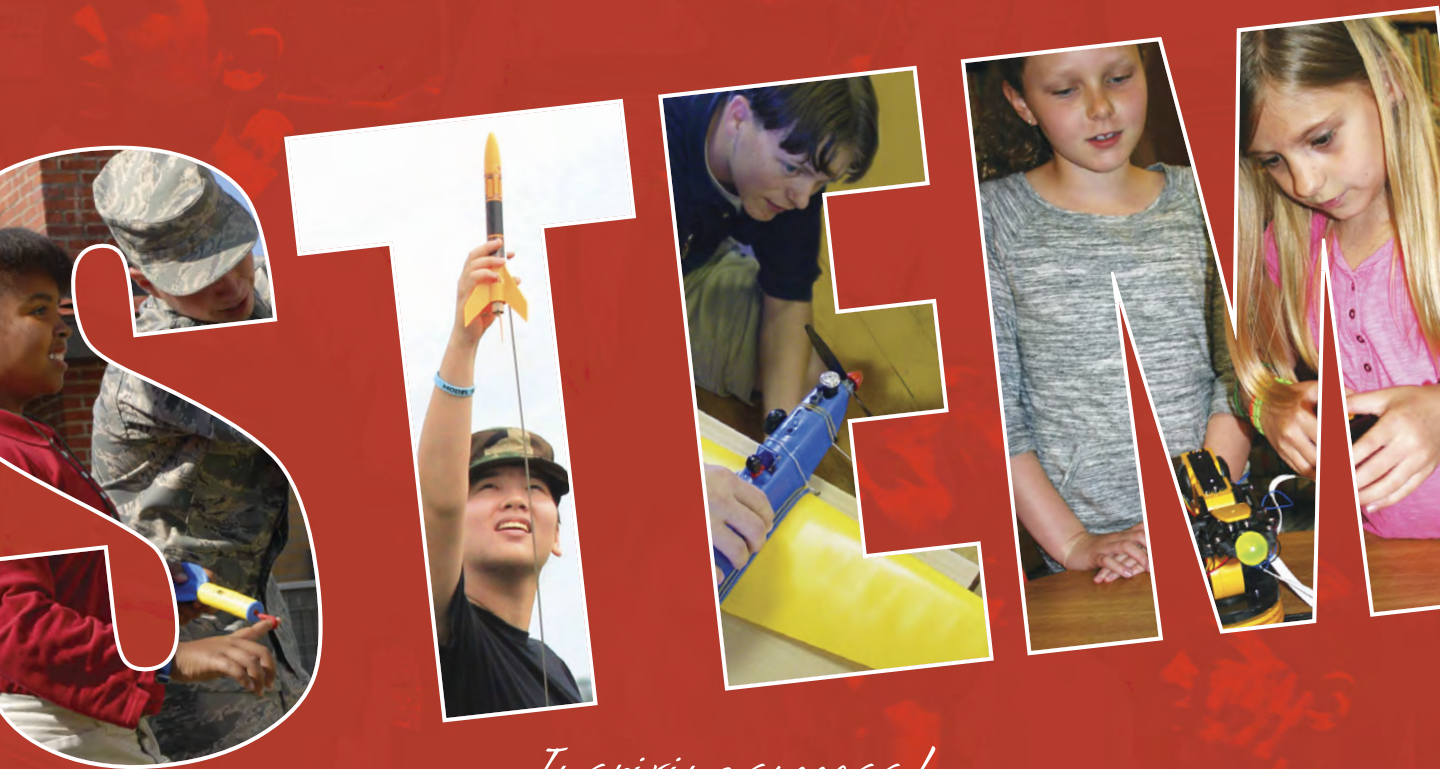




**CIVIL AIR PATROL**  
US Air Force Auxiliary

2016 FINANCIAL REPORT



*Inspiring success!*



## MISSION STATEMENT

Supporting America's communities with emergency response, diverse aviation and ground services, youth development and promotion of air, space and cyber power. This includes an emphasis on **STEM** (science, technology, engineering and mathematics) programs that are inspiring youth across America to pursue these high-demand careers.









Civil Air Patrol  
is made up of



**52 wings**

— the 50 states, Puerto Rico  
(including U.S. Virgin Islands) and  
the District of Columbia



# 75TH ANNIVERSARY OF CADET PROGRAMS



Civil Air Patrol supports America's communities with emergency response, diverse aviation and ground services, youth development and promotion of air, space and cyber power. Every aspect of this mission shapes the lives of CAP's cadet members, now 24,000 strong. Over the past 75 years more than 1 million youth have looked to CAP to nurture and support their leadership and aerospace/STEM education needs.

On the occasion of Cadet Programs' 75th anniversary, CAP offers this special salute to our youngest members' contributions and accomplishments.

**1,437**  
**squadrons**

**56,000**  
**volunteers**

youth and  
adult members







Machines





*Inspiring Success with*

## AEROSPACE EDUCATION

Hydraulic engineering is one of 10 hands-on STEM Kit activities that have gotten youth across America fired up about science, technology, engineering and mathematics careers. Also available are astronomy, flight simulation, nano copter, quadcopter, Raspberry Pi computer programming, remote-controlled aircraft, robotics, rocketry and weather.

**40+** AE products

inspire STEM careers in over

**24,000** cadets &

**200,000** K-12 students nationwide

More than **80%** of students exposed  
to the STEM Kit program indicate a stronger  
desire to pursue **STEM careers**

**Aerospace Connections**

**in Education** reaches

**27,000** K-6 youth

in **38 states**



## National Cyber Champions

The Air Force Association's CyberPatriot National Youth Cyber Education Program, complemented by Civil Air Patrol's own cyber security training materials, is grooming participants for cyber security careers. CAP is a leader in the annual CyberPatriot national competition's All Service Division, with three overall championships in the last seven years. The Colorado Springs Cadet Squadron team placed first nationally this year — its second title and seventh straight appearance in the finals.



## *CAP's Award-Winning Moments*

### **CyberPatriot II (2010)**

**Second Place**, All Service Division — Burlington Composite Squadron, North Carolina Wing

**Third Place** — Beach Cities Cadet Squadron 107, California Wing

### **CyberPatriot III (2011)**

**First Place**, All Service Division — Team Wilson, Florida Wing

### **CyberPatriot IV (2012)**

**First Place**, All Service Division — Colorado Springs Cadet Squadron, Colorado Wing

### **Networking Competition —**

Big Sioux Composite Squadron, South Dakota Wing

### **CyberPatriot V (2013)**

Forensics Competition — Big Sioux Composite Squadron, South Dakota Wing

### **CyberPatriot VI (2014)**

**First Place**, Middle School Division — Beach Cities Cadet Squadron 107, California Wing

### **CyberPatriot VII (2015)**

**Second Place**, All Service Division — Big Sioux Composite Squadron, South Dakota Wing

### **CyberPatriot VIII (2016)**

**Third Place**, All Service Division — Colorado Springs Cadet Squadron, Colorado Wing

### **CyberPatriot IX (2017)**

**First Place**, All Service Division — Colorado Springs Cadet Squadron, Colorado Wing



## STEM for K-6

CAP's Aerospace Connections in Education (ACE) program is designed specifically for K-6 kids. More than 430 teachers use the grade-specific curriculum to complement their aerospace/STEM, character education and physical fitness programs. Here, Bernoulli's principle amazes young would-be scientists, while others learn about the parts of an airplane.



## TOP Flight

Teacher Orientation Program Flights provide educators with the opportunity to experience firsthand the excitement of flying in a CAP plane and to expand their aeronautical knowledge, which in turn enables them to enrich learning for 30,000 students annually.



## StellarXplorers

Cadets representing the Oregon Wing's Aurora Composite Squadron became the first in CAP to compete in the national finals of the Air Force Association's StellarXplorers National High School Space Competition. The squadron's Africanized Killer Bees (Team AKB) finished seventh in the competition. At the heart of the program is Analytical Graphics Inc.'s Satellite Tool Kit (STK).









*Inspiring Success through*

## CADET PROGRAMS

CAP offers scholarships to help cover the costs of learning to fly — either through attendance at a CAP flight academy or for instruction to advance toward a flight rating — and for pursuing higher education. Flight opportunities for CAP's youngest members are being emphasized in response to the nation's pilot shortages.

**90+ academic/  
flight scholarships**

**U.S. Air Force funding  
allowed 1,600  
additional cadets to attend  
wing encampments**

**27,316 cadet  
orientation flights**

**20 National Flight  
Academies**





### Unmanned Aircraft Academy

These cadets were among the first to attend CAP's new Unmanned Aircraft Systems (UAS) Flight Academy in Kalispell, Montana. The academy was launched two years ago by Northeast Region Commander Col. Dan Leclair, who teaches UAS courses at the University of Maine at Augusta.



### 2 Millionth Young Eagle

Cadet Lt. Col. Jodie Gawthrop of the Illinois Wing, chosen as the Experimental Aircraft Association's 2 millionth Young Eagle, flies with actor and pilot Harrison Ford. Their flight resulted in nearly 400 broadcast/print/online media clips for CAP, reaching a worldwide audience of over 500 million people.

### STEM and More

STEM is also an integral part of the cadet program. Through more than 50 National Cadet Special Activities, members 12-20 explore careers in a wide variety of fields related to aviation, aerospace and science, technology, engineering and mathematics. Here, a flight simulator offers cadets the opportunity to experience flying without ever leaving the ground.

### Core Values

CAP instills the organization's core values in its cadets — integrity, volunteer service, excellence and respect. Cadets also serve as drug-free role models in their communities and schools.





### Encampment

#### Assistance Program

The Cadet Encampment Assistance Program, or CEAP, is generously supported by U.S. Air Force grant funding. It has enabled an additional 3,600 cadets to participate in wing encampments over the past two years.





### Physical Fitness

The goal of CAP's new Active Cadet Fitness Program, tested in fiscal year 2016, is to increase cadets' physical fitness and motivate them to develop a lifelong habit of regular activity. It is aligned with the Presidential Youth Fitness Program.



### Leadership Training

CAP offers cadets in-depth training in leadership and enables them to apply classroom principles to real-world needs. These participants in Civic Leadership Academy spent a week in Washington, D.C. learning about U.S. government and the men and women who gave the ultimate sacrifice in the fight for freedom.





## Learning to Fly

The opportunity to fly is a major attraction CAP offers youth. Through the National Flight Academy program, cadets learn and train by participating each summer in CAP's 20 academies, where they explore and master powered airplane and glider flying. This allows many cadets to solo and qualify for Federal Aviation Administration pilot's certificates before they even get their driver's licenses.







# *Inspiring Success through* **MISSIONS**

Civil Air Patrol's services are performed in the air and on the ground by professionally trained CAP volunteers, like this Maryland Wing aircrew, deployed in the wake of Hurricane Matthew. Aircrews from the Florida, Georgia, Indiana, Kentucky, Maryland, North Carolina, South Carolina and Virginia wings flew 207 impact assessment and aerial imagery sorties before and after the storm, providing over 60,000 images for coastal damage assessment.

Conducts  
**90%** of all **inland search  
& rescue missions**  
in the continental U.S.

**1,265**  
search & rescue missions  
**92 saves & 577 finds**

Flew  
**104,525 hours**  
in fiscal year 2016





### Emergency Services

A total of 30,742 qualified personnel trained to federal standards participated in 164 disaster relief and other federal, state and local agency support missions. In nearly all instances, emergency responders sought CAP's aerial photography services, like this image of flooding along the Texas-Louisiana border, to help assess the damage.





## High-Profile Missions

High-profile missions included flights in response to Kentucky wildfires early in fiscal year 2016 and again toward the end of the year in California. Other support missions followed multiple storms in Ohio, Texas, Missouri and Louisiana. Aircrews also provided support to the U.S. Army Corps of Engineers in Arkansas following major flooding in January and damage assessment support to West Virginia for flooding operations from late June through July. In addition, CAP provided support in Illinois after tornadoes in late July and in Indiana after severe weather in late August.



## Homeland Security

CAP aircrews flew 1,390 hours in 215 air defense exercises in 2016, helping prepare military fighter units across the country for homeland security missions. Two flights were conducted earlier this year as part of homeland security training in advance of Super Bowl LI in Houston. It was the 16th straight year CAP has participated in Super Bowl practice flights.



## Unmanned Aerial Flights

CAP aircrews flew 1,168 hours on 30 Surrogate Unmanned Aerial Systems missions during the past year to train U.S. and coalition forces from around the world. The flights, led by capable CAP pilots like U.S. Rep. Ralph Abraham of Louisiana (pictured), were among the many ways CAP supported U.S. military forces.



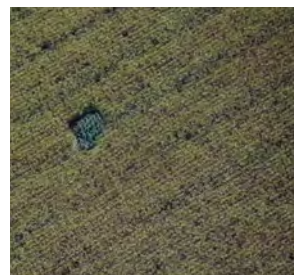
## Remote-Controlled Reapers

New York Wing aircrews flew more than 250 hours preparing for and supporting escort missions for the remote-controlled MQ-9 Reapers flown by the New York Air National Guard's Syracuse-based 174th Attack Wing, home of the U.S. Air Force Reaper Training Program for pilots and operators. As part of the program, CAP planes serve as escorts accompanying MQ-9 Reapers through commercial airspace to and from Military Operating Areas.



## Risk Management

CAP's emphasis on safety is rooted in sound risk management principles present throughout the organization, which focus on reduction of risk in the planning and execution of all missions and activities.



## Counterdrug Missions

Civil Air Patrol plays a major role in assisting federal, state and local law enforcement agencies in counterdrug and drug interdiction operations. Aircrews flew 9,682 hours in 2016 helping the agencies seize \$1.5 billion in illegal drugs and currency. CAP's reconnaissance efforts also led to 1,909 arrests.

## America's Largest Chaplain Corps

One of the largest chaplaincies in the world, Civil Air Patrol's Chaplain Corps has 450 chaplains and 500 character development instructors who minister to youth and adult members and help comfort survivors and victims of disasters. Their activities also include standing in for military chaplains deployed overseas.





## Search and Rescue

The Air Force and local law enforcement nationwide still rely heavily on CAP to conduct search and rescue missions, though sophisticated technology has considerably reduced the number of missing aircraft requests each year. SAR requests for missing hikers, boaters and other outdoor enthusiasts continue to increase. CAP's success rate in finding and rescuing victims is exceptionally high, thanks to its highly effective cell phone and radar forensics programs. CAP success stories included the rescues of an injured hiker in Arkansas (below) and a couple whose plane crashed in the snow in Colorado (at left).











# *Inspiring Success with* **TECHNOLOGY**

CAP has one of the largest single-engine piston aircraft fleets in the world. Nineteen new aircraft were added to the fleet in 2016.

**560** planes  
currently in the fleet

**Ground fleet**  
includes  
**1,042**  
vehicles

**11,700**  
fixed, mobile &  
portable  
radio stations

make CAP a  
**reliable resource**  
for any emergency-related mission





### **Communications Network**

CAP's multimillion-dollar interoperable VHF-FM and HF radio communications network consists of over 11,700 fixed, mobile and portable radio stations used for command and control of resources and to communicate with counterpart agencies at the federal, state and local levels.



PUMP





## Nonpowered Flight

In addition to its powered fleet, CAP maintains 54 gliders and three hot-air balloons used to provide orientation flights for not only cadets but also senior members eager to experience the special thrill of nonpowered flight.

## Sensor Technology

CAP employs the latest sensor technology, which is used in search and rescue as well as aerial reconnaissance. The Cloud Cap TASE400 sensor system is relatively new, featuring a midrange sensor that provides high-performance, real-time graphics for emergency personnel on the ground.



## Avionics Safety

The latest ADS-B (Automatic Dependent Surveillance-Broadcast) technology, as seen (above) in this photo from the cockpit of a Cessna 182, allows pilots to see advanced traffic and weather on Garmin portables and tablets using Garmin Pilot and ForeFlight Mobile apps. This step-up in

avionics safety, mandated by the Federal Aviation Administration, has a Jan. 1, 2020, deadline for all airplanes that operate in designated airspace to be equipped with the new technology. CAP is ahead of the curve, having already installed the equipment on about 20 percent of its aircraft.





### **Aerial Photography**

Aerial photography is a Civil Air Patrol core mission, one made easier with state-of-the-art Garmin VIRB cameras attached to the wings of CAP planes, allowing for ground images from directly above. These wing-mounted cameras were used to assess damage in the wake of Hurricane Matthew flooding in 2016.

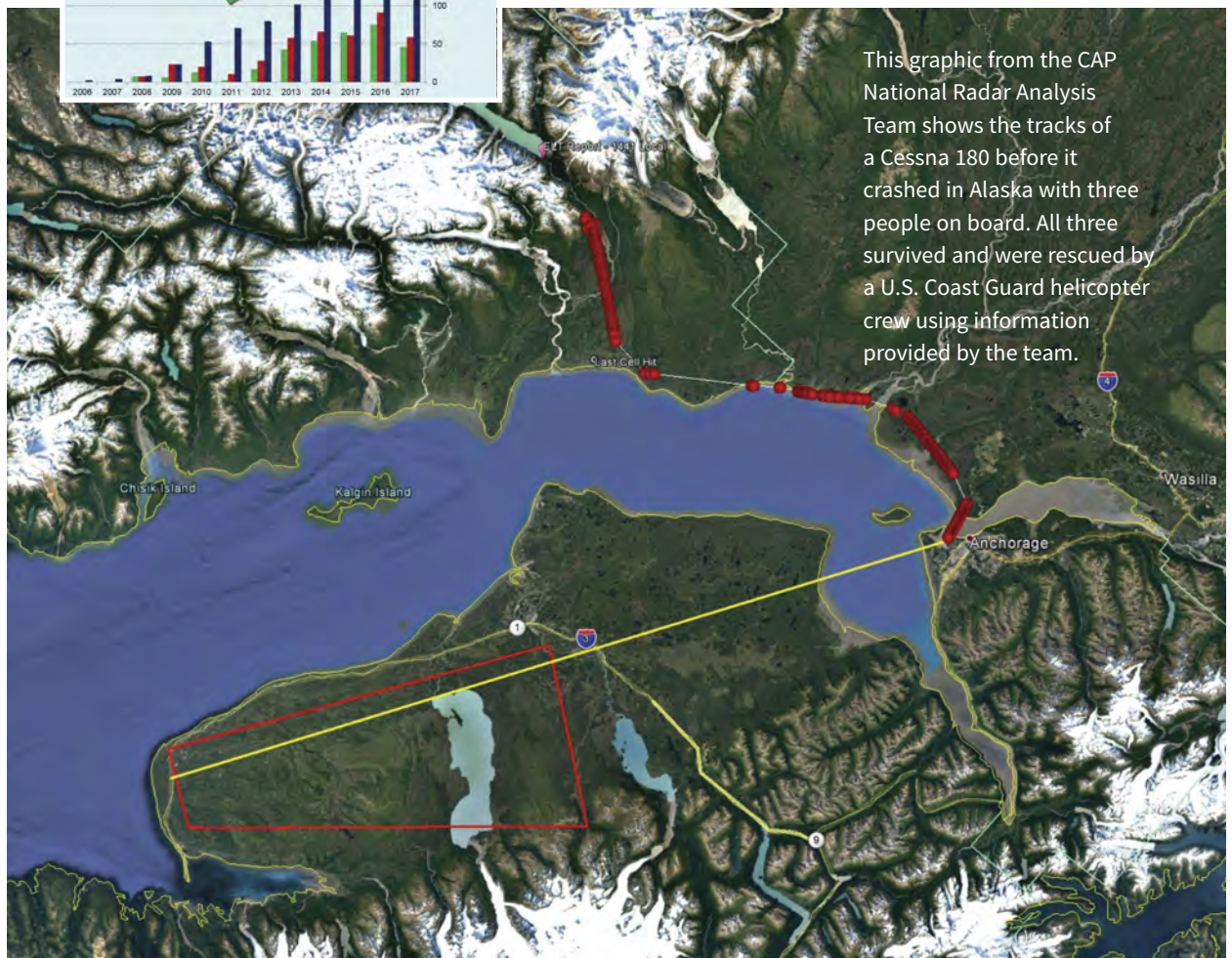




## Cell Phone and Radar Forensics

CAP's Emergency Services missions continue to be bolstered by the cutting-edge efforts of the National Radar Analysis Team, led by Lt. Col. John Henderson (at left), and the National Cell Phone Forensics Team. The teams' high-tech tools complement the efforts of the organization's airborne

crews — who totaled more than 104,500 hours aloft last year — as well as ground teams in responding to natural and man-made disasters and search and rescue missions. The Air Force Rescue Coordination Center credited the teams with 70 lives saved in 2016.







MILESTONES OF FLIGHT



## *Inspiring Success with* **COMMUNITY SERVICE**



When Civil Air Patrol observed the 75th anniversary of its founding with a gala celebration on Dec. 1 at the Smithsonian's Udvar-Hazy Center, two of the organization's World War II members — retired U.S. Army Gen. Julius Becton, second from left, and longtime congressional staffer Barbara Suelzer O'Malley — were recognized with replicas of the Congressional Gold Medal presented to CAP in December 2014 for its volunteer wartime service. Presenting the medals was former U.S. Sen. Tom Harkin of Iowa. Also present were Rafael Gomez, left — vice president of strategic shareholder relations, government and public affairs for CITGO, major sponsor of the 75th Anniversary Gala and the 2014 gala during which other CAP World War II members were honored — and Maj. Gen. Joe Vazquez, CAP national commander.

**1,437 squadrons**

**in the 50 states as well as**

**Washington, D.C.,  
& Puerto Rico**

**(along with the U.S. Virgin Islands)**

**Contributed nearly**

**\$167 million in man-hours**

**in past year serving the needs  
of communities nationwide**





### Honor Guard

Cadets with honor guard training sometimes participate in solemn occasions like military funerals. These six South Carolina Wing cadets served as pallbearers when a World War II soldier listed for nearly 7½ decades as Killed in Action-Body Unrecoverable was buried with full honors after his remains were finally identified by forensic anthropologists. CAP honor guard teams also perform many other duties, including participation in award ceremonies, weddings and honor cordons.





### Honoring the Fallen

Every December thousands of members from across CAP, including these Florida Wing cadets, step up to participate in national Wreaths Across America observances, carried out to salute the service of the nation's fallen. Participants place evergreen remembrance wreaths on graves and veterans memorials throughout the U.S. and even overseas. CAP has been a major partner in this campaign since 2006. In 2016 some 395 CAP squadrons took part in the observance, as members not only laid wreaths but also posted the colors and delivered memorial addresses.





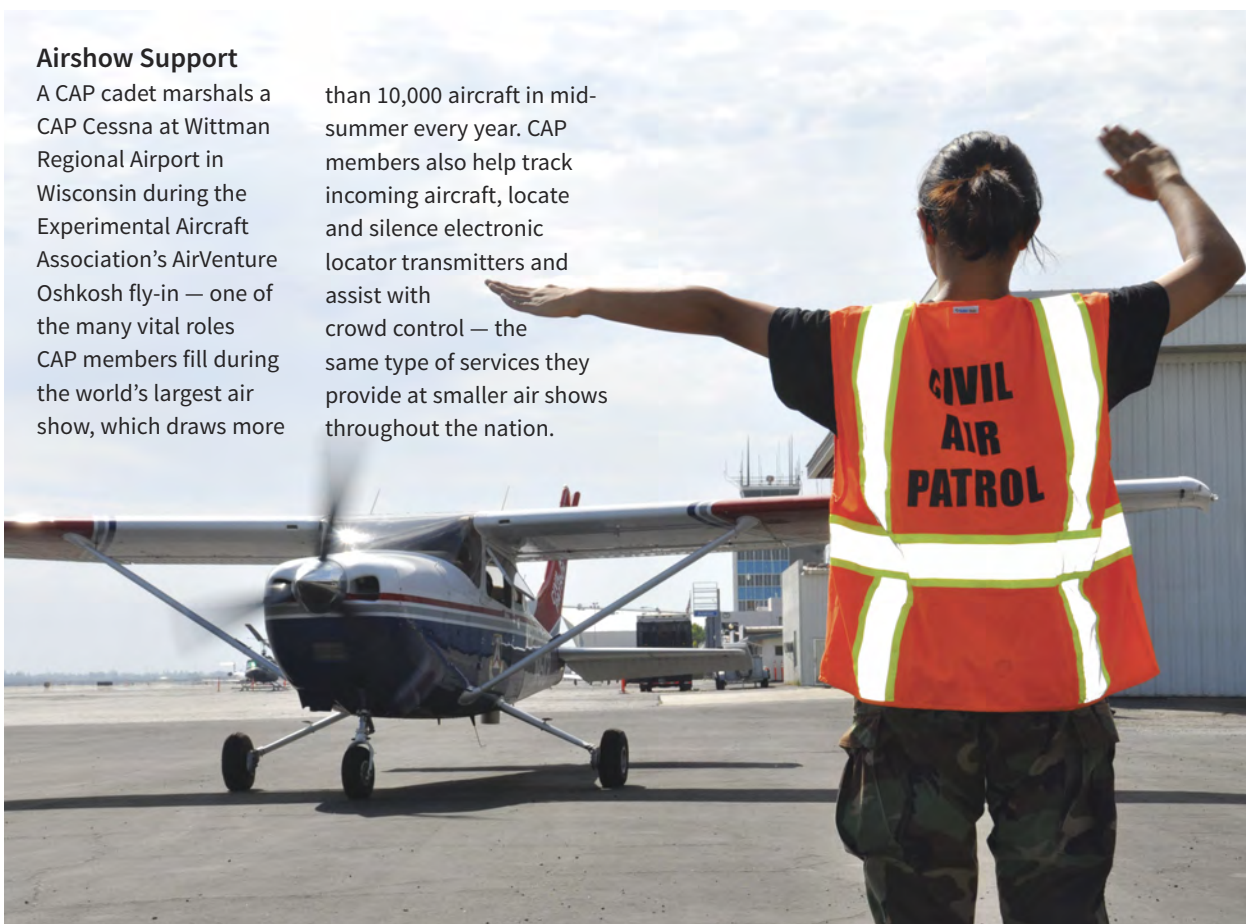
## Organizational Excellence Award

Deborah Lee James, then secretary of the Air Force, presents the Air Force Organizational Excellence Award to Civil Air Patrol as Maj. Gen. Joe Vazquez (center), CAP national commander, and Air Force Chief of Staff David Goldfein (left) look on. Also present was Rick Broome, noted aviation artist, whose painting representing the cooperation between the Air Force and CAP was presented to James for permanent display in the Pentagon. The ceremony occurred during the Air Force Association's Air, Space and Cyber Conference in National Harbor, Maryland.

## Airshow Support

A CAP cadet marshals a CAP Cessna at Wittman Regional Airport in Wisconsin during the Experimental Aircraft Association's AirVenture Oshkosh fly-in — one of the many vital roles CAP members fill during the world's largest air show, which draws more

than 10,000 aircraft in mid-summer every year. CAP members also help track incoming aircraft, locate and silence electronic locator transmitters and assist with crowd control — the same type of services they provide at smaller air shows throughout the nation.







### Presenting the Colors

Cadet color guards are frequently called on to present the colors for the opening of athletic contests at events ranging from local matches to professional games, as well as community and corporate gatherings, such as graduations.



### Myriad Services

Chaplain, Lt. Col. Dale Climie of the Texas Wing holds food donated by a local restaurant for the food delivery ministry he conducts for disadvantaged residents in the Houston area. This commitment to community service is typical of members throughout CAP, from senior members to cadets.

### Winged-S Rescue Award

Maj. Gen. Joe Vazquez, CAP national commander, accepts the Winged-S Rescue Award from David Peterson, regional sales director for North America for Sikorsky, "in appreciation of all Civil Air Patrol members who flew Sikorsky S-39 amphibious aircraft on antisubmarine coastal patrol operations from March 5, 1942-August 31, 1943."



*Inspiring Success*

## BOARD OF GOVERNORS

Eleven distinguished members make up Civil Air Patrol's Board of Governors. 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.





**CIVIL AIR PATROL-  
APPOINTED MEMBERS:**

Col. Jayson Altieri, CAP  
Member-at-Large  
(Chairman)

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

Col. Tim Verrett, CAP  
Member-at-Large

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

**AIR FORCE-APPOINTED  
MEMBERS:**

William A. Davidson Jr.,  
USAF (Ret)  
(Vice Chairman)

Brig. Gen. Leon A. Johnson,  
USAF (Ret)

Lt. Gen. Judy Fedder,  
USAF (Ret)

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

**INDUSTRY,  
GOVERNMENT &  
EDUCATION-  
APPOINTED MEMBERS:**

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

Cmdr. George M. Perry,  
USN (Ret)  
Senior Vice President,  
AOPA Air Safety Institute

Stacey Bechdolt  
Vice President, Safety  
& Operations  
Regulatory Counsel  
Regional Airline Association

**ADVISORS TO  
THE BOARD OF  
GOVERNORS:**

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

Col. Michael D. Tyynismaa,  
USAF  
Commander, CAP-USAF

John Salvador  
Executive Secretary/Chief  
Operating Officer, CAP









## *Inspiring Success with* **FINANCIAL SUPPORT**

CAP's programs for youth nationwide are designed to build the knowledge, skills and abilities required for success in aviation and STEM career fields. This, coupled with an emphasis on leadership training, has given the 1 million youth who have become CAP cadets over the past 75 years the confidence, credentials and guidance to actively pursue their life's dreams.

### APPROPRIATIONS

**\$27.4**  
**million**

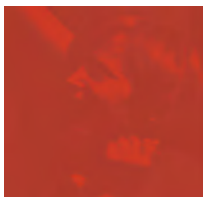
operations & maintenance

**\$10.4**  
**million**

aircraft procurement

**\$1.7**  
**million**

vehicle procurement



## CONSOLIDATED FINANCIAL STATEMENTS

### INDEPENDENT AUDITORS' REPORT

To the Board of  
Governors  
Civil Air Patrol

#### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of Civil Air Patrol (the Organization), which comprise the consolidated statement of financial position as of September 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Civil Air Patrol as of September 30, 2016, and the changes in their net assets, their functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2017, on our consideration of Civil Air Patrol's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Civil Air Patrol's internal control over financial reporting and compliance.

### **Report on Summarized Comparative Information**

We have previously audited Civil Air Patrol's 2015 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated March 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Warren Averett, LLC*

Montgomery, Alabama

April 24, 2017



**CIVIL AIR PATROL**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

September 30, 2016

(with comparative information as of September 30, 2015)

**ASSETS**

	2016	2015
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 14,988,276	\$ 15,581,507
Short-term investments	7,305,904	6,836,983
Accounts, grants, and loans receivable	5,332,128	3,340,500
Inventories	15,520	36,736
Prepaid expenses	287,198	578,757
Total current assets	<u>27,929,026</u>	<u>26,374,483</u>
<b>NONCURRENT ASSETS</b>		
Cash – restricted	1,324,042	2,410,625
Long-term investments	560,524	523,996
Unconditional promises to give	7,520,773	8,367,071
Property and equipment, net of accumulated depreciation	<u>105,513,438</u>	<u>96,385,018</u>
Total noncurrent assets	<u>114,918,777</u>	<u>107,686,710</u>
<b>TOTAL ASSETS</b>	<u>\$ 142,847,803</u>	<u>\$ 134,061,193</u>

See notes to the consolidated financial statements.



**CIVIL AIR PATROL**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

September 30, 2016

(with comparative information as of September 30, 2015)

**LIABILITIES AND NET ASSETS**

	2016	2015
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,043,254	\$ 3,225,175
Deferred revenue	1,049,810	914,316
Total current liabilities	4,093,064	4,139,491
<b>TOTAL LIABILITIES</b>	4,093,064	4,139,491
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	24,303,330	23,365,606
Board designated	6,452,625	5,966,832
	30,755,955	29,332,438
Temporarily restricted	107,833,532	100,458,276
Permanently restricted	165,252	130,988
Total net assets	138,754,739	129,921,702
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 142,847,803</u>	<u>\$ 134,061,193</u>

See notes to the consolidated financial statements.

## CIVIL AIR PATROL CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended September 30, 2016

(with summarized information for the year ended September 30, 2015)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS	
				2016	2015
<b>OPERATING REVENUES AND OTHER SUPPORT</b>					
Governmental appropriations and grants	\$ 35,846,004	\$ 1,978	\$ -	\$ 35,847,982	\$ 34,813,808
Other program revenue	1,260,481	1,617,658	-	2,878,139	3,084,319
Membership dues	2,818,600	304	-	2,818,904	2,818,658
Governmental contributions	3,999,301	18,499,986	-	22,499,287	29,893,497
Contributions	3,661,594	156,991	21,000	3,839,585	3,188,116
Fundraising	1,146,160	-	-	1,146,160	1,112,783
Registration fees and events	1,209,874	-	-	1,209,874	1,120,192
Publications and advertising	18,300	-	-	18,300	23,096
Sale of materials, supplies, and surplus property	117,236	-	-	117,236	140,646
Interest income	803	747	22	1,572	9,366
Investment income	471,275	22,620	5,475	499,370	350,483
Other	1,022,052	-	-	1,022,052	954,795
Net assets released from restrictions	13,098,656	(13,098,656)	-	-	-
Total operating revenues and other support	64,670,336	7,201,628	26,497	71,898,461	77,509,759
<b>OPERATING EXPENSES</b>					
Program services:					
Aerospace education and training	4,022,254	-	-	4,022,254	3,812,864
Cadet programs	8,442,485	-	-	8,442,485	7,135,516
Communication maintenance	961,235	-	-	961,235	665,064
Counterdrug	871,871	-	-	871,871	837,872
Drug demand reduction	275,948	-	-	275,948	274,671
Emergency services	28,539,341	-	-	28,539,341	26,128,237
Total program services	43,113,134	-	-	43,113,134	38,854,224
Supporting services:					
Fundraising	481,163	-	-	481,163	593,670
Management and general	13,882,416	-	-	13,882,416	13,969,414
Membership development	5,687,393	-	-	5,687,393	7,114,457
Strategic communications	195,495	-	-	195,495	114,086
Total supporting services	20,246,467	-	-	20,246,467	21,791,627
Total operating expenses	63,359,601	-	-	63,359,601	60,645,851
Change in net assets from operations	1,310,735	7,201,628	26,497	8,538,860	16,863,908
<b>NONOPERATING GAINS AND LOSSES</b>					
Loss on disposition of property and equipment	8,436	167,552	-	175,988	271,703
Net unrealized and realized gain (loss) on investments	104,346	6,076	7,767	118,189	(544,587)
Total nonoperating gains and losses	112,782	173,628	7,767	294,177	(272,884)
<b>CHANGE IN NET ASSETS</b>	1,423,517	7,375,256	34,264	8,833,037	16,591,024
<b>NET ASSETS AT BEGINNING OF YEAR</b>	29,332,438	100,458,276	130,988	129,921,702	113,330,678
<b>NET ASSETS AT END OF YEAR</b>	\$ 30,755,955	\$ 107,833,532	\$ 165,252	\$ 138,754,739	\$ 129,921,702

See notes to the consolidated financial statements.



## CIVIL AIR PATROL

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2016

(with summarized information for the year ended September 30, 2015)

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 3,720	\$ 4,961	\$ 745	\$ 1,240	\$ 496	\$ 7,442
Aircraft maintenance	14,042	293,339	-	21,061	-	7,121,659
Awards	121,689	160,132	-	-	-	1,004
Bad debts	-	-	-	-	-	-
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	-	3,004,952	-	-	776	106,997
Conference	141,124	200,375	28,224	47,043	18,816	282,374
Contingency	-	-	-	-	-	-
Contributed flying	-	-	-	9,682	-	870,267
Cost of goods sold	25,079	100,316	-	-	-	-
Depreciation	45,145	60,195	10,991	15,049	6,020	8,880,423
Equipment maintenance	52,933	70,577	490,096	17,644	7,056	119,041
Facility maintenance	1,478,193	1,922,632	293,360	474,637	189,854	3,147,475
Fundraising events	-	-	-	-	-	-
Insurance	10,770	14,358	2,154	3,590	1,437	21,538
Interest expense	-	-	-	-	-	-
IT expense	7,732	10,307	1,547	2,577	1,029	15,460
Legal and accounting	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	-	-	24,427	-	-	95,176
Miscellaneous	5,022	9,845	1,468	2,444	977	17,412
Mission support	-	3,321	-	154,673	-	4,488,562
Payroll taxes and benefits	139,610	87,135	2,283	3,806	1,523	190,855
Professional services	161,029	299,035	-	-	-	370,269
Professional development	151,013	16,760	-	-	-	4,430
Postage	7,200	9,602	35,472	2,401	960	14,402
Printing and publications	4,286	5,714	858	1,429	571	8,572
Procurement	-	-	-	-	-	21,340
Salaries	581,387	384,169	11,254	18,756	7,503	953,074
Senior activities	187,515	-	-	-	-	51,478
Supplies	686,290	763,658	22,022	36,661	14,664	297,807
Telephone	63,627	84,835	12,726	21,209	8,484	240,982
Travel	98,603	887,940	16,359	25,887	10,949	654,152
Vehicle maintenance	36,245	48,327	7,249	12,082	4,833	557,150
	<u>\$ 4,022,254</u>	<u>\$ 8,442,485</u>	<u>\$ 961,235</u>	<u>\$ 871,871</u>	<u>\$ 275,948</u>	<u>\$ 28,539,341</u>

See notes to the consolidated financial statements.

## CIVIL AIR PATROL CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2016

(with summarized information for the year ended September 30, 2015)

	Supporting Services				Totals	
	Fundraising	Management and General	Member Services	Strategic Communications	2016	2015
Advertising	\$ -	\$ 21,439	\$ 19,305	\$ 8,153	\$ 67,501	\$ 37,205
Aircraft maintenance	-	15,391	-	-	7,465,492	6,966,867
Awards	-	4,239	14,402	-	301,466	244,224
Bad debts	-	6,544	615	-	7,159	30,862
Bank and credit card expense	365	58,265	-	-	58,630	47,332
Cadet activities	65,867	20,484	-	-	3,199,076	2,732,597
Conference	-	232,813	308,055	75,720	1,334,544	1,480,841
Contingency	-	4,111	-	-	4,111	18,730
Contributed flying	-	-	-	-	879,949	-
Cost of goods sold	-	-	-	-	125,395	137,595
Depreciation	-	1,505,622	15,049	-	10,538,494	10,011,881
Equipment maintenance	-	518,097	8,666	-	1,284,110	660,457
Facility maintenance	4,638	2,362,620	570,212	-	10,443,621	10,273,946
Fundraising events	250,462	-	-	-	250,462	262,123
Insurance	1,368	1,740,846	3,590	-	1,799,651	1,692,605
Interest expense	-	852	-	-	852	1,577
IT expense	-	10,307	2,577	-	51,536	38,137
Legal and accounting	-	216,408	-	-	216,408	326,097
Lobbying	8,985	10,008	-	-	18,993	19,000
Maintenance and equipment rental	-	203,439	-	-	323,042	230,481
Miscellaneous	79	139,388	6,819	-	183,454	175,011
Mission support	-	227	-	-	4,646,783	4,834,356
Payroll taxes and benefits	16,522	891,425	784,539	-	2,117,698	2,027,618
Professional services	32,999	686,955	229,135	22,255	1,801,677	1,578,375
Professional development	67	225,427	8,773	-	406,470	293,191
Postage	4,039	117,014	2,401	-	193,491	181,862
Printing and publications	-	5,714	1,429	88,852	117,425	94,913
Procurement	-	-	-	-	21,340	1,754,931
Salaries	89,441	3,848,742	3,038,175	-	8,932,501	8,738,406
Senior activities	-	55,719	-	-	294,712	287,530
Supplies	2,486	540,967	38,381	-	2,402,936	1,951,770
Telephone	-	170,875	580,504	-	1,183,242	834,100
Travel	3,845	200,281	42,684	515	1,941,215	1,975,731
Vehicle maintenance	-	68,197	12,082	-	746,165	705,500
	<u>\$ 481,163</u>	<u>\$ 13,882,416</u>	<u>\$ 5,687,393</u>	<u>\$ 195,495</u>	<u>\$ 63,359,601</u>	<u>\$ 60,645,851</u>

See notes to the consolidated financial statements.



**CIVIL AIR PATROL**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended September 30, 2016

(with comparative information for the year ended September 30, 2015)

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

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 8,833,037	\$ 16,591,024
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,538,494	10,011,881
Net unrealized and realized (gain) loss on investments	(118,189)	544,587
Gain on disposition of property and equipment	(175,988)	(271,703)
Contributed property and equipment	(2,111,570)	(228,843)
Changes in operating assets and liabilities:		
Accounts, grants, and loans receivable	(1,991,628)	(226,096)
Prepaid expenses	291,559	(96,135)
Inventories	21,216	3,055
Unconditional promises to give	846,298	(8,367,071)
Accounts payable and accrued expenses	(181,921)	21,022
Deferred revenue	135,494	(95,480)
Net cash provided by operating activities	16,086,802	17,886,241
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	282,825	287,517
Purchase of property and equipment	(17,662,181)	(17,595,360)
Proceeds from sale of investments	576,184	1,042,307
Purchase of investments	(963,444)	(1,417,381)
Net cash used in investing activities	(17,766,616)	(17,682,917)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowing under line of credit	-	1,666,010
Repayment of borrowing under line of credit	-	(1,666,010)
Change in contractually restricted cash	1,086,583	285,188
Net cash provided by financing activities	1,086,583	285,188
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(593,231)	488,512
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	15,581,507	15,092,995
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 14,988,276</u>	<u>\$ 15,581,507</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 852</u>	<u>\$ 1,577</u>

See notes to the consolidated financial statements.



**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2016

## **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 consolidated 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, 2015, from which the summarized information was derived.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Civil Air Patrol Foundation (Foundation). CAP and the Foundation have separate boards, with the majority of CAP's board members in common with the Foundation, and are under common management. All material intercompany transactions and account balances were eliminated in the consolidation of accounts.



## **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 services, and allocation of expenses by function. Actual results could differ from those estimates.

## **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.

**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2016

**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 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 2016 unrelated business income in the amount of \$7,320.

As of September 30, 2016, 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, 2015. The tax returns of the Organization for years ended September 30, 2012, 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 facilities and utilities and use of long-lived assets are recorded at fair rental value. Contributed services and materials for use are recorded at fair value.



## Advertising

Advertising costs are expensed as incurred. Total advertising costs expensed for the year ended September 30, 2016, were \$67,501.

## 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 Inputs to the valuation methodology include:

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

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

Level 3 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 April 24, 2017, which is the date the financial statements were available to be issued.

**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2016

**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	\$ 827,801
-------------------------------------------------------------	------------

**Restricted by donors for:**

Cadet scholarships and activities	298,617
Aerospace scholarships and activities	49,779
Construction of facility	1,580
Other equipment	123,296
Other activities	<u>22,969</u>
Total restricted cash	<u>1,324,042</u>

**Designated by the governing board for:**

Cadet scholarships and activities	109,137
Facility maintenance	155,367
Other	11,685
Reserve	<u>104,624</u>
Total designated cash	<u>380,813</u>

<b>Cash unrestricted and not designated</b>	<u>14,607,463</u>
Total cash	<u>\$ 16,312,318</u>

**Statement of financial position presentation:**

Cash and cash equivalents	\$ 14,988,276
Cash – restricted	<u>1,324,042</u>
Total	<u>\$ 16,312,318</u>



### 3. INVESTMENTS

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

Annuities	\$ 60,234
Mutual funds	7,768,319
Real estate investment trusts	37,875
Total	<u>\$ 7,866,428</u>

The composition of the return on investments is as follows:

Investment income	\$ 499,370
Net unrealized and realized gain on investments	118,189
Total	<u>\$ 617,559</u>

Investment advisory fees	<u>\$ 37,714</u>
--------------------------	------------------

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
<b>Restricted by donors for:</b>			
Cadet scholarships and activities	\$ 503,618	\$ 41,066	\$ 544,684
Aerospace scholarships and activities	9,912	(549)	9,363
Senior activities	3,934	(218)	3,716
Other activities	2,460	301	2,761
	<u>519,924</u>	<u>40,600</u>	<u>560,524</u>
<b>Designated by the governing board for:</b>			
Reserve	4,524,113	626,412	5,150,525
Cadet scholarships and activities	959,681	(53,155)	906,526
	<u>5,483,794</u>	<u>573,257</u>	<u>6,057,051</u>
<b>Investments unrestricted and undesignated</b>	<u>1,172,788</u>	<u>76,065</u>	<u>1,248,853</u>
Total	<u>\$ 7,176,506</u>	<u>\$ 689,922</u>	<u>\$ 7,866,428</u>

#### Statement of financial position presentation:

Short-term investments	\$ 7,305,904
Long-term investments	560,524
Total	<u>\$ 7,866,428</u>

**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2016

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

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

USAF	\$ 4,660,492
Others	<u>671,636</u>
Total	<u>\$ 5,332,128</u>

**5. CONDITIONAL PROMISES TO GIVE**

As of September 30, 2016, the Organization received from the USAF conditional promises to give of \$400,852 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	\$ 9,540
Aircraft fuel	<u>5,980</u>
Total	<u>\$ 15,520</u>

**7. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land	\$ 90,400
Building and improvements	9,327,291
Aircraft	177,832,031
Computers	2,397,741
Vehicles	25,277,731
Office furniture and equipment	138,009
Building under capital lease	253,148
Communication and other equipment	15,465,495
Construction in progress	114,032
Equipment not placed into service	<u>4,663,407</u>
	235,559,285
Accumulated depreciation	<u>130,045,847</u>
Net property and equipment	<u>\$ 105,513,438</u>



As of September 30, 2016, improvements with a book value of \$182,467 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$110,587 and \$71,880, respectively.

Depreciation expense for the period ending September 30, 2016	<u>\$ 10,538,494</u>
---------------------------------------------------------------	----------------------

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, 2016, property and equipment restricted for specific purposes amounted to \$218,602,515, less accumulated depreciation of \$126,405,730, resulting in a balance of \$92,196,785.

## 8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are as follows:

Accrued payroll and payroll taxes	\$ 940,607
Vendor payables	<u>2,102,647</u>
Total	<u>\$ 3,043,254</u>

## 9. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 809,537
USAF	485
Other	<u>239,788</u>
Total	<u>\$ 1,049,810</u>

## 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 September 1, 2018, with interest computed utilizing a variable interest rate. During the 2016 fiscal year, nothing was advanced on the line of credit and therefore no interest expense was incurred.

**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2016

**11. NET ASSETS**

**Unrestricted Net Assets – Designated**

The governing board has designated unrestricted net assets for:

Reserve funds	\$ 5,255,153
Scholarships	1,015,607
Other	<u>181,865</u>
Total	<u>\$ 6,452,625</u>

**Temporarily Restricted Net Assets**

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

Aerospace education activities:	
Scholarships	\$ 63,319
Other	16,876
Cadet program activities:	
Scholarships	397,478
Other	181,037
Senior program activities:	
Other	4,134
Other general activities:	
Subsequent years' use of property, equipment, and inventories	99,284,844
Support, maintenance, and modernization of aircraft fleet	7,423,921
Other	<u>461,923</u>
Total	<u>\$ 107,833,532</u>

**Permanently Restricted Net Assets**

Permanently restricted net assets are restricted for:

Scholarships	\$ 145,244
Other	<u>20,008</u>
Total	<u>\$ 165,252</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, 2016:

Years ending September 30:

2017	\$ 312,213
2018	188,893
2019	88,618
2020	85,256
	<u>\$ 674,980</u>

Total rental expense for all operating leases is \$520,691 for the year ended September 30, 2016.

## 13. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 2,934,374
Expiration of time restrictions	<u>10,164,282</u>
Total	<u>\$ 13,098,656</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 \$332,162 for the year ended September 30, 2016, and are included in payroll taxes and benefits in the statement of functional expenses.

**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2016

**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.

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

**Transactions Providing Revenue:**

From the USAF for:

Governmental appropriations	\$ 32,797,936
Contributions for:	
Use of facilities and utilities	654,947
Property, equipment, and inventories	<u>14,603,345</u>
Total	<u>\$ 48,056,228</u>

**Transactions Incurring Expenses:**

Expenses with the USAF for:

Facilities	<u>\$ 654,947</u>
------------	-------------------

**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, 2016.



## 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, 2016.

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, 2016.

	Level 1	Level 2	Level 3	Total
Annuities	\$ 60,234	\$ -	\$ -	\$ 60,234
Mutual funds	7,745,443	-	-	7,745,443
Equities	22,876	-	-	22,876
Real estate investment trusts	-	-	37,875	37,875
	<u>\$ 7,828,553</u>	<u>\$ -</u>	<u>\$ 37,875</u>	<u>\$ 7,866,428</u>

**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2016

**17. FAIR VALUE MEASUREMENTS – CONTINUED**

The following table presents a roll forward of the amounts for the year ended September 30, 2016, for Level 3 inputs:

	Beginning Balance	Net Acquisitions (Dispositions)	Net Gains (Losses)	Ending Balance
Real estate investment trusts	\$ 48,249	\$ -	\$ (10,374)	\$ 37,875

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, 2016.

As a measure of liquidity, the frequencies that investments may be redeemed or liquidated are noted in the following table, along with the number of days' notice required to liquidate investments at September 30, 2016.

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic equities	\$ 3,022,391	\$ -	Daily, monthly	3 – 10 days
International equities	1,440,608	-	Daily, monthly	3 – 10 days
Domestic fixed income	2,193,627	-	Daily, monthly	3 – 10 days
Private equity fund	37,875	-	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, 2016, the Organization's uninsured cash balances totaled \$8,095,098.







CAP.news