


CAP

Financial Report 2014





MISSION STATEMENT

*Supporting America's communities with
emergency response, diverse aviation and ground services,
youth development and promotion of air, space and cyber power.*



About CAP

Since Civil Air Patrol's formation during World War II, this patriotic organization of citizen volunteers has been committed to serving the needs of America. Established 73 years ago in part as a way to protect the nation's shorelines from German U-boats, Civil Air Patrol has evolved into a premier public service organization for carrying out emergency service and disaster relief missions nationwide. As the auxiliary of the U.S. Air Force, CAP is there to search for and find the lost, provide comfort in times of disaster and work to keep the homeland safe. Its 58,000 volunteers, who serve as members of 52 wings and 1,500 units across the U.S., Puerto Rico and the Virgin Islands, selflessly devote their time, energy and expertise toward the well-being of their communities, while also promoting aviation and related fields through aerospace education and helping shape future leaders through CAP's cadet program.

Youth Programs

Civil Air Patrol's award-winning Aerospace Education program promotes aerospace history, flight principles and STEM careers.

Many of the nation's astronauts, pilots, engineers and scientists first explored their careers through CAP's AE and cadet programs.

Both transform youth into dynamic Americans and aerospace leaders through a curriculum that focuses on leadership, aerospace, fitness and character.





A photograph of two young men standing in front of a red and white biplane. They are both wearing white t-shirts with a circular logo on the chest, dark blue shorts, and dark caps. The man on the right is also wearing sunglasses. The biplane has a large circular logo on its side and the number '887L' visible. The background shows a grassy field and a clear sky. A yellow diagonal graphic element is on the right side of the image, and a red circle is at the bottom right.

STEM

Aerospace Education's STEM program, consisting of over 30 no-cost aerospace education products and programs, generates interest in Science, Technology, Engineering and Mathematics careers in over 25,000 cadets and about 300,000 K-12 students nationwide.



STEM KITS

Nearly 90,000 K-12 youth across the country were exposed to career exploration programs associated with astronomy, flight simulation, model and remote-controlled aircraft, robotics and rocketry, thanks to free STEM kits funded by the National Defense Education Program, the Air Force STEM Outreach Office and Civil Air Patrol. The kits were made available to CAP unit Aerospace Education Officers, educator members and Air Force JROTC instructors, who used them to inspire youth to seek STEM-minded careers.





CAP is a leader
in CyberPatriot competition

CYBERPATRIOT

The CyberPatriot program, complemented by Civil Air Patrol's cyber security educational materials, is grooming participants for cyber security careers.

CAP is a leader in the Air Force Association's All Service Division national middle/high school CyberPatriot program. South Dakota's Big Sioux cadets have been in the national finals during each of the past four years and were runners-up to the national champions this year. In 2013 the South Dakota team finished first in competition to operate and secure a basic network.





TOP FLIGHT

Teacher Orientation Program (TOP) Flights provide educators the opportunity to experience firsthand the excitement of flying and to expand their aeronautical knowledge, which benefits 25,000 students annually.

SCHOLARSHIPS

More than \$60,000 in college and flight scholarships are annually awarded to Civil Air Patrol cadets.

AEROSPACE CONNECTIONS IN EDUCATION

About 17,000 youth in 28 states are K-6 Aerospace Connections in Education (ACE) program kids. The no-cost program enriches academics, character education and physical fitness with an engaging aerospace grade-specific curriculum.





17,000 youth



respect
integrity
excellence
volunteer
service





CORE VALUES

Civil Air Patrol instills the organization's Core Values in its cadets — excellence, respect, integrity and volunteer service. CAP's 23,000 cadets are drug-free role models in their communities and schools.

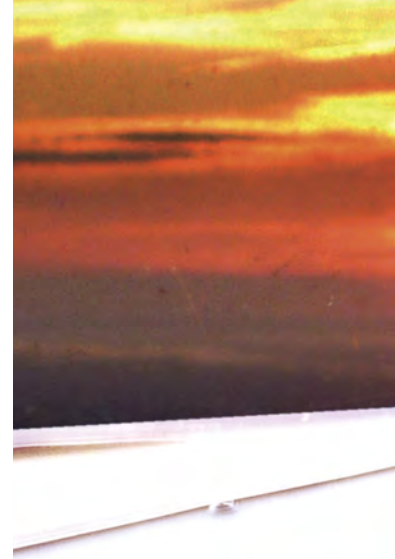
The cadet program also offers youth in-depth training in leadership and enables them to apply classroom principles to real-world needs.





ORIENTATION FLIGHTS

The opportunity to experience flight is a major attraction Civil Air Patrol offers youth. During 2014, CAP's pilots flew cadets on 29,202 orientation flights.



over 29,000 flights





CAREER EXPLORATION

Through more than 30 National Cadet Special Activities, CAP cadets annually explore careers in a wide variety of fields. They can choose to investigate flying, aircraft maintenance and manufacturing, cyberspace operations, engineering, robotics and emergency services, among others.





Missions

Always prepared, both in the air and on the ground, CAP members perform emergency services for state and local agencies as a nonprofit organization, as well as for the federal government as the civilian auxiliary of the U.S. Air Force. Ever vigilant, these true patriots make a difference in their communities, always ready not only to assist in times of disaster but also to search for missing people and protect the homeland.

CAP contributed \$158 million

in man-hours in 2014 by serving the disaster relief, emergency services and civic needs of communities, states and the U.S.



SEARCH AND RESCUE

Civil Air Patrol annually conducts 90 percent of inland search and rescue missions in the continental U.S. as tasked by the Air Force Rescue Coordination Center and other agencies. CAP members were involved in 669 search and rescue missions in 2014 and were credited by the AFRCC with saving 85 lives. CAP has over 30,000 members qualified to support emergency services missions as aircrew members, ground team members and incident staff.



FLYING HIGH

CAP aircrews flew over 91,000 hours in 2014, conducting search and rescue, disaster relief, homeland security and counterdrug/drug interdiction operations.

AERIAL PHOTOGRAPHY


With aerial photography now CAP's No. 1 emergency services tasking, geotagging-capable cameras are used to support all missions.



PROFESSIONALLY TRAINED

Civil Air Patrol members completed 64 disaster relief missions for federal, state and local agencies in 2014. Training is key to CAP's success, with ongoing professional development offered at the unit, wing, region and national levels.





COUNTERDRUG MISSIONS

Aircrews conducting counterdrug and drug interdiction operations flew 7,254 hours helping law enforcement agencies seize \$1.28 billion in illegal drugs and currency, leading to 530 arrests. CAP aircrews were involved in 233 counterdrug missions in 2014.

233 counterdrug missions



4,000 team members



GROUND TEAMS

Nearly 4,000 ground team members work hand-in-hand with approximately 9,000 aircrew personnel to get the job done.

FORCE MULTIPLIER

Civil Air Patrol services, performed in the air and on the ground by volunteers, cost only \$120 to \$165 per flying hour, saving millions of dollars over the Air Force, Air National Guard and other aviation options.





HOMELAND SECURITY

CAP aircrews flew 1,289 hours on 226 air defense exercise missions helping prepare fighter units across the country for homeland security missions both at home and abroad. Also, CAP trains the Army to defend the National Capital Region.

helping prepare fighter units
across the country





Planning & Technology

Civil Air Patrol's National Radar Analysis and Cell Phone Forensics teams, consisting of radar and cell phone data experts, work together on search and rescue missions, effectively reducing the time between when people or aircraft are reported missing and survivors are rescued. Advances in technology — including digital electronic direction finders, infrared cameras that register heat signatures, real-time full-motion video and airborne public address systems — also enhanced CAP's SAR capabilities.





Surrogate Unmanned Aircraft System exercises

provide pre-deployment training to U.S. troops
involved in air-to-ground operations.



WORLD'S LARGEST FLEET


Civil Air Patrol boasts a versatile fleet of 550 single-engine airplanes — the largest fleet of single-engine piston aircraft in the U.S. and perhaps the largest in the world.

SURROGATE UNMANNED SYSTEM

Three CAP aircraft are specially equipped Cessnas used as the Surrogate Unmanned Aircraft System (SUAS). Planes used in the program are equipped with a sensor ball that allows aircrews to lock onto a target and track it in real-time using full-motion video — technology that has been highly touted as an effective and outstanding predeployment training tool by the Air Force, Army, Navy and Marine Corps.



550 single-engine airplanes

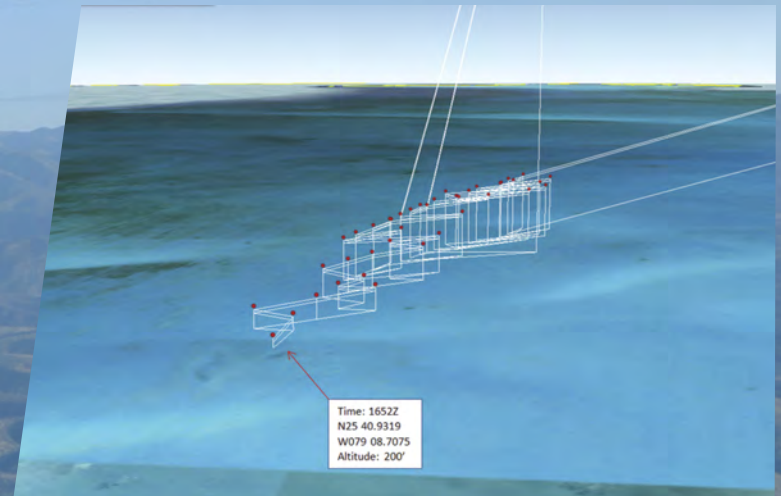


GLIDERS

CAP's air fleet also includes 46 gliders used to introduce America's youth to flight.

CELL PHONE FORENSICS

Using data collected from cell phone providers, Civil Air Patrol's Cell Phone Forensics Team analyzes the data to determine approximate coordinates, which leads rescuers to downed aircraft and stranded individuals. The cell phone team provides volunteers with Google Earth images (like this) that define the search area.



RADAR ANALYSIS

CAP's National Radar Analysis Team (NRAT) is equally successful, particularly during searches for lost aircraft. NRAT detects and maps the missing plane's radar track to narrow the search area in an effort to reduce the crash-to-rescue time.

The Air Force Rescue Coordination Center credited CAP's Cell Phone Forensics and Radar Analysis Teams with 50 saves last year.



50 cell phone/radar saves





GROUND FLEET

Civil Air Patrol maintains a fleet of 980 vehicles—consisting of vans, trucks, sedans and special purpose vehicles, many equipped with state-of-the-art communications.



COMMUNICATIONS NETWORK

CAP's multimillion-dollar communications network includes 806 high-frequency (HF) digital radios and 5,461 mobile and portable very high-frequency (VHF) radio stations.



Community Service

CAP members' volunteer service has been recognized with many prestigious awards in honor of the organization's Missions for America, which includes a long and diverse list of service to local communities.



CONGRESSIONAL GOLD MEDAL

On December 10 in Washington, D.C., Civil Air Patrol was presented the Congressional Gold Medal for its founding members' service in protecting U.S. shipping against German U-boat attacks as well as other vital domestic missions during World War II.

Speaker of the House John Boehner presented the medal to CAP National Commander Maj. Gen. Joe Vazquez and former U.S. Rep. Lester Wolff, who served in CAP's New York Wing during the war, in a 40-minute ceremony in Emancipation Hall at the U.S. Capitol. Forty-six living World War II veterans attended, while at least 50 deceased vets were represented by family.

Civil Air Patrol is only the 154th group or individual to receive the Congressional Gold Medal, one of the highest civilian awards in the United States.



AFA LIFETIME ACHIEVEMENT AWARD

The Air Force Association honored Civil Air Patrol with its 2014 Lifetime Achievement Award in recognition of its more than 70 years of helping secure the American homeland, especially its service during World War II. CAP National Vice Commander Brig. Gen. Larry Myrick, right, accepted the award on CAP's behalf from retired U.S. Air Force Lt. Gen. George Muellner, the association's chairman of the board. The presentation was made during the association's Air & Space Conference in National Harbor, Maryland.



RED CROSS PARTNERSHIP



Civil Air Patrol formalized its longstanding relationship with the American Red Cross in the form of a memorandum of understanding between the two premier public service organizations. CAP's new national commander and CEO, Maj. Gen. Joe Vazquez, made signing the pact his first act after assuming command at the 2014 National Conference in Las Vegas. The two organizations "have a long history of supporting communities in need, and this agreement provides a framework for our personnel to work and train together to do that for years to come," Vazquez said.

LEGISLATIVE DAY



A detailed report of each wing's performance in carrying out its congressionally mandated missions of emergency services, cadet programs and aerospace education was presented to lawmakers during one-on-one meetings with CAP commanders during the organization's annual Legislative Day. Among those receiving visitors was U.S. Rep. Kristi Noem, a congresswoman from South Dakota.



PILOT'S CHOICE AWARD

Civil Air Patrol's value as a member of and contributor to the aviation community has been recognized since 2010 with the Lightspeed Aviation Foundation's Pilot's Choice Award. This year CAP is again a finalist for a foundation grant, as determined by a vote of aviation enthusiasts. CAP received \$10,000 grants from the foundation in 2010, 2011, 2012 and 2013.

HELPING HANDS

CAP's senior members and cadets serve their communities in myriad ways, including visiting the elderly; collecting and distributing food and clothing to the needy; carrying out cleanup campaigns; helping other youth organizations, like the Boy Scouts; and meeting logistics needs for aviation-related events like air shows.





professiona



WREATHS ACROSS AMERICA

Every December, in all 52 wings and even overseas, Civil Air Patrol members participate in Wreaths Across America observances, presenting the colors and placing wreaths on veterans' graves in national cemeteries and at war memorials. CAP's Wreaths Across America reach now includes evergreen garland exchanges with Canada coordinated by the Alaska, Maine, Michigan and Montana wings.

FLAG BEARERS

CAP squadrons across the U.S. are routinely invited to present the American flag at high-profile events ranging from conventions and conferences to legislative sessions, Memorial Day and Veterans Day parades and ceremonies, sporting events, military changes of command, funerals and celebrations heralding the return of heroes from deployment overseas. Presenting the colors enables cadets to exhibit their professionalism and patriotism before thousands or even, during televised athletic contests, millions of onlookers.

lism & patriotism



Governance

As the name implies, Civil Air Patrol's Board of Governors is the governing body of the organization. Eleven distinguished members make up the board. They are leaders in their own right, drawn from the ranks of CAP volunteers — who have careers in a cross section of America's workforce — along with

U.S. Air Force officers and civilians involved in the fields of education, aviation and emergency management. These board members move the organization forward through collective decision-making, which generates strategic policies, plans and programs designed to guide CAP both today and tomorrow. They are assisted by the national commander and chief executive officer, as well as the organization's chief operating officer and the CAP-U.S. Air Force commander, who act as advisers.



BOARD OF GOVERNORS LEADERSHIP

Maj. Gen. John M. Spiegel, USAF (Ret), Chairman

Air Force background:

- Numerous Air Force technical and command positions
- Air Force long-range planning, including Airlift Master Plan and Total Force Plan

Career:

- Recently retired as Director, DoD Human Capital Deloitte Consulting, Washington, D.C.
- Major General, U.S. Air Force, with most recent service as Director of Personnel Policy, Deputy Chief of Staff for Personnel, Headquarters U.S. Air Force at the Pentagon, Washington, D.C. Commanded at every level of Air Force, including service at the Pentagon and in South Korea



Col. Jayson A. Altieri, CAP Member-at-Large and Vice Chairman

CAP/Army/Aviation background:

- 30 years of U.S. Army service, including numerous Army technical and command positions
- Master Army Aviator with more than 2,500 flying hours, rated in OH-58, UH-1 and UH-60 helicopters
- 35 years of service in Civil Air Patrol; CAP Command Pilot
- Federal Aviation Administration commercial pilot certificate

Career:

- Colonel, U.S. Army, Commander of 110th Aviation Brigade, Fort Rucker, Ga.
- Previous service with the NATO Standardization Agency in Brussels, Belgium, in addition to assignments as Deputy Chief of Staff for Strategic Plans, NATO Regional Command (East), Bagram, Afghanistan; Commander, 2nd Battalion (Airborne), 82nd Combat



CIVIL AIR PATROL APPOINTED MEMBERS

Col. Ralph L. Miller, CAP Member-at-Large



CAP/Aviation background:

- 33 years with Civil Air Patrol, including his most recent service as Pacific Region Deputy Chief of Staff for Operations. Previously served as Nevada Wing Commander and in both the Nevada and Michigan wings as Safety Officer, Standardization/Evaluation Officer and Director of Operations
- CAP Mission Pilot and Incident Commander

Career:

- Retired to Nevada in 1999 after 30 years in the automotive industry. Held executive positions at General Motors and Rockwell International before becoming President of Modern Engineering and, later, MSX International

Col. Tim C. Verrett, CAP Member-at-Large



CAP background:

- 27 years with Civil Air Patrol, including service as Assistant National Legal Officer
- Completed Level IV of CAP's professional development program
- Master Rating in CAP's Legal Officer specialty track
- Previous CAP service as Commander, Vice Commander and Legal Officer of Pacific Region, as well as Legal Officer for Alaska Wing; also served on numerous national-level committees

Career:

- Longtime Anchorage, Alaska, Attorney
- Owner, Law Offices of Timothy C. Verrett
- Serves on Alaska Bar Association Mediation Panel

Col. C. Warren Vest, CAP Member-at-Large



CAP/Aviation background:

- 32 years with Civil Air Patrol, including most recent service as National Finance Officer. Previously served as Director of Operations for both the Maryland and Virginia wings; Director of Finance, Chief of Staff, Vice Commander and Interim Wing Commander in Virginia; and Middle East Region Vice Commander
- CAP's first National Finance Officer of the Year for role in creating the organization's Wing Banker Program and implementing it for Virginia Wing. The program ultimately led to CAP's first ever unqualified audit opinion for fiscal year 2008
- CAP Command Pilot with a commercial pilot certificate
- Served as CAP Mission Pilot and Incident Commander for 20 years

Career:

- Vice President of Air Serv International Inc., a nonprofit company providing humanitarian air transportation services
- Co-founded and later served as President and CEO of an engineering services company – now part of General Dynamics – that was a U.S. Navy contractor specializing in underwater acoustics, shipboard sonar systems, ship noise and antisubmarine warfare

AIR FORCE APPOINTED MEMBERS

William A. Davidson Jr., USAF (Ret)



Air Force background:

- 22 years of Air Force service, primarily as officer in security and investigative programs
- 21 years as member of Senior Executive Service, working as Air Force's senior career Civilian Adviser to Secretary of Air Force

Career:

- Administrative Assistant to Secretary of Air Force, Headquarters U.S. Air Force at the Pentagon, Washington, D.C.
- Former Deputy Administrative Assistant, Headquarters U.S. Air Force at the Pentagon, Washington, D.C.
- Former Air Force Officer with service as Air Force Office of Special Investigations Agent and Chief of Air Force Polygraph Program
- Colonel, U.S. Air Force, with service as Deputy for Security and Investigative Programs, Headquarters U.S. Air Force

Lt. Gen. William H. Etter, USAF Commander, 1st Air Force



Air Force/Aviation background:

- Numerous Air Force command positions
- Air Force Command Pilot with more than 3,700 flight hours in T-37, T-38 and F-16 aircraft, including service in various operational and staff assignments as F-16 pilot

Career:

- Lieutenant General, U.S. Air Force, currently serving as Commander of Continental U.S. North American Aerospace Defense Command Region-1st Air Force (Air Forces Northern) at Tyndall Air Force Base, Fla.
- Previous service includes Assistant to Chairman, Joint Chiefs of Staff for National Guard Matters at the Pentagon in Washington, D.C., as well as assignments as Director of Strategic Plans and Policy; Acting Director, Domestic Operations/Force Development; Director, Domestic Operations; Director for Strategic Plans and Policy at National Guard Bureau in Arlington, Va.; and Assistant Adjutant General-Air and Director of Operations for the Vermont Air National Guard

Brig. Gen. Leon A. Johnson, USAF (Ret) National President, Tuskegee Airmen Inc.



CAP/Air Force/Aviation background:

- Numerous Air Force technical and command positions
- Air Force Command Pilot with more than 3,500 hours of military flight time in T-37 trainer and A-37 and A-10 fighter aircraft, including missions over Bosnia in support of Operation Deny Flight
- More than 3,500 hours of flight time as commercial pilot
- National President – Tuskegee Airmen Inc.
- Former CAP Cadet Colonel in California Wing; selected for International Air Cadet Exchange program

Career:

- Retired from United Parcel Service after nearly 20 years of service as Flight Operations Employment Manager, Administrative Chief Pilot, Asia Chief Pilot, Flight Operations Employee Relations Manager, A300 Training Manager and Manager of Airline Manuals
- Former Trans World Airlines Line Pilot and Pilot Hiring Manager
- Brigadier General, U.S. Air Force, with most recent service as Mobilization Assistant to Assistant Secretary of Air Force for Manpower and Reserve Affairs and Mobilization Assistant to AETC Director of Operations

Paul L. Graziani
Chief Executive Officer,
Analytical Graphics Inc.
(AGI)



Aerospace background:

- Software Developer – analysis software for space, defense and intelligence
- Board Director:
 - PASSUR Aerospace
 - U.S. Geospatial Intelligence Foundation
 - Federation of Galaxy Explorers
 - Life Director, Space Foundation
- Former member of Board of Governors, Aerospace Industries Association; Associate Fellow, American Institute of Aeronautics and Astronautics
- Former Member, Penn State Great Valley Advisory Board

Career:

- CEO and Co-Founder, Analytical Graphics Inc.

Maj. Gen. Teresa Marné Peterson, USAF (Ret)
Board of Directors,
National Order of
Daedalians



Air Force/Aviation background:

- Director, National Order of Daedalians
- 34 years of Air Force service, including numerous technical and command positions
- Air Force Command Pilot, with more than 2,600 flying hours in KC-10, C-141, T-37 and T-38 aircraft (one of first Air Force women to complete undergraduate pilot training)

Career:

- Major General, U.S. Air Force, with most recent service as Commandant of National War College, Fort McNair, Va.
- Previous service included Director of Operations & Training, Deputy Chief of Staff for Air and Space Operations, Headquarters U.S. Air Force at the Pentagon, Washington, D.C.; Commander, 305th Air Mobility Wing, McGuire AFB, N.J.; Director of Transportation, Deputy Chief of Staff for Installations and Logistics, Headquarters U.S. Air Force; and Commander, 14th Flying Training Wing, Columbus AFB, Miss.
- First woman to command Air Force flying squadron when she became Commander of the 42nd Flying Training Squadron at Columbus AFB in 1990.

Brig. Gen. S. Sanford (Sandy) Schlitt, USAF (Ret)
Board of Directors,
Air Force Association



Air Force background:

- Founder of CyberPatriot, Air Force Association's national high school cyber defense competition
- Former Air Force Association Chairman of Board for Aerospace Education and Chairman of Aerospace Education Council

Career:

- Chairman of Air Force Association Board of Directors
- 34 years of Air Force service, mostly in acquisition-related fields. Command at squadron, wing and numbered Air Force equivalents. Ten years service at Headquarters U.S. Air Force at the Pentagon, Washington, D.C.
- Senior Managing Director of mortgage investment trust; extensive entrepreneurial experience with other private business ventures, including startups
- Chairman or Member of executive committee and committees on governance, audit and finance for several nonprofit and for-profit entities
- Former Member of Board of Directors of several nonprofits and for-profit entities, including NASDAQ-listed firm
- Senate Staff Member for U.S. Sens. Hubert H. Humphrey and Walter Mondale
- Candidate for U.S. Congress, 1980

ADVISERS TO THE BOARD OF GOVERNORS

**Maj. Gen. Joseph R.
(Joe) Vazquez, CAP
National Commander/
CEO**



CAP/Aviation background:

- National Commander and Chief Executive Officer of Civil Air Patrol, with previous service as National Vice Commander, Middle East Region Commander, National Operations Adviser and Virginia Wing Commander
- CAP Command Pilot with 3,570 flying hours and 520 glider flights
- Flight Instructor and Check Pilot
- CAP Incident Commander

Career:

- Retired in 2010 as Operations Manager of Computer Sciences Corporation's North American Service Restoration Team
- Former Software Engineer with E.I. Dupont

**Col. Michael D.
Tynismaa, USAF
Commander,
CAP-USAF**



Air Force/Aviation background:

- Numerous Air Force command positions at the squadron and group levels, deployed operationally in the A/OA-10 and F-15E, and served as Chief of International Advanced Weapons Programs at the Pentagon, Washington, D.C.
- Air Force Command Pilot with 2,395 flight hours in fighter and training aircraft, including 449 combat hours

Career:

- Prior to his current assignment, he commanded the 409th Air Expeditionary Group in Niamey, Niger, which provided intelligence, reconnaissance and surveillance support throughout the Africa Command's Area of Responsibility. Also, he served as Deputy Chief, Security Assistance Office, U.S. Embassy in Pakistan, and coordinated military exercises, engagements and training with the Pakistan military.

**Don R. Rowland
Executive Secretary/
Chief Operating
Officer, CAP**



**CAP/Air Force/Aviation
background:**

- Lieutenant Colonel, U.S. Air Force (Ret)
- Rated pilot with 3,400 flying hours
- Helicopter Pilot in Pacific
- Background in search and rescue and aircraft system acquisitions

Career:

- 29 years at CAP National Headquarters, including service as Executive Director, Senior Director, Director of Plans and Requirements and Director of Strategic Communications and Plans
- CAP-USAF IG
- U.S. Air Force, both as Pilot and position in System Requirements for Special Operations at Scott AFB, Ill.
- U.S. Coast Guard Exchange

Financial Statements

SEPTEMBER 30, 2014



INDEPENDENT AUDITORS' REPORT

To the Board of Governors, Civil Air Patrol

We have audited the accompanying financial statements of Civil Air Patrol (the Organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Civil Air Patrol as of September 30, 2014, and the changes in their net assets, their functional expenses and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Civil Air Patrol's 2013 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Warren Averett, LLC

Montgomery, Alabama
March 26, 2015

CIVIL AIR PATROL**STATEMENT OF FINANCIAL POSITION**

SEPTEMBER 30, 2014

(WITH COMPARATIVE INFORMATION AS OF SEPTEMBER 30, 2013)

ASSETS**CURRENT ASSETS**

	2014	2013
Cash and cash equivalents	\$ 15,075,909	\$ 14,057,021
Short-term investments	6,897,360	6,156,972
Accounts, grants, and loans receivable	3,114,404	2,836,172
Inventories	39,791	118,141
Prepaid expenses	482,622	408,110

Total current assets	25,610,086	23,576,416
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NONCURRENT ASSETS

Cash - restricted	2,695,813	2,871,001
Long-term investments	372,177	531,668
Unconditional promises to give	-	1,229,568
Property and equipment, net of accumulated depreciation	88,588,510	86,171,040

Total noncurrent assets	91,656,500	90,803,277
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TOTAL ASSETS

\$117,266,586	\$114,379,693
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CIVIL AIR PATROL**STATEMENT OF FINANCIAL POSITION**

SEPTEMBER 30, 2014

(WITH COMPARATIVE INFORMATION AS OF SEPTEMBER 30, 2013)

LIABILITIES AND NET ASSETS**CURRENT LIABILITIES**

Accounts payable and accrued expenses
Current maturities of long-term debt
Deferred revenue

2014	2013
\$ 3,204,153	\$ 3,161,657
-	7,035
1,009,796	948,260

Total current liabilities

4,213,949 4,116,952

NONCURRENT LIABILITIES

Noncurrent maturities of long-term debt

- 7,549

TOTAL LIABILITIES

4,213,949 4,124,501

NET ASSETS

Unrestricted:

Undesignated
Board designated

22,299,573	21,423,060
6,172,724	5,820,727
28,472,297	27,243,787
84,442,460	82,874,475
137,880	136,930

Temporarily restricted
Permanently restricted

Total net assets

113,052,637 110,255,192

TOTAL LIABILITIES AND NET ASSETS

\$117,266,586 \$114,379,693

See notes to the financial statements.

CIVIL AIR PATROL**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2013)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS	
				2014	2013
OPERATING REVENUES AND OTHER SUPPORT					
Governmental appropriations and grants	\$31,932,558	\$ -	\$ -	\$ 31,932,558	\$ 32,393,048
Other program revenue	1,429,155	1,670,894	-	3,100,049	3,277,268
Membership dues	2,870,204	-	-	2,870,204	2,733,804
Governmental contributions	4,957,299	10,589,716	-	15,547,015	8,483,957
Contributions	2,888,065	277,044	-	3,165,109	2,491,831
Fundraising	1,120,422	-	-	1,120,422	1,156,808
Registration fees and events	925,200	-	-	925,200	982,177
Publications and advertising	21,250	-	-	21,250	24,863
Sale of materials, supplies, and surplus property	159,922	-	-	159,922	177,599
Interest income	6,398	42	22	6,462	6,330
Investment income	135,444	3,973	1,714	141,131	176,880
Other	907,836	-	-	907,836	843,511
Net assets released from restrictions	11,066,015	(11,054,700)	(11,315)	-	-
Total operating revenues and other support	58,419,768	1,486,969	(9,579)	59,897,158	52,748,076
OPERATING EXPENSES					
Program services:					
Aerospace education and training	3,637,539	-	-	3,637,539	3,351,624
Cadet programs	7,168,377	-	-	7,168,377	7,892,321
Communication maintenance	760,332	-	-	760,332	1,047,878
Counterdrug	791,502	-	-	791,502	662,572
Drug demand reduction	278,373	-	-	278,373	350,999
Emergency services	24,922,702	-	-	24,922,702	23,262,118
Total program services	37,558,825	-	-	37,558,825	36,567,512

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS	
				2014	2013
Supporting services:					
Fundraising	\$ 496,311	\$ -	\$ -	\$ 496,311	\$ 497,728
Management and general	14,562,080	-	-	14,562,080	14,369,462
Membership development	4,830,546	-	-	4,830,546	5,463,997
Strategic communications	117,909	-	-	117,909	116,605
Total supporting services	20,006,846	-	-	20,006,846	20,447,792
Total operating expenses	57,565,671	-	-	57,565,671	57,015,304
Change in net assets from operations	854,097	1,486,969	(9,579)	2,331,487	(4,267,228)
NONOPERATING GAINS AND LOSSES					
Gain on disposition of property and equipment	-	69,016	-	69,016	254,969
Net unrealized and realized gain on investments	374,413	12,000	10,529	396,942	531,995
Total nonoperating gains	374,413	81,016	10,529	465,958	786,964
CHANGE IN NET ASSETS	1,228,510	1,567,985	950	2,797,445	(3,480,264)
NET ASSETS AT BEGINNING OF YEAR	27,243,787	82,874,475	136,930	110,255,192	113,735,456
NET ASSETS AT END OF YEAR	\$28,472,297	\$84,442,460	\$137,880	\$ 113,052,637	\$110,255,192

See notes to the financial statements.

CIVIL AIR PATROL**STATEMENT OF FUNCTIONAL EXPENSES**

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2013)

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 1,654	\$ 2,202	\$ 331	\$ 550	\$ 221	\$ 3,305
Aircraft maintenance	16,205	141,266	-	24,303	-	5,990,805
Awards	100,824	136,949	-	-	-	1,506
Bad debts	-	-	-	-	-	701
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	-	2,460,155	-	-	3,912	126,617
Conference	127,099	184,029	25,320	42,204	16,881	255,830
Contingency	-	65	-	-	-	-
Cost of goods sold	29,894	119,578	-	-	-	-
Depreciation	49,009	65,344	11,884	16,338	6,533	7,670,752
Equipment maintenance	60,720	80,958	272,312	20,241	8,097	137,732
Facility maintenance	1,443,883	1,887,747	286,915	463,036	185,213	3,098,897
Fundraising events	-	-	-	-	-	-
Insurance	8,710	18,287	1,741	2,903	1,162	17,643
Interest expense	-	-	-	-	-	-
IT expense	5,842	7,788	1,170	1,947	780	11,683
Legal and accounting	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	-	-	30,613	-	-	85,187

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Miscellaneous	\$ 2,595	\$ 3,550	\$ 521	\$ 866	\$ 342	\$ 8,056
Mission support	538	-	-	81,725	-	4,805,813
Payroll taxes and benefits	134,618	68,558	2,410	4,016	1,606	147,230
Professional services	127,757	92,933	26,184	-	-	225,994
Professional development	94,664	28,934	-	-	-	12,614
Postage	14,120	52,186	21,172	3,021	1,209	18,155
Printing and publications	4,162	5,543	831	1,388	554	8,319
Procurement	-	-	-	-	-	-
Salaries	602,107	373,564	13,823	23,037	9,215	853,468
Senior activities	205,545	176	-	-	-	28,475
Supplies	358,198	884,339	18,606	30,819	12,357	309,550
Telephone	65,612	87,480	13,123	21,872	8,750	233,239
Travel	94,093	347,172	15,437	23,335	9,582	674,040
Vehicle maintenance	89,690	119,574	17,939	29,901	11,959	197,091
	<u>\$3,637,539</u>	<u>\$ 7,168,377</u>	<u>\$ 760,332</u>	<u>\$ 791,502</u>	<u>\$ 278,373</u>	<u>\$24,922,702</u>

See notes to the financial statements.

CIVIL AIR PATROL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2013)

	Supporting Services				Totals	
	Fundraising	Management and General	Member Services	Strategic Communications	2014	2013
Advertising	\$ -	\$ 11,883	\$ 15,645	\$ 4,064	\$ 39,855	\$ 37,464
Aircraft maintenance	-	4,663	-	-	6,177,242	5,882,649
Awards	910	5,049	17,596	-	262,834	285,350
Bad debts	-	32,356	1,193	-	34,250	6,172
Bank and credit card expense	-	40,195	-	-	40,195	40,066
Cadet activities	-	27,445	-	-	2,618,129	3,682,635
Conference	-	242,085	290,065	174	1,183,687	1,086,477
Contingency	-	6,434	-	-	6,499	18,964
Cost of goods sold	-	-	-	-	149,472	155,964
Depreciation	-	2,153,924	16,338	-	9,990,122	10,139,391
Equipment maintenance	-	97,342	20,241	-	697,643	710,442
Facility maintenance	-	2,366,650	612,500	-	10,344,841	9,134,332
Fundraising events	278,875	-	-	-	278,875	319,866
Insurance	-	1,713,393	2,903	-	1,766,742	1,800,692
Interest expense	-	4,101	-	-	4,101	9,672
IT expense	-	7,788	1,947	-	38,945	29,928
Legal and accounting	-	210,112	-	-	210,112	266,348
Lobbying	8,977	10,100	-	-	19,077	18,372
Maintenance and equipment rental	-	217,005	-	-	332,805	193,676

	Supporting Services				Totals	
	Fundraising	Management and General	Member Services	Strategic Communications	2014	2013
Miscellaneous	\$ 2,940	\$ 127,770	\$ 9,934	\$ -	\$ 156,574	\$ 176,285
Mission support	-	-	-	-	4,888,076	4,189,135
Payroll taxes and benefits	21,904	815,910	689,393	-	1,885,645	2,055,660
Professional services	27,706	654,549	200,326	34,776	1,390,225	1,258,341
Professional development	1,503	127,557	3,304	-	268,576	218,594
Postage	19,098	98,480	3,021	-	230,462	312,037
Printing and publications	-	5,543	1,388	78,226	105,954	134,456
Procurement	-	-	-	-	-	2,967
Salaries	119,372	3,571,666	2,803,305	-	8,369,557	9,063,615
Senior activities	-	50,326	-	-	284,522	188,963
Supplies	1,047	1,016,475	34,699	-	2,666,090	2,047,716
Telephone	-	158,993	38,386	-	627,455	1,201,307
Travel	13,979	638,736	38,461	669	1,855,504	1,835,978
Vehicle maintenance	-	145,550	29,901	-	641,605	511,790
	<u>\$496,311</u>	<u>\$14,562,080</u>	<u>\$4,830,546</u>	<u>\$117,909</u>	<u>\$ 57,565,671</u>	<u>\$57,015,304</u>

See notes to the financial statements.

CIVIL AIR PATROL**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2013)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**CASH FLOWS FROM OPERATING ACTIVITIES**

	2014	2013
Change in net assets	\$ 2,797,445	\$ (3,480,264)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,990,122	10,139,391
Net unrealized and realized gain on investments	(396,942)	(531,995)
Gain on disposition of property and equipment	(69,016)	(254,969)
Contributed property and equipment	(244,850)	(519,239)
Changes in operating assets and liabilities:		
Accounts, grants, and loans receivable	(278,232)	(352,957)
Prepaid expenses	(74,512)	(59,485)
Inventories	78,350	84,812
Unconditional promises to give	1,229,568	6,070,090
Accounts payable and accrued expenses	42,496	526,400
Deferred revenue	61,536	146,800
Net cash provided by operating activities	13,135,965	11,768,584
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	85,916	361,275
Purchase of property and equipment	(12,179,642)	(10,858,816)
Proceeds from sale of investments	1,904,311	361,358
Purchase of investments	(2,088,266)	(649,007)
Net cash used in investing activities	(12,277,681)	(10,785,190)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of borrowings	\$ (14,584)	\$ (6,499)
Borrowing under line of credit	1,714,589	1,742,302
Repayment of borrowing under line of credit	(1,714,589)	(1,742,302)
Change in contractually restricted cash	175,188	(1,149,298)
Net cash provided by (used in) financing activities	160,604	(1,155,797)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,018,888	(172,403)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,057,021	14,229,424
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 15,075,909</u>	<u>\$ 14,057,021</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 4,101</u>	<u>\$ 9,672</u>

See notes to the financial statements.

CIVIL AIR PATROL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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, Wings and Units below Wing level of Civil Air Patrol. All material transactions between the divisions of the Organization have been eliminated.

Financial Statement Presentation

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 recorded at their fair value in the period received.

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2013, from which the summarized information was derived.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2014, were \$39,855.

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

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.

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

CIVIL AIR PATROL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Income Tax Status

CAP has received notification from the Internal Revenue Service recognizing it as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. However, certain types of income may be subject to tax from unrelated business income as defined by the tax code. The accompanying financial statements include a provision for estimated taxes on 2014 unrelated business income in the amount of \$10,231.

As of September 30, 2014, the Organization has no uncertain tax positions that qualify for recognition or disclosure in the financial

statements and no interest and penalties related to income taxes. CAP has filed its tax returns through September 30, 2013. The tax returns of the Organization for years ended September 30, 2010, and thereafter are subject to audit by the taxing authorities.

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.

Fair Value Measurement

Financial Accounting Standards Board (FASB) Accounting

Standards Codification (ASC) 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides 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 under FASB ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
Level 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> • 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 which are derived principally from or corroborated by observable market data by correlation or other means. <p>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.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The 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.

Subsequent Events

Management has evaluated subsequent events through March 26, 2015, which is the date the financial statements were available to be issued.

2. 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	\$ 2,385,163
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Restricted by donors for:

Cadet scholarships and activities	243,364
Aerospace scholarships and activities	17,485
Construction of facility	3,686
Other activities	46,115
Total restricted cash	2,695,813

CIVIL AIR PATROL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

2. CASH - CONTINUED

Designated by the governing board for:

Cadet scholarships and activities	\$ 20,876
Facility maintenance	158,869
Reserve	<u>111,417</u>

Total designated cash	<u>291,162</u>
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Cash unrestricted and not designated	<u>14,784,747</u>
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Total cash	<u><u>\$17,771,722</u></u>
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Statement of financial position presentation:

Cash and cash equivalents	\$15,075,909
Cash – restricted	<u>2,695,813</u>

Total	<u><u>\$17,771,722</u></u>
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3. INVESTMENTS

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

U.S. Treasury Bills	\$ 20,591
Annuities	79,944
Equities	123,795
Mutual funds	6,961,496
Real estate investment trusts	<u>83,711</u>

Total	<u><u>\$ 7,269,537</u></u>
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The composition of the return on investments is as follows:

Investment income	\$ 141,131
Net unrealized and realized gain on investments	<u>396,942</u>

Total	<u><u>\$ 538,073</u></u>
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Investment advisory fees	<u><u>\$ 46,039</u></u>
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Investments which have been either restricted by the donor or designated by the governing board of the Organization are presented below:

Description	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Restricted by donors:			
Clara Livingston Fund	\$ 171,685	\$ 27,135	\$ 198,820
Historical Fund	2,274	420	2,694
Wirtschafter	10,689	1,628	12,317
Wing and Region investments restricted for cadet scholarships and aerospace education	139,116	19,230	158,346
	323,764	48,413	372,177
Designated by the governing board:			
Reserve investments	4,084,801	868,650	4,953,451
Scholarship Fund	867,630	60,480	928,110
	4,952,431	929,130	5,881,561
Investments unrestricted and undesignated	906,550	109,249	1,015,799
Total	\$6,182,745	\$ 1,086,792	\$7,269,537
Statement of financial position presentation:			
Short-term investments	\$6,897,360		
Long-term investments	372,177		
Total	\$7,269,537		

CIVIL AIR PATROL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

3. INVESTMENTS - CONTINUED

Investments have been restricted for the following specific purposes:

Clara Livingston Fund – Investments restricted for the Cadet Program.

Historical Fund – Investments restricted to defray costs of the historical committee.

Wirtschaftler Fund – Investments restricted for cadet scholarships.

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 the Board of Governors.

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

4. ACCOUNTS, GRANTS, AND LOANS RECEIVABLE

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

USAF	\$2,509,096
Others	<u>605,308</u>
Total	<u>\$3,114,404</u>

5. CONDITIONAL PROMISES TO GIVE

As of September 30, 2014, the Organization received from the USAF conditional promises to give of \$11,528,350 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.

6. INVENTORIES

Inventories for use and sale consist of the following:

Educational materials	\$ 18,179
Aircraft fuel	<u>21,612</u>
Total	<u>\$ 39,791</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 90,400
Building and improvements	8,474,927
Aircraft	147,979,233
Computers	2,407,372
Vehicles	24,160,177
Office furniture and equipment	140,998
Building under capital lease	253,148
Communication and other equipment	20,084,217
Construction in progress	89,045
Equipment not placed into service	2,661,735
	<u>206,341,252</u>
Accumulated depreciation	<u>117,752,742</u>
Net property and equipment	<u>\$ 88,588,510</u>

As of September 30, 2014, improvements with a book value of \$175,216 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$81,192 and \$94,024, respectively.

Depreciation expense for the period ending September 30, 2014	<u>\$ 9,990,122</u>
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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, 2014, property and equipment restricted for specific purposes amounted to \$192,255,301, less accumulated depreciation of \$111,045,690, resulting in a balance of \$81,206,611.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are scheduled as follows:

Accrued payroll and payroll taxes	\$1,192,926
Vendor payables	<u>2,011,227</u>
Total	<u>\$3,204,153</u>

9. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 793,922
Other	<u>215,874</u>
Total	<u>\$1,009,796</u>

CIVIL AIR PATROL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

10. LINE OF CREDIT

The Organization maintains a revolving line of credit with a local bank in the amount of \$2,000,000. The term of this line of credit is through August 1, 2016, with interest computed utilizing a variable interest rate. During the 2014 fiscal year, \$1,714,589 was advanced under the line of credit. All advances were repaid by year end. Total interest expense related to this note amounted to \$2,493 for the year ended September 30, 2014.

11. NET ASSETS

Unrestricted Net Assets – Designated

The governing board has designated unrestricted net assets for:

Reserve funds	\$ 5,064,869
Scholarships	948,986
Other	<u>158,869</u>
Total	<u>\$ 6,172,724</u>

Temporarily Restricted Net Assets

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

Aerospace education activities:

Scholarships	\$ 2,979
Other	58,353

Cadet program activities:

Scholarships	393,816
Other	182,623

Other general activities:

Subsequent years' use of property, equipment, and inventories	76,739,371
Support, maintenance, and modernization of aircraft fleet	6,548,748
Other	<u>516,570</u>

Total	<u><u>\$84,442,460</u></u>
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Permanently Restricted Net Assets

Permanently restricted net assets are restricted for:

Scholarships	\$ 117,913
Other	<u>19,967</u>
Total	<u><u>\$ 137,880</u></u>

12. OPERATING LEASES

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.

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, 2014:

Years ending September 30:

2014	\$ 331,427
2015	160,694
2016	<u>140,853</u>
	<u>\$ 632,974</u>

Total rental expense for all operating leases is \$437,242 for the year ended September 30, 2014.

13. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 1,483,811
Expiration of time restrictions	9,574,804
Other	<u>7,400</u>
Total	<u>\$11,066,015</u>

14. 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 \$314,434 for the year ended September 30, 2014, and are included in payroll taxes and benefits in the statement of functional expenses.

15. 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.

CIVIL AIR PATROL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

15. 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	\$28,889,913
Contributions for:	
Use of facilities and utilities	1,841,806
Property, equipment, and inventories	<u>8,154,421</u>
Total	<u>\$38,886,140</u>

Transactions Incurring Expenses:

Expenses with the USAF for:

Facilities	<u>\$ 1,841,806</u>
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16. 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, 2014.

17. FAIR VALUE MEASUREMENTS

The Organization's assets measured at fair value are based on one or more of three valuation techniques, which include the following:

Market approach – prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – amount that would be required to replace the service capacity of an asset (that is, replacement cost).

Income approach – techniques to convert future amounts to a single, present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

The Organization's Level 3 investments consist of investments in real estate investment trusts (REIT). These investments are valued at estimated fair value, based upon the Organization's interest, as determined in good faith and reported by the REIT.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of September 30, 2014.

The following fair value hierarchy table presents information about the Organization's investments measured at fair value on a recurring basis as of September 30, 2014.

	Level 1	Level 2	Level 3	Total
U.S. Treasury Bills	\$ 20,591	\$ -	\$ -	\$ 20,591
Annuities	79,944	-	-	79,944
Equities	6,961,496	-	-	6,961,496
Mutual funds	123,795	-	-	123,795
Real estate investment trusts	-	-	83,711	83,711
	<u>\$7,185,826</u>	<u>\$ -</u>	<u>\$ 83,711</u>	<u>\$7,269,537</u>

The following table presents a roll forward of the amounts for the year ended September 30, 2014, for Level 3 inputs:

	Net Beginning Balance	Net Acquisitions (Dispositions)	Gains (Losses)	Ending Balance
Real estate investment trusts	\$ 83,591	\$ -	\$ 120	\$ 83,711

CIVIL AIR PATROL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

17. FAIR VALUE MEASUREMENTS - CONTINUED

The gains in the above table are reported as net unrealized and realized gains on investments in the accompanying statement of activities for the year ended September 30, 2014.

As a measure of liquidity, the frequencies that investments may be redeemed or liquidated are noted in the following tables, along with the number of days' notice required to liquidate investments at September 30, 2014.

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic equities	\$2,641,483	\$ -	Daily, monthly	3 – 10 days
International equities	1,341,592	-	Daily, monthly	3 – 10 days
Domestic fixed income	2,028,606	-	Daily, monthly	3 – 10 days
Private equity fund	83,711	-	Illiquid	Illiquid

18. 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, 2014, the Organization's uninsured cash balances totaled \$10,772,725.



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This publication meets the Annual Report to Congress requirement listed in Title 36 of the United States Code.