERIOD ADJUSTMENTS

Net assets at the beginning of 2007 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>
Correction of assets at national headquarters	\$ 15,413	\$ -	\$ -	\$ 15,413
Correction of assets at Wing locations	214,669	-	-	214,669
Subordinate Units not reported in prior years	3,415,246	48,099	-	3,463,345
Correction of net asset restrictions	<u>(1,215,792)</u>	<u>1,215,792</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,429,536</u>	<u>\$ 1,263,891</u>	<u>\$ -</u>	<u>\$ 3,693,427</u>

In prior years subordinate Units below Wing level were not included in the financial statements of CAP. In 2006, the Organization initiated a test program to include the accounts of the subordinate Units below Wing level. Beginning net assets have been adjusted by \$3,463,345 to reflect the addition of Units in 2007. This initiative has been expanded nationally. Ultimate resolution, after a two-year phase in period, is that all subordinate Units will be included in their respective Wing's financial reporting.

14. 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.

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
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15. 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, 2007:

Years ending September 30:	
2008	\$ 4,010
2009	<u>2,325</u>
Total	<u>\$ 6,335</u>

Total rental expense for all operating leases is \$4,012 for the year ended September 30, 2007.

16. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 2,766,328
Expiration of time restrictions	<u>7,194,507</u>
Total	<u>\$ 9,960,835</u>

17. 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 \$304,437 for the year ended September 30, 2007, and are included in payroll taxes and benefits in the statement of functional expense.

18. RELATED PARTY TRANSACTIONS

Civil Air Patrol 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 Units below Wing level are subordinate divisions of the Organization 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.

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
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18. RELATED PARTY TRANSACTIONS (Continued)

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

Transactions Providing Revenue:

From the USAF for:

Governmental appropriations	\$ 26,466,651
Contributions for:	
Use of facilities and utilities	1,960,869
Property, equipment and inventory	20,441,555
Other	<u>51,600</u>
Total	<u>\$ 48,920,675</u>

From CAP Units below Wing level for:

Aircraft insurance assessments	\$ 427
Vehicle insurance assessments	6,950
Other	<u>609,394</u>
Total	<u>\$ 616,771</u>

Transactions Incurring Expenses:

Expenses with the USAF for:

Facilities	<u>\$ 1,960,869</u>
Expenses with Units below Wing level	<u>\$ 467,732</u>

19. 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.

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, 2007.

CIVIL AIR PATROL
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20. CONCENTRATIONS

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.

Concentration of Credit Risk

The Organization maintains its cash in bank accounts, which at various times during the fiscal year exceed the federally insured limits.

As of September 30, 2007, the Organization's uninsured cash balances totaled \$13,737,667.

The Organization has not experienced any losses in such accounts and management does not believe it is exposed to any significant risk related to these cash accounts.