

IMPACT

CITIZENS SERVING COMMUNITIES



CIVIL AIR PATROL
U.S. Air Force Auxiliary

2017 FINANCIAL REPORT



MIRA

THE IMPACT OF CIVIL AIR PATROL



ACROSS AMERICA ...



Impact is the best word to describe the service of CAP's members in 2017. For three back-to-back hurricanes, our Airmen provided emergency service providers nearly 1 million damage assessment photos, used sophisticated technology to save over 100 lives, inspired over 375,000 youth to consider a STEM career, and nurtured the leadership skills of 25,000 youth nationwide. With an economic impact of \$177 million annually, CAP is truly a premier public service organization.

MISSIONS

“I would like to recognize your team for the outstanding work in support of local and federal responders during Hurricane Harvey. Whether providing time critical imagery vital for incident awareness, or providing ground logistical support to communities, your team always performs above and beyond the call of duty.” — LT. GEN. R. SCOTT WILLIAMS, COMMANDER,

1ST AIR FORCE (AFNORTH), IN A LETTER TO CAP NATIONAL

COMMANDER MAJ. GEN. MARK SMITH

IMPACT







An aerial photo shows damage from the heavy rains associated with Hurricane Harvey. CAP aircrews flew **71 planes** on **757 sorties** and took **375,973** photos in response to the storm, which dumped over 50 inches of rain that flooded much of southeast Texas and southwest Louisiana, threatening communities along coastal waterways.

1,061
CAP members from
44 wings supported
hurricane operations in
2017, providing
498,397
images to FEMA



Maj. Jawad M. Sultan works the San Antonio incident command post during Civil Air Patrol's response to Hurricane Harvey, which came at the request of the Federal Emergency Management Agency and the Texas Division of Emergency Management. Sultan was one of 626 CAP members involved in the mission.



Cadet Chief Master Sgt. Efrain E. Correa of the Puerto Rico Wing supports communications during CAP's Hurricane Maria response. More than **252 members** from **22 wings and regions** worked the mission in the wake of the Category 5 hurricane, which devastated much of Puerto Rico and the U.S. Virgin Islands.



CAP had one of the first planes in the sky, providing aerial imagery **36 hours** after Hurricane Maria struck Puerto Rico and the U.S. Virgin Islands. Here, CAP aircrews document damage to a dam.



Maj. Victor Santiago, front, and Capt. Luis Herrera conduct a preflight inspection of their CAP plane before flying a Hurricane Irma mission over Puerto Rico from San Juan's Fernando Luis Ribas Dominicci Airport. CAP aircrews flew **25 aircraft** on **303 sorties** in response to the hurricane, which affected south Florida, Puerto Rico and the U.S. Virgin Islands. The aircrews provided **82,234 photos** as part of the response.



Cadet Capt. Luis Sierra, Cadet Senior Airman Daniel Sierra and Cadet Staff Sgt. Hector Rodriguez assist Capt. Gabriel Sierra, right, in setting up a **VHF antenna** to restore communications in Puerto Rico in the wake of Hurricane Irma.



CAP aircrews flew more than **600 hours** in support of escort missions for the remote-controlled **MQ-9 Reapers** flown by the New York Air National Guard's Syracuse-based 174th Attack Wing, seen here in a hangar. The 174th Attack Wing is the home of the U.S. Air Force Reaper Training Program for pilots and operators. In support of the program, CAP planes serve as escorts accompanying MQ-9 Reapers through commercial airspace to and from Military Operating Areas where the training takes place.

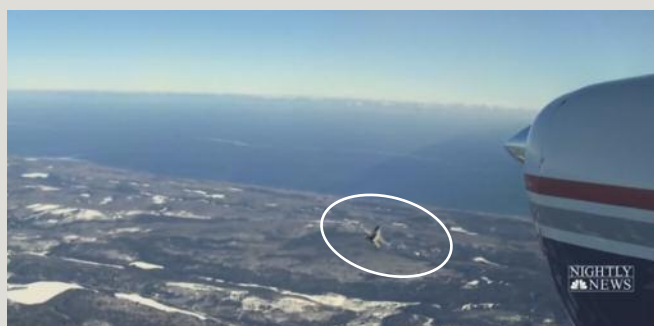


100,352 hours flown
conducting search and rescue, disaster relief, air defense, counterdrug and numerous other critical missions.

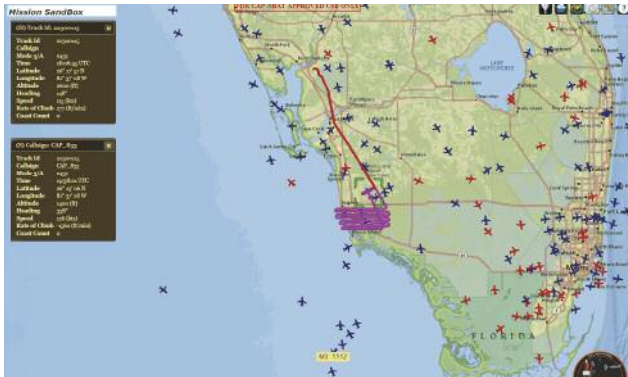
CAP's Chaplain Corps is one of the largest in the world, now numbering **447**. The corps, lead by Col. Charlie Sattgast, seated left, is implementing new "mission chaplain" training. This means they will be certified to work alongside other CAP members in all mission settings.



California Wing members working from a temporary incident command post at Livermore Municipal Airport provided support to FEMA when wildfires broke out in the fall of 2017. Aircrews made over **140 flights** over the burn areas to provide roughly **6,000 damage assessment photos**.



A CAP Cessna 182, at right, with an F-16 fighter flying in front of it can be seen in this screen capture from "NBC Nightly News with Lester Holt." The Feb. 1 intercept exercise was the subject of Ron Mott's report on the massive security operation in Minneapolis for Super Bowl LII. CAP aircrews flew **1,098 hours** during the past year providing **air defense training** for the Air Force and others.



Involved in
798 search
and rescue missions;

110 lives saved

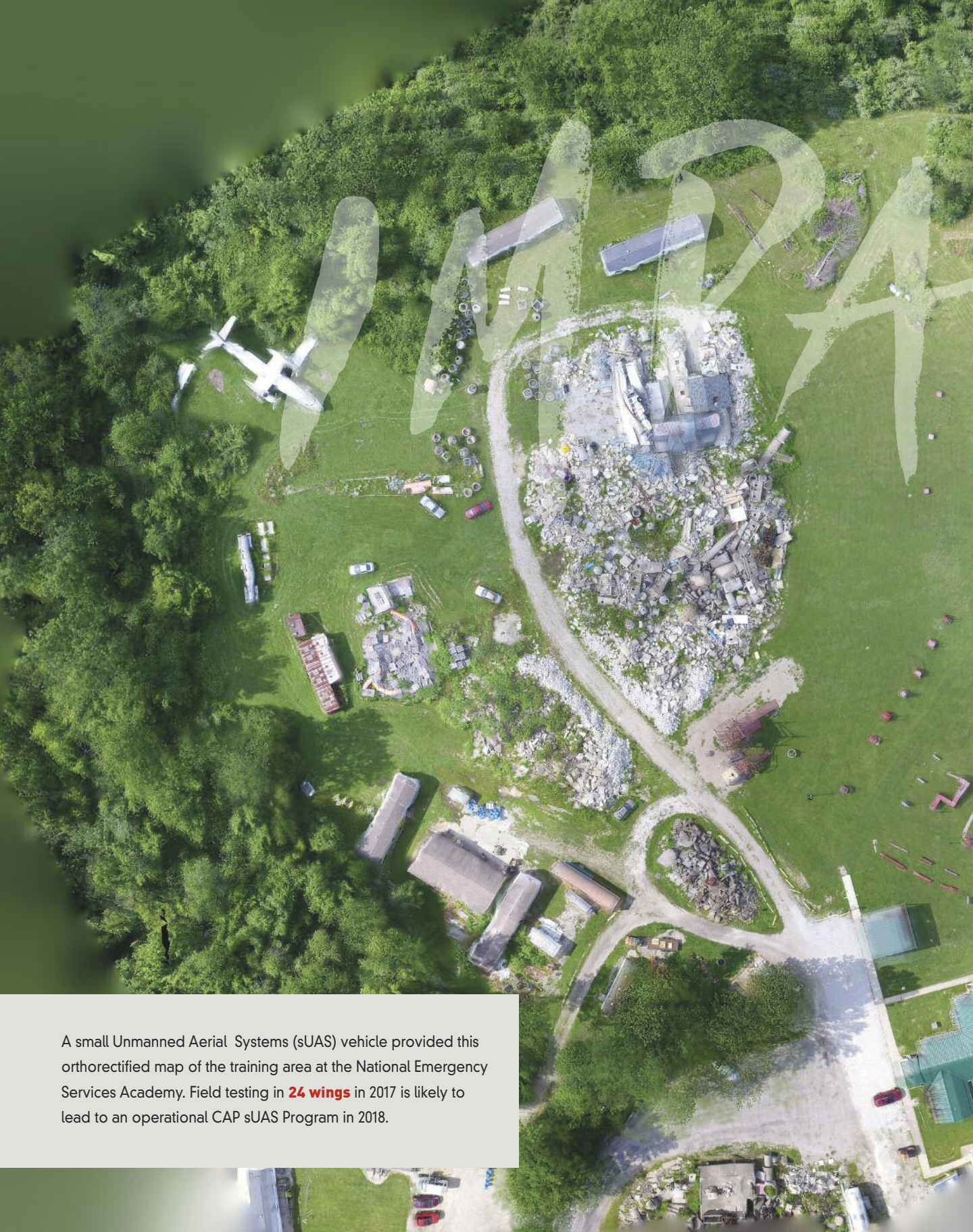
ICARUS, an aircraft crash detection and alerting near-real-time system developed by CAP's National Radar Analysis Team, features this Mission SandBox. Once activated, the SandBox helps CAP incident teams track where aircraft are flying in real time.

Civil Air Patrol has two operational hot air balloons, including the New Mexico Wing's Integrity. Here, CAP members prepare a balloon for takeoff during training at the Johnson Flight Academy in Illinois — the only hot-air balloon academy in CAP.



Below, from two locations in Louisiana and Nevada, CAP aircrews flew **1,234 hours on 36 Surrogate Unmanned Aerial Systems missions** in 2017. Their flights in specially equipped CAP Cessnas like this one, seen here alongside an Army helicopter, helped train U.S. and coalition forces preparing to deploy to war zones across the globe.





A small Unmanned Aerial Systems (sUAS) vehicle provided this orthorectified map of the training area at the National Emergency Services Academy. Field testing in **24 wings** in 2017 is likely to lead to an operational CAP sUAS Program in 2018.

An aerial photograph of a flooded area, likely a rice paddy, with a large teal graphic overlay that resembles a stylized 'C' or a map boundary. The water is a murky green, and the surrounding land is lush green with some buildings and structures visible in the lower left.

TECHNOLOGY

“During the 2017 catastrophic disasters, with its presence at the National Response Coordination Center, the CAP provided time-sensitive imagery to FEMA. The CAP’s contribution occurred at a time where multiple catastrophic events produced an avalanche of spatial data, and the CAP was a strategic resource for the deconfliction of priorities and resources.” — TED OKADA, CHIEF

TECHNOLOGY OFFICER, FEDERAL EMERGENCY MANAGEMENT AGENCY

Civil Air Patrol has one of the world's largest fleets of single-engine piston aircraft, which **support missions for 1,450 communities** nationwide. The **560 powered planes**, mostly Cessna 172s and 182s, are also used to provide cadet orientation flights for CAP cadets. In addition, the fleet includes **47 gliders**, which are also used for orientation flights.

The popularity of miniature drones led to the establishment of Civil Air Patrol's fledgling **sUAS (small Unmanned Aerial Systems)** Program, which was involved in field testing and training in **24 CAP wings** in 2017 with an eye toward establishing a full-fledged operational program later this year.

World-class fleet of 560 powered aircraft supports CAP missions for nearly 1,450 communities across America





Over 250 of CAP's powered planes are equipped with technically advanced **glass cockpits**, which enhance aircrew efficiency and safety. Aircrews are in constant contact with each other, as well as with members on the ground, through CAP's multimillion-dollar communications network.

The cost to taxpayers for CAP's
aerial emergency services
is only about
\$120-\$165
per flying hour,
a small fraction of what it costs
federal, state and local
agencies to perform the missions
themselves



Aerial photography is one of CAP's core missions, with most of its aircraft equipped with digital cameras capable of storing the pictures' geo coordinates. Well known for their imagery collections during disasters, CAP aircrews often rely on state-of-the-art **Garmin VIRB cameras** attached to the wings of their planes, allowing for timed-sequenced ground images from directly above that can be pieced together after the flight to form a mosaic. These cameras were most recently used to assess damage during the 2017 hurricane season.



The latest **ADS-B** (Automatic Dependent Surveillance-Broadcast) technology is being installed in CAP's aircraft. ADS-B allows pilots to see advanced traffic and weather on Garmin portables and tablets using Garmin Pilot and ForeFlight Mobile apps. This advance in avionics safety has been mandated by the Federal Aviation Administration and has a Jan. 1, 2020, deadline for installation. To date, CAP is ahead of the curve, having already installed the equipment on about **40 percent of its planes**.

Over 95 percent of Civil Air Patrol's search and rescue missions involve CAP-generated software used by the National Cell Phone Forensics and National Radar Analysis teams



As a response to massive wildfires that burned much of California, Civil Air Patrol tested a leading-edge tactical aerial imagery system to help FEMA document the widespread damage. The Aeroptic Sensor Pod, mounted on the outside of a CAP Cessna, captured images in both the visual and the near-infrared spectrum, providing emergency responders in Napa County with a unique perspective of the disaster as it unfolded.



Students in Tennessee work with the Bee-Bot STEM Kit, which the teacher has incorporated into a geography lesson. The Bee-Bot, one of **five new STEM Kits**, is a robot designed to teach young learners how to code.



AEROSPACE EDUCATION

“There are many organizations promoting STEM education, but none produces results with the breadth, depth and scope of Civil Air Patrol. Inspiring over 375,000 students and educators annually in aviation, aerospace and cyber, they are having an extraordinarily positive impact in meeting the critical national need of developing our nation’s technical workforce.” — BERNIE SKOCH, BRIGADIER GENERAL,

USAF (RET), CYBERPATRIOT NATIONAL COMMISSIONER

Cadets from the Puerto Rico Wing work on Snaptricity, a Civil Air Patrol STEM Kit that teaches how electricity and magnetism are generated. The STEM Kits have exposed **375,000 American youth** to careers associated with astronomy, flight simulation, model and remote-control aircraft, robotics, rocketry, weather, hydraulic engineering, computer programming, coding, circuitry, renewable energy, quadcopters and mathematics. After using the kits, **80 percent of the K-12** youth expressed **greater interest in pursuing STEM careers**.

Civil Air Patrol's AE programs extend to over **3,500 adult educators as well as youth**. Here, Dorinda Risenhoover, education coordinator for the NASA Oklahoma Space Grant Consortium/NASA EPSCoR, takes advantage of CAP's Teacher Orientation Program flights that provide educators with the opportunity to experience firsthand the excitement of flying, which also allows them to enrich learning for **100,000 students** annually.

**Impact of CAP's
aerospace/STEM
program —
375,000 cadets/
students**



Five new STEM Kits were made available to CAP cadets and **K-12 students** in 2017, bringing the **total to 15**. The new kits are Bee Bots, Sphero, Middle School Math, Renewable Energy and Snaptricity. Even more are in the works for 2018.





CAP's Aerospace Education and **STEM** programs, consisting of over **40 no-cost aerospace education products and programs**, generate interest in science, technology, engineering and mathematics careers. Here, middle school students in Missouri work on the Sphero STEM Kit, which teaches coding and programming.

40+ AE products
inspire aviation
and STEM careers in
over 25,000 cadets and
375,000 K-12 students
nationwide



CAP's Model Rocketry program **teaches youth about the hobby and science of model rocketry** and associated careers. The rockets included in the Rocketry STEM Kit help the cadets progress toward one stage of the Rocketry Badge.

Flight simulators provided by the CAP STEM Kit Program give both cadets and students (shown) **the chance to experience aviation** from a number of different aircraft amid numerous challenges and scenery. They come with the software, yoke and rudder pedals.





**Aerospace
Connections in
Education (ACE)
reaches
27,000 youth
in 38 states**

More than **27,000 youth in 38 states**, including these students at Friendship Elementary School in Buford, Georgia, participated in Civil Air Patrol's K-6 **Aerospace Connections in Education (ACE)** program in 2017. The no-cost program, offered by more than **450 teachers**, enriches aerospace/STEM academics, character education and physical fitness with an engaging grade-specific curriculum.

CADET PROGRAMS

“We’re a self governing republic. That means all of us have to give back to the community in which we live. For some of you, you’ve chosen to serve in the Civil Air Patrol. And that’s an honorable service. So thank you for your service.” — SECRETARY OF THE AIR FORCE HEATHER

WILSON, ADDRESSING ALABAMA CADETS GATHERED TO VISIT

WITH HER AT CAP NATIONAL HEADQUARTERS IN 2017



CyberPatriot III (2010-2011)

The program grows significantly during the third competition season, as the Northrop Grumman Foundation becomes CyberPatriot's Presenting Sponsor. The competition splits into two Divisions, the All Service Division for public and private high school teams and home divisions, and the All Service Division for JROTC Civil Air Patrol. In total, 678 teams register for the



Alamo Academics - ITSA
CyberPatriot III
All Service Division National Champion



Orlando Cadet Squadron (CAP)
CyberPatriot III
All Service Division National Champion

CyberPatriot Presenting Sponsor
NORTHROP GRUMMAN
Foundation

CyberPatriot IV (2011-2012)

The program sees even more expansive growth, with the number of registered teams exceeding 1,000 for the first time. CyberPatriot's Center of Excellence program is created to recognize individuals or municipalities that excel in emphasizing cybersecurity and developing the workforce of tomorrow.



Alamo Academics - ITSA
CyberPatriot IV
All Service Division National Champion



Colorado Springs Cadet Squadron (CAP)
CyberPatriot IV
All Service Division National Champion

CyberPatriot V (2012-2013)

Teams register to participate in CyberPatriot V, including JROTC and Cadet Corps teams for the first time. During online rounds, teams compete on CyberPatriot's new proprietary - the CyberPatriot Competition System.



Intility Academy
CyberPatriot V
All Service Division National Champion



Marine Military Academy Marine Corps JROTC
CyberPatriot V
All Service Division National Champion

CAP cadets are
leaders in the
All Service Division
of the Air Force Association's
national high school
CyberPatriot program.

A cadet team from Colorado Springs
finished No. 1
in CyberPatriot IX

Through more than **50 National Cadet Special Activities** as well as numerous field trips in their communities, like this one to the headquarters of Alaska Airlines, CAP cadets annually explore careers in a wide variety of fields.



Supported generously by U.S. Air Force grant funding, the **Cadet Encampment Assistance Program**, or CEAP, has enabled an additional **5,000 cadets** to participate in CAP wing encampments over the past three years.

CAP mentors and helps develop the leadership skills of more than 25,000 youth, many of whom pursue careers in aerospace and aviation





Civil Air Patrol's **wing encampments** are the life-blood of the organization's cadet program. The goal of each encampment is to **inspire participating cadets** to develop leadership skills; learn about aviation, space and technology; commit to a habit of regular exercise; and live the organization's core values.



CAP also uses gliders to introduce cadets to flight. The dedicated work of the organization's **glider pilots**, who **flew 3,160 sorties** in 2017 teaching cadets how to fly gliders, plays a vital role in the future of American civilian and military aviation.



The goal of CAP's new **Active Cadet Fitness Program** is to increase cadets' physical fitness and motivate them to develop a lifelong habit of regular activity. The program is aligned with the Presidential Youth Fitness Program.



A **new cadet scholarship initiative**, launched two years ago, allows youth in the organization to pursue higher education. Cadets who earn financial assistance do better in school (**82 percent earn B's or better**) and get a head start in military service or aviation careers. Data shows **72 percent** of these youth are **interested in serving in the military** while **65 percent** are **interested in a career in aviation**.



CAP instills the organization's **core values** of integrity, volunteer service, excellence and respect in its cadets. They are drug-free role models in their communities and schools.



CAP offers cadets in-depth leadership training through **National Cadet Special Activities** like Cadet Officer School and the Civic Leadership Academy. The training they receive at these weeklong activities enables them to become real leaders in their home squadrons, their schools and their communities.

Provided
over 30,000
orientation flights **to CAP,**
Junior ROTC and ROTC cadets in 2017



At the **National Emergency Services Academy**, **cadets 12-20** hone their disaster relief, search and rescue and survival skills. The academy is one of the many programs available each summer to CAP cadets.



The opportunity to fly is a major attraction CAP offers youth. During 2017, CAP pilots provided **30,589 orientation rides** to introduce cadets, as well as Air Force Junior ROTC and ROTC cadets, to flight. **CAP instructor pilots** also flew another **5,264 hours in powered aircraft**, often at National Flight Academies held across the country, teaching the organization's cadets how to fly.



**Cadets and senior
members from over
400 CAP units
presented the colors and placed
remembrance wreaths on
veterans' graves at
more than
1,100 locations
— in national cemeteries and
at war memorials nationwide
and abroad — as part of
Wreaths Across America**



COMMUNITY SERVICE

“Through the Wreaths Across America program, cadets have the opportunity to honor the veterans in their community and, in the process, learn about these heroes and the sacrifices made by them and their families, while helping to raise funds for their squadron. We are so grateful for CAP’s continued support and their understanding of the mission to Remember, Honor and Teach.” — KAREN WORCESTER, EXECUTIVE

DIRECTOR, WREATHS ACROSS AMERICA



CAP color guards are frequently called on to **present the colors** at myriad **community events** — such as parades, athletic contests and school gatherings, like high school or college graduations. The cadets’ performances demonstrate respect for the flag and love of country.



Civil Air Patrol received a 2017 Public Benefit Flying Award for its “shadow escort” flights for the Air National Guard’s 174th Attack Wing in central New York. As part of the U.S. Air Force Reaper Training Program for pilots and sensor operators, CAP aircrews accompany the MQ-9 Reapers to and from Military Restricted Airspace for training exercises. This support, which started in 2016, has **helped save taxpayers over \$1 million** and has **increased MQ-9 training by 25 percent**.

Secretary of the Air Force Heather Wilson greets a CAP cadet participating in National Blue Beret during her midsummer visit to the Experimental Aircraft Association’s AirVenture Oshkosh fly-in in Wisconsin. CAP members, many of them cadets, annually fill many vital support roles during the **world’s largest air show**, which draws more than **10,000 aircraft**.



CAP members from Georgia Wing Group 3 and the Albany Composite Squadron were on-site as soon as possible in the aftermath of a **tornado** that touched down in **the city of Albany** and surrounding Dougherty County in south Georgia. The members, many of them cadets, provided general recovery and cleanup in the aftermath of the rare January storm, which **cut a 40-mile-long swath** across the state.





CAP members are frequently on hand to meet the logistical needs for aviation-related events in their communities. At **air shows** across the nation, they track incoming aircraft, locate and silence electronic locator transmitters and assist with crowd control.



Members of the Pennsylvania Wing answered the call when over **110 inches of snow** fell on the town of Erie in 2017. The members, mostly cadets, contributed over **500 man-hours shoveling out critical public safety infrastructure**, such as fire hydrants, and the homes of residents on Erie County's at-risk list, including the elderly and people with medical conditions or disabilities.



Volunteers with Civil Air Patrol play an integral role in patriotic events and activities, such as this **Honor Flight** ceremony. At such activities, CAP cadets and officers alike take the time to honor the country's military veterans, while also benefiting from their life lessons.

Provided over
\$177 million in volunteer services
 nationwide — an economic impact making CAP
**one of the premier public service
 organizations in America**

BOARD OF GOVERNORS

“Civil Air Patrol Airmen impact our communities, states and nation in immeasurable ways. Their volunteer service saves lives and changes the lives of the cadets they teach, inspire and lead. The Board of Governors salutes the contributions of each CAP member and the outcome of their service on our country.” — RETIRED U.S. AIR FORCE

LT. GEN. JUDY FEDDER, CHAIR OF CAP'S 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. The Board of Governors moves the organization forward through collective decision-making, which generates strategic policies, plans and programs designed to guide CAP both today and tomorrow. The Board of Governors is assisted by Civil Air Patrol's 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 advisors.



**AIR FORCE-APPOINTED
MEMBERS:**

Lt. Gen. Judy Fedder,
USAF (Ret)
Independent Consultant
(Chair)

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

Brig. Gen. Daniel J.
Orcutt, USAF
Vice Commander,
CONUS NORAD Region,
1st Air Force (AFNORTH)

Robert E. Corsi, Jr.
RoCor Consulting, LLC

**CIVIL AIR PATROL-
APPOINTED MEMBERS:**

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

Col. J. Bradford Lynn,
CAP
Member-at-Large

Col. Dale Newell, CAP
Member-at-Large

Col. Tim Verrett, CAP
Member-at-Large

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

CDR George M. Perry,
USN (Ret)
Aviation Safety
Advocate, Author and
Speaker
United Parcel Service

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

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

**ADVISORS
TO THE BOARD OF
GOVERNORS:**

Maj. Gen. Mark Smith,
CAP
National Commander /
CEO

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

John Salvador
Executive Secretary /
Chief Operating Officer,
CAP



Pictured here are
members of the Board of
Governors attending the
2017 BoG meeting.



U.S. Rep. Robert Aderholt, R-Ala., listens as Lt. Col. Robert Williams talks about Alabama Wing members' contributions to their state and their communities during a Legislative Day visit to the lawmaker's Capitol Hill office. Flanking Williams, commander of the Gen. Joe Wheeler Composite Squadron, are Col. James A. Harris, wing vice commander, and Cadet Lt. Col. Timothy Cleveland of the Gadsden Composite Squadron.



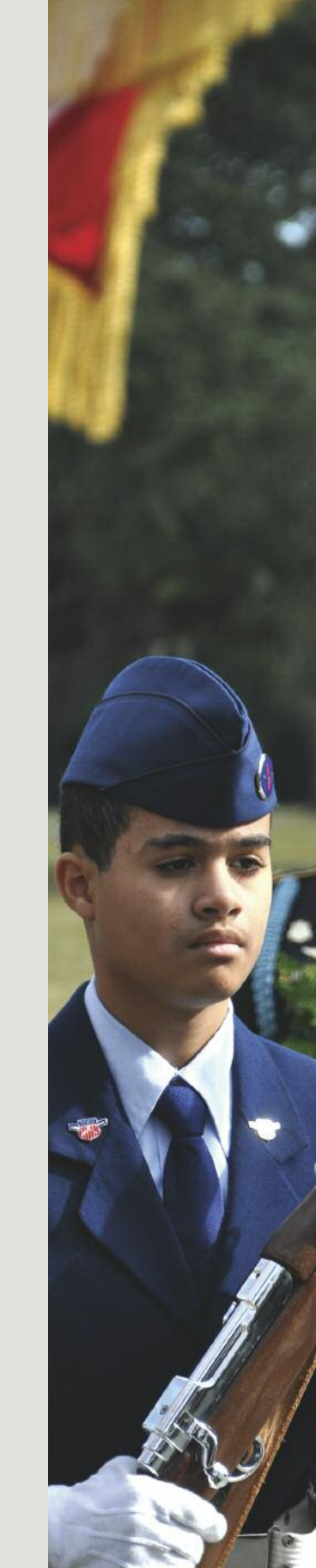
FINANCIAL SUPPORT

“Civil Air Patrol’s members continue to raise the bar in every aspect of their service. From their focus on leadership and professionalism to their emphasis on staying relevant, their impact continues to be recognized with growing and much-deserved support from Congress, the United States Air Force and other organizations at the national, state and local levels.” — MAJ. GEN. MARK

SMITH, CAP NATIONAL COMMANDER AND CEO

APPROPRIATIONS

FY 2016	FY 2017
Operations & Maintenance	Operations & Maintenance
\$27.4 million	\$28 million
Aircraft Procurement	Aircraft Procurement
\$10.4 million	\$10.3 million
Vehicle Procurement	Vehicle Procurement
\$1.7 million	\$1.7 million



CONSOLIDATED FINANCIAL STATEMENTS INDEPENDENT AUDITORS' REPORT 10th Unmodified Audit Opinion

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, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We 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, 2017, 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*

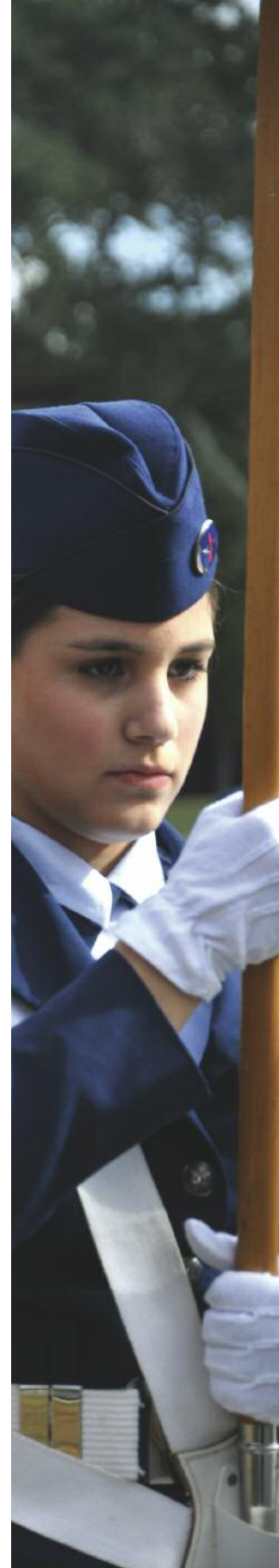
In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018, on our consideration of Civil Air Patrol's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 2016 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Warren Averett, LLC

Montgomery, Alabama
April 20, 2018



CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2017

(with comparative information as of September 30, 2016)

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,191,679	\$ 14,988,276
Short-term investments	8,207,497	7,305,904
Accounts, grants, and loans receivable	4,808,807	5,332,128
Inventories	2,009	15,520
Prepaid expenses	289,644	287,198
Total current assets	<u>30,499,636</u>	<u>27,929,026</u>
NONCURRENT ASSETS		
Cash — restricted	2,158,167	1,324,042
Long-term investments	642,179	560,524
Unconditional promises to give	9,995,910	7,520,773
Property and equipment, net of accumulated depreciation	<u>107,591,766</u>	<u>105,513,438</u>
Total noncurrent assets	<u>120,388,022</u>	<u>114,918,777</u>
TOTAL ASSETS	<u>\$ 150,887,658</u>	<u>\$ 142,847,803</u>

See notes to the consolidated financial statements.

CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2017

(with comparative information as of September 30, 2016)

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 3,209,723	\$ 3,043,254
Deferred revenue	927,013	1,049,810
Total current liabilities	4,136,736	4,093,064
TOTAL LIABILITIES	4,136,736	4,093,064
NET ASSETS		
Unrestricted:		
Undesignated	24,760,893	24,303,330
Board designated	7,091,965	6,452,625
	31,852,858	30,755,955
Temporarily restricted	114,721,980	107,833,532
Permanently restricted	176,084	165,252
Total net assets	146,750,922	138,754,739
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 150,887,658</u>	<u>\$ 142,847,803</u>

See notes to the consolidated financial statements.

CIVIL AIR PATROL

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended September 30, 2017

(with summarized information for the year ended September 30, 2016)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS	
				2017	2016
OPERATING REVENUES AND OTHER SUPPORT					
Governmental appropriations and grants	\$ 33,903,119	\$ 2,078	\$ -	\$ 33,905,197	\$ 35,847,982
Other program revenue	1,388,333	2,331,069	-	3,719,402	2,878,139
Membership dues	2,853,692	-	-	2,853,692	2,818,904
Governmental contributions	7,464,598	11,863,414	-	19,328,012	22,499,287
Contributions	3,710,800	275,632	500	3,986,932	3,839,585
Fundraising	1,252,388	-	-	1,252,388	1,146,160
Registration fees and events	1,160,583	-	-	1,160,583	1,209,874
Publications and advertising	13,403	-	-	13,403	18,300
Sale of materials, supplies, and surplus property	119,321	-	-	119,321	117,236
Interest income	29,663	1,206	-	30,869	1,572
Investment income	142,167	4,000	1,827	147,994	499,370
Other	1,041,329	-	-	1,041,329	1,022,052
Net assets released from restrictions	10,670,338	(10,670,338)	-	-	-
Total operating revenues and other support	63,749,734	3,807,061	2,327	67,559,122	71,898,461
OPERATING EXPENSES					
Program services:					
Aerospace education and training	4,270,227	-	-	4,270,227	4,022,254
Cadet programs	8,856,686	-	-	8,856,686	8,442,485
Communication maintenance	698,465	-	-	698,465	961,235
Counterdrug	1,257,794	-	-	1,257,794	871,871
Drug demand reduction	292,683	-	-	292,683	275,948
Emergency services	29,122,336	-	-	29,122,336	28,539,341
Total program services	44,498,191	-	-	44,498,191	43,113,134
Supporting services:					
Fundraising	374,341	-	-	374,341	481,163
Management and general	12,882,089	-	-	12,882,089	13,882,416
Membership development	5,274,376	-	-	5,274,376	5,687,393
Strategic communications	237,955	-	-	237,955	195,495
Total supporting services	18,768,761	-	-	18,768,761	20,246,467
Total operating expenses	63,266,952	-	-	63,266,952	63,359,601
Change in net assets from operations	482,782	3,807,061	2,327	4,292,170	8,538,860
NONOPERATING GAINS AND LOSSES					
Gain (loss) on disposition of property and equipment	(155,252)	3,028,530	-	2,873,278	175,988
Net unrealized and realized gain on investments	769,373	52,857	8,505	830,735	118,189
Total nonoperating gains and losses	614,121	3,081,387	8,505	3,704,013	294,177
CHANGE IN NET ASSETS	1,096,903	6,888,448	10,832	7,996,183	8,833,037
NET ASSETS AT BEGINNING OF YEAR	30,755,955	107,833,532	165,252	138,754,739	129,921,702
NET ASSETS AT END OF YEAR	\$ 31,852,858	\$ 14,721,980	\$ 176,084	\$ 146,750,922	\$ 138,754,739

See notes to the consolidated financial statements.

CIVIL AIR PATROL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2017

(with summarized information for the year ended September 30, 2016)

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 2,590	\$ 3,450	\$ 518	\$ 864	\$ 346	\$ 5,175
Aircraft maintenance	8,122	146,610	-	12,253	-	7,228,225
Awards	104,914	256,337	-	-	-	844
Bad debts	-	-	-	-	-	-
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	1,445	3,498,337	289	482	16,146	128,903
Conference	186,641	242,610	34,528	57,549	23,018	349,295
Contingency	-	1,330	-	-	-	-
Contributed flying	-	-	-	254,564	-	681,904
Cost of goods sold	27,038	108,152	-	-	-	-
Depreciation	43,336	57,782	10,808	14,447	5,778	9,407,813
Equipment maintenance	53,053	70,737	202,526	17,684	7,075	120,594
Facility maintenance	1,461,975	1,892,147	290,323	469,231	187,693	3,167,806
Fundraising events	-	-	-	-	-	-
Insurance	9,882	16,431	1,976	3,295	1,318	19,766
Interest expense	-	-	-	-	-	-
IT expense	8,521	11,360	1,704	2,841	1,137	17,043
Legal and accounting	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	-	-	49,818	-	-	108,099
Miscellaneous	2,941	1,652	581	988	386	8,250
Mission support	4,525	-	-	303,302	-	3,883,293
Payroll taxes and benefits	149,588	86,350	1,175	1,958	784	199,083
Professional services	275,086	228,664	-	-	-	421,963
Professional development	131,258	36,436	-	-	-	1,633
Postage	7,194	9,591	32,539	2,397	959	14,388
Printing and publications	3,641	4,853	728	1,214	485	7,280
Procurement	-	-	-	-	-	7,842
Salaries	592,285	373,116	8,503	14,172	5,668	966,818
Senior activities	214,275	601	90	150	60	33,909
Supplies	754,029	740,877	23,140	38,038	15,216	389,990
Telephone	62,503	83,336	12,502	20,836	8,333	271,480
Travel	139,397	951,281	21,519	32,866	14,816	952,354
Vehicle maintenance	25,988	34,646	5,198	8,663	3,465	728,586
	<u>\$ 4,270,227</u>	<u>\$ 8,856,686</u>	<u>\$ 698,465</u>	<u>\$ 1,257,794</u>	<u>\$ 292,683</u>	<u>\$ 29,122,336</u>

See notes to the consolidated financial statements.

CIVIL AIR PATROL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2017

(with summarized information for the year ended September 30, 2016)

	Supporting Services				Totals	
	Fundraising	Management and General	Member Services	Strategic Communications	2017	2016
Advertising	\$ -	\$ 13,603	\$ 11,567	\$ 5,440	\$ 43,553	\$ 67,501
Aircraft maintenance	-	-	-	-	7,395,210	7,465,492
Awards	-	9,530	18,821	-	390,446	301,466
Bad debts	-	2,567	6	-	2,573	7,159
Bank and credit card expense	20	53,705	-	-	53,725	58,630
Cadet activities	9,455	3,810	482	-	3,659,349	3,199,076
Conference	-	310,802	349,309	144,148	1,697,900	1,334,544
Contingency	-	6,805	-	-	8,135	4,111
Contributed flying	-	-	-	-	936,468	879,949
Cost of goods sold	-	-	-	-	135,190	125,395
Depreciation	-	863,005	14,447	-	10,417,416	10,538,494
Equipment maintenance	-	327,323	17,684	-	816,676	1,284,110
Facility maintenance	-	2,350,625	542,996	-	10,362,796	10,443,621
Fundraising events	262,745	-	-	-	262,745	250,462
Insurance	-	1,736,517	3,295	-	1,792,480	1,799,651
Interest expense	-	38	-	-	38	852
IT expense	-	11,360	2,841	-	56,807	51,536
Legal and accounting	-	276,106	-	-	276,106	216,408
Lobbying	8,176	10,000	-	-	18,176	18,993
Maintenance and equipment rental	-	221,575	-	-	379,492	323,042
Miscellaneous	-	153,268	1,998	-	170,064	183,454
Mission support	-	1,271	-	-	4,192,391	4,646,783
Payroll taxes and benefits	15,415	836,249	834,621	-	2,125,223	2,117,698
Professional services	35,858	810,641	198,872	23,845	1,994,929	1,801,677
Professional development	-	168,775	1,161	-	339,263	406,470
Postage	123	100,540	2,397	-	170,128	193,491
Printing and publications	-	5,173	1,214	64,405	88,993	117,425
Procurement	-	11,521	-	-	19,363	21,340
Salaries	30,272	3,860,549	2,974,868	-	8,826,251	8,932,501
Senior activities	-	30,811	150	-	280,046	294,712
Supplies	7,435	354,906	41,838	-	2,365,469	2,402,936
Telephone	-	159,274	203,656	-	821,920	1,183,242
Travel	4,842	145,476	43,490	117	2,306,158	1,941,215
Vehicle maintenance	-	46,264	8,663	-	861,473	746,165
	\$ 374,341	\$ 12,882,089	\$ 5,274,376	\$ 237,955	\$ 63,266,952	\$ 63,359,601

See notes to the consolidated financial statements.

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

For the year ended September 30, 2017

(with comparative information for the year ended September 30, 2016)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,996,183	\$ 8,833,037
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,417,416	10,538,494
Net unrealized and realized gain on investments	(830,735)	(118,189)
Gain on disposition of property and equipment	(2,873,278)	(175,988)
Contributed property and equipment	-	(2,111,570)
Changes in operating assets and liabilities:		
Accounts, grants, and loans receivable	523,321	(1,991,628)
Prepaid expenses	(2,446)	291,559
Inventories	13,511	21,216
Unconditional promises to give	(2,475,137)	846,298
Accounts payable and accrued expenses	166,469	(181,921)
Deferred revenue	(122,797)	135,494
Net cash provided by operating activities	<u>12,812,507</u>	<u>16,086,802</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	3,341,231	282,825
Purchase of property and equipment	(12,963,697)	(17,662,181)
Proceeds from sale of investments	315,512	576,184
Purchase of investments	(468,025)	(963,444)
Net cash used in investing activities	<u>(9,774,979)</u>	<u>(17,766,616)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in contractually restricted cash	<u>(834,125)</u>	<u>1,086,583</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,203,403	(593,231)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,988,276</u>	<u>15,581,507</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 17,191,679</u>	<u>\$ 14,988,276</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 38</u>	<u>\$ 852</u>

See notes to the consolidated financial statements.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017

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 non-profit 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, 2016, 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 non-operating 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, 2017

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 2017 unrelated business income in the amount of \$11,880.

As of September 30, 2017, 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, 2016. The tax returns of the Organization for years ended September 30, 2013, 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, 2017, were \$43,553.

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 20, 2018, which is the date the financial statements were available to be issued.

Notes continue on next page.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017

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	\$ 1,674,417
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Restricted by donors for:

Cadet scholarships and activities	278,874
Aerospace scholarships and activities	15,615
Construction of facility	156,717
Other activities	<u>32,544</u>
Total restricted cash	2,158,167

Designated by the governing board for:

Cadet scholarships and activities	25,064
Facility maintenance	58,704
Reserve	<u>114,332</u>
Total designated cash	<u>198,100</u>

Cash unrestricted and not designated	<u>16,993,579</u>
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Total cash	<u><u>\$ 19,349,846</u></u>
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Statement of financial position presentation:

Cash and cash equivalents	\$ 17,191,679
Cash — restricted	<u>2,158,167</u>
Total	<u><u>\$ 19,349,846</u></u>

3. INVESTMENTS

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

Annuities	\$ 61,140
Mutual funds	8,748,852
Real estate investment trusts	39,684
Total	<u>\$ 8,849,676</u>

The composition of the return on investments is as follows:

Investment income	\$ 147,994
Net unrealized and realized gain on investments	830,735
Total	<u>\$ 978,729</u>

Investment advisory fees	<u>\$ 49,455</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 for:			
Cadet scholarships and activities	\$ 521,199	\$ 99,621	\$ 620,820
Aerospace scholarships and activities	10,764	2,369	13,133
Senior activities	4,272	941	5,213
Other activities	2,486	528	3,014
	<u>538,721</u>	<u>103,459</u>	<u>642,180</u>
Designated by the governing board for:			
Reserve	4,634,427	1,019,904	5,654,331
Cadet scholarships and activities	1,015,953	223,581	1,239,534
	<u>5,650,380</u>	<u>1,243,485</u>	<u>6,893,865</u>
Investments unrestricted and undesignated	<u>1,177,230</u>	<u>136,401</u>	<u>1,313,631</u>
Total	<u>\$ 7,366,331</u>	<u>\$ 1,483,345</u>	<u>\$ 8,849,676</u>

Statement of financial position presentation:

Short-term investments	\$ 8,207,497
Long-term investments	642,179
Total	<u>\$ 8,849,676</u>

Notes continue on next page.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017

4. ACCOUNTS, GRANTS, AND LOANS RECEIVABLE

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

USAF	\$ 4,143,092
Others	665,715
Total	<u>\$ 4,808,807</u>

5. CONDITIONAL PROMISES TO GIVE

As of September 30, 2017, the Organization received from the USAF conditional promises to give of \$2,400,361 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:

Aircraft fuel	\$ 2,009
Total	<u>\$ 2,009</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 90,400
Buildings and improvements	9,219,233
Aircraft	182,382,494
Computers	2,512,175
Vehicles	26,415,402
Office furniture and equipment	138,711
Building under capital lease	253,148
Communication and other equipment	15,620,770
Construction in progress	32,908
Equipment not placed into service	<u>5,571,404</u>
	242,236,645
Accumulated depreciation	<u>134,644,879</u>
Net property and equipment	<u>\$ 107,591,766</u>

As of September 30, 2017, improvements with a book value of \$162,595 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$63,154 and \$99,442, respectively.

Depreciation expense for the period ending September 30, 2017	<u>\$ 10,417,416</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, 2017, property and equipment restricted for specific purposes amounted to \$224,670,375, less accumulated depreciation of \$127,092,055, resulting in a balance of \$97,578,320.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are as follows:

Accrued payroll and payroll taxes	\$ 843,872
Vendor payables	<u>2,365,851</u>
Total	<u>\$ 3,209,723</u>

9. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 808,262
Other	<u>118,751</u>
Total	<u>\$ 927,013</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, 2019, with interest computed utilizing a variable interest rate. During the 2017 fiscal year, there were no advances on the line of credit and therefore no interest expense was incurred.

Notes continue on next page.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017

11. NET ASSETS

Unrestricted Net Assets — Designated

The governing board has designated unrestricted net assets for:

Reserve funds	\$ 5,768,663
Scholarships	1,139,060
Other	<u>184,242</u>
Total	<u>\$ 7,091,965</u>

Temporarily Restricted Net Assets

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

Aerospace education activities:	
Scholarships	\$ 75,557
Other	7,017
Cadet program activities:	
Scholarships	370,472
Other	157,213
Senior program activities:	
Other	5,318
Other general activities:	
Subsequent years' use of property, equipment, and inventories	108,576,687
Support, maintenance, and modernization of aircraft fleet	4,897,736
Other	<u>631,980</u>
Total	<u>\$ 114,721,980</u>

Permanently Restricted Net Assets

Permanently restricted net assets are restricted for:

Scholarships	\$ 156,076
Other	<u>20,008</u>
Total	<u>\$ 176,084</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, 2017:

Years ending September 30:

2018	\$ 249,305
2019	112,506
2020	99,717
2021	15,045
	<u>\$ 476,573</u>

Total rental expense for all operating leases is \$653,555 for the year ended September 30, 2017.

13. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 10,423,207
Expiration of time restrictions	238,368
Other	8,763
Total	<u>\$ 10,670,338</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 \$315,273 for the year ended September 30, 2017, 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, 2017

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	\$ 30,675,560
Contributions for:	
Use of facilities and utilities	1,217,778
Property, equipment, and inventories	<u>8,341,881</u>
Total	<u>\$ 40,235,219</u>

Transactions Incurring Expenses:

Expenses with the USAF for:

Facilities	<u>\$ 1,122,986</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, 2017.

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, 2017.

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, 2017.

	Level 1	Level 2	Level 3	Total
Annuities	\$ 61,140	\$ -	\$ -	\$ 61,140
Mutual funds	8,717,130	-	-	8,717,130
Equities	31,722	-	-	31,722
Real estate investment trusts	-	-	39,684	39,684
	<u>\$ 8,809,992</u>	<u>\$ -</u>	<u>\$ 39,684</u>	<u>\$ 8,849,676</u>

Notes continue on next page.

CIVIL AIR PATROL
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17. FAIR VALUE MEASUREMENTS — CONTINUED

The following table presents a roll forward of the amounts for the year ended September 30, 2017, for Level 3 inputs:

	Beginning Balance	Net Acquisitions (Dispositions)	Net Gains (Losses)	Ending Balance
Real estate investment trusts	\$ 37,875	\$ -	\$ 1,809	\$ 39,684

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, 2017.

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, 2017.

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Domestic equities	\$ 4,064,170	\$ -	Daily, monthly	3 – 10 days
International equities	2,056,992	-	Daily, monthly	3 – 10 days
Domestic fixed income	2,627,690	-	Daily, monthly	3 – 10 days
Private equity fund	39,684	-	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, 2017, the Organization's uninsured cash balances totaled \$12,184,810.



MISSION STATEMENT

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

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