

**CIVIL AIR PATROL, INC.**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**CIVIL AIR PATROL, INC.**  
SEPTEMBER 30, 2006

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**TABLE OF CONTENTS**

**PAGE**

Independent Auditors' Report .....	1
Statement of Financial Position .....	3
Statement of Activities .....	4
Statement of Functional Expenses .....	6
Statement of Cash Flows .....	7
Notes to Financial Statements .....	8

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## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Civil Air Patrol, Inc., (a nonprofit organization) as of September 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Civil Air Patrol, Inc.'s management. We did not audit the financial statements of the Alaska Wing of Civil Air Patrol, Inc., which statements reflect total assets of \$1,882,490, as of September 30, 2006, and total revenues, gains and other support of \$1,155,478 for the year then ended. These statements were audited by another auditor whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts and disclosures included for the Alaska Wing of Civil Air Patrol, Inc., for the year ended September 30, 2006, is based solely on the report of another auditor.

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

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

In our opinion, based on our audit and the report of another auditor, except for the effects of such adjustments, if any, as might have been determined to be necessary if the accompanying financial statements included the accounts and financial transactions of the units below wing level of the Civil Air Patrol, Inc., the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Civil Air Patrol, Inc. as of September 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated May 31, 2007, on our consideration of the Civil Air Patrol, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Nelson, Price, Bancroft, Blankenship & Billingsley, P.C.*

May 31, 2007

**CIVIL AIR PATROL, INC.**  
STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2006

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 8,035,524
Short-term investments	3,549,031
Accounts, grants and loans receivable, net of allowance for doubtful accounts of \$59,906	3,459,766
Inventories	135,123
Prepaid expenses	<u>721,300</u>
Total current assets	<u>15,900,744</u>

**NONCURRENT ASSETS**

Cash - restricted	10,042,863
Long-term investments	549,960
Unconditional promises to give	12,330,903
Property and equipment, net of accumulated depreciation	<u>52,309,824</u>
Total noncurrent assets	<u>75,233,550</u>

**TOTAL ASSETS** \$ 91,134,294

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

Accounts payable and accrued expenses	\$ 6,393,212
Current maturities of long-term debt	4,010
Funding advance	1,489,594
Deferred revenue	<u>303,556</u>

**TOTAL CURRENT LIABILITIES** 8,190,372

**NONCURRENT LIABILITIES**

Noncurrent maturities of long-term debt	<u>64,028</u>
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**TOTAL LIABILITIES** 8,254,400

**NET ASSETS**

Unrestricted:	
Undesignated	12,415,051
Board designated	<u>4,224,940</u>
	16,639,991
Temporarily restricted	65,880,045
Permanently restricted	<u>359,858</u>
Total net assets	<u>82,879,894</u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 91,134,294

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Governmental appropriations and grants	\$ 25,716,473	\$ 164,643	\$ -	\$ 25,881,116
Revenue from CAP organizations	457,034	190,556	-	647,590
Other program revenue	1,987,441	879	-	1,988,320
Membership dues	2,430,139	-	-	2,430,139
Governmental contributions	2,155,646	19,705,815	-	21,861,461
Contributions	1,094,321	37,772	-	1,132,093
Fundraising events	2,536,017	-	-	2,536,017
Registration fees and events	223,620	-	-	223,620
Publications and advertising	22,568	-	-	22,568
Sale of materials, supplies and surplus property	66,247	-	-	66,247
Interest income	125,953	7,273	214	133,440
Investment income	215,544	29,984	5,107	250,635
Other	623,634	-	-	623,634
Net assets released from restrictions	12,314,770	(12,314,770)	-	-
Total operating revenues and other support	<u>49,969,407</u>	<u>7,822,152</u>	<u>5,321</u>	<u>57,796,880</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Aerospace education and training	2,184,855	-	-	2,184,855
Cadet programs	5,153,269	-	-	5,153,269
Communication maintenance	4,826,546	-	-	4,826,546
Counterdrug	1,465,186	-	-	1,465,186
Drug demand reduction	325,534	-	-	325,534
Emergency services	14,415,174	-	-	14,415,174
Total program services	<u>28,370,564</u>	<u>-</u>	<u>-</u>	<u>28,370,564</u>
Supporting services:				
Fundraising	1,833,425	-	-	1,833,425
Management and general	16,105,693	-	-	16,105,693
Public affairs	112,428	-	-	112,428
Membership development	1,503,262	-	-	1,503,262
Strategic communications	874,659	-	-	874,659
Total supporting services	<u>20,429,467</u>	<u>-</u>	<u>-</u>	<u>20,429,467</u>
Total operating expenses	<u>48,800,031</u>	<u>-</u>	<u>-</u>	<u>48,800,031</u>
Change in net assets from continuing operations	<u>1,169,376</u>	<u>7,822,152</u>	<u>5,321</u>	<u>8,996,849</u>
Discontinued operations				
Loss on discontinued operations	(149,396)	-	-	(149,396)
Change in net assets from operations	<u>1,019,980</u>	<u>7,822,152</u>	<u>5,321</u>	<u>8,847,453</u>

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<b>NONOPERATING GAINS AND LOSSES</b>				
Gain (loss) on disposition of property and equipment	\$ (77,320)	\$ 1,626,702	\$ -	\$ 1,549,382
Net unrealized and realized gain on investments	71,398	4,184	(8,712)	66,870
Total nonoperating gains and losses	<u>(5,922)</u>	<u>1,630,886</u>	<u>(8,712)</u>	<u>1,616,252</u>
<b>CHANGE IN NET ASSETS BEFORE PRIOR PERIOD ADJUSTMENTS</b>	1,014,058	9,453,038	(3,391)	10,463,705
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>1,188,714</u>	<u>517,758</u>	<u>-</u>	<u>1,706,472</u>
<b>CHANGE IN NET ASSETS</b>	2,202,772	9,970,796	(3,391)	12,170,177
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>14,437,219</u>	<u>55,909,249</u>	<u>363,249</u>	<u>70,709,717</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 16,639,991</u>	<u>\$ 65,880,045</u>	<u>\$ 359,858</u>	<u>\$ 82,879,894</u>

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<b>Program Services</b>					
	<b>Aerospace Education and Training</b>	<b>Cadet Programs</b>	<b>Communication Maintenance</b>	<b>Counterdrug</b>	<b>Drug Demand Reduction</b>	<b>Emergency Services</b>
Advertising	\$ 994	\$ 9	\$ 2	\$ 6	\$ 1	\$ 18
Aircraft maintenance	205,610	502,434	12,628	383,153	1,813	4,599,327
Awards	10,069	87,053	46	441	30	1,157
Bad debts	112	199	1	287	1	589
Bank and credit card expense	367	228	9	130	6	427
Cadet activities	3,550	1,818,729	335	1,117	18,502	79,494
Conference	204,877	47,256	234	8,302	156	28,872
Contingency	-	-	-	-	-	-
Depreciation	10,263	12,474	6,597	2,722	61	4,935,998
Equipment maintenance	16,764	28,290	3,849,335	10,233	4,893	118,320
Expenses with CAP Units below Wings	47,771	60,253	-	146,983	-	212,287
Facility maintenance	526,918	517,687	16,288	149,720	3,917	935,599
Fundraising events	-	-	-	-	-	-
Insurance	2,134	4,474	111	1,551	988	13,284
Interest expense	3	1	-	-	-	2
Legal and accounting	900	921	-	686	-	1,916
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	-	16,163	-	-	-	2,704
Miscellaneous	737	2,561	23	6,529	15	30,052
Mission support	263,611	289,595	1,707	379,472	1,736	1,214,132
Payroll taxes and benefits	80,954	94,717	32,408	54,835	16,005	131,219
Professional services	34,742	-	-	-	750	-
Professional development	15,120	15,770	14	83	9	18,423
Postage	2,873	44,498	21,913	2,670	40	11,439
Printing and publications	1,515	2,156	10	1,411	7	6,191
Procurement	-	-	616,735	-	-	313,123
Salaries	457,336	545,535	173,400	263,946	97,449	736,952
Senior activities	77,717	-	-	-	-	216
Supplies	43,064	657,813	79,787	7,916	138,575	281,322
Telephone	12,080	18,198	3,084	16,137	625	131,491
Travel	139,306	273,465	9,574	7,012	39,792	294,098
Vehicle maintenance	25,468	112,790	2,305	19,844	163	316,522
	<b>\$ 2,184,855</b>	<b>\$ 5,153,269</b>	<b>\$ 4,826,546</b>	<b>\$ 1,465,186</b>	<b>\$ 325,534</b>	<b>\$ 14,415,174</b>

**Supporting Services**

Fundraising	Management and General	Public Affairs	Membership Development	Strategic Communications	Total
\$ 3,505	\$ 29,714	\$ 25,167	\$ 3,517	\$ 77,369	\$ 140,302
-	126,165	-	147,516	-	5,978,646
100	10,270	-	15,899	-	125,065
-	11,113	-	573	-	12,875
2	23,194	-	492	-	24,855
-	58,134	-	2,466	-	1,982,327
-	297,890	-	112,823	-	700,410
-	18,972	-	-	-	18,972
-	1,414,596	-	6,847	-	6,389,558
51	119,004	-	7,614	-	4,154,504
25,077	273,612	-	32,164	-	798,147
85,717	1,453,562	11,392	224,249	70,193	3,995,242
1,420,325	380,055	-	-	-	1,800,380
-	1,884,849	-	872	-	1,908,263
-	20,913	-	4	-	20,923
9,348	355,237	-	1,189	-	370,197
-	6,000	-	-	-	6,000
-	226,430	-	-	-	245,297
25,901	192,297	-	7,803	-	265,918
-	164,021	-	56,162	-	2,370,436
65,066	1,081,730	11,690	101,542	72,292	1,742,458
-	505,141	625	103,133	9,561	653,952
3,052	61,980	1,250	27,635	2,137	145,473
1,037	73,268	-	16,602	-	174,340
3,595	10,393	-	35,385	212,784	273,447
-	-	-	-	-	929,858
178,369	5,527,447	49,489	472,664	396,635	8,899,222
-	643	-	12,731	-	91,307
2,601	386,390	-	41,143	18,155	1,656,766
2,056	633,130	1,160	7,825	-	825,786
7,623	688,650	11,655	48,362	15,533	1,535,070
-	70,893	-	16,050	-	564,035
<u>\$ 1,833,425</u>	<u>\$ 16,105,693</u>	<u>\$ 112,428</u>	<u>\$ 1,503,262</u>	<u>\$ 874,659</u>	<u>\$ 48,800,031</u>

See independent auditors' report and notes to financial statements.

**CIVIL AIR PATROL, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 12,170,177
Prior period adjustment	(1,706,472)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	6,389,558
Net unrealized and realized gain on investments	(66,870)
Gain on disposition of property and equipment	(1,549,382)
Loss on discontinued operations	149,396
Proceeds from subordinate units not reported in prior years	764,884
Noncash contributions	(9,634)
Changes in operating assets and liabilities:	
Receivables	(625,539)
Prepaid expenses	125,852
Inventories	320,926
Unconditional promises to give	(857,841)
Other noncurrent assets	1,951
Accounts payable and accrued expenses	2,802,237
Other current liabilities	(23,574)
Funding advance	1,489,594
Deferred revenue	303,556
Assets restricted for long-term purposes	<u>(7,102,340)</u>

Net cash provided from operating activities 12,576,479

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sale of property and equipment	3,027,466
Purchase of property and equipment	(15,640,563)
Proceeds from sale of investments	5,753,804
Purchase of investments	<u>(4,129,355)</u>

Net cash used by investing activities (10,988,648)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from borrowings	3,230,489
Payment of borrowings	<u>(3,954,299)</u>

Net cash used by financing activities (723,810)

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 864,021

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** 7,171,503

**CASH AND CASH EQUIVALENTS AT END OF YEAR** \$ 8,035,524

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities*

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

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

*Basis of Accounting*

The financial statements of the Organization have been prepared on the accrual basis, and include the accounts and financial transactions of the National Headquarters, CAPMart (a retail mail order facility) and the regions and wings of Civil Air Patrol, Inc. During the year ended September 30, 2006, Civil Air Patrol, Inc. discontinued the operations of CAPMart. The loss associated with the discontinuation is included in the change in net assets from operations section of the statement of activities and is comprised of losses from operations and actual closure. All material transactions between the divisions of the Organization have been eliminated. The financial statements do not include the accounts and financial transactions of the Organization's units below wing level, which are unaudited.

*Financial Statement Presentation*

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions are reported in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions are recorded at their fair value in the period received.

*Use of Estimates in the Preparation of Financial Statements*

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

*Advertising*

Advertising costs are expensed as incurred. Total advertising costs expensed for the year ended September 30, 2006, were \$140,302.

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

*Cash and Cash Equivalents*

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

At various times during the fiscal year, the Organization's cash in bank exceeded the federally insured limits. As of September 30, 2006, the Organization's uninsured cash balances totaled \$13,083,557.

The Organization has not experienced any losses in such accounts.

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

*Investments*

The Organization has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized and realized gains and losses are included in the change in net assets in the statement of activities as nonoperating revenues. 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.

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

*Property and Equipment*

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

*Compensated Absences*

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

*Deferred Revenue*

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

*Income Tax Status*

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

*Contributions*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period the contribution is received, the Organization reports the support as unrestricted.

Contributions of utilities and use of long-lived assets are recorded at fair rental value, and contributed materials for use are recorded at fair value.

*Functional Expenses*

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

**CIVIL AIR PATROL, INC.**  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006

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**2. UNITS BELOW WING LEVEL**

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

An unaudited summary of cash receipts and disbursements and changes in cash balance for the year ended September 30, 2006, for units below wing level of the corporation is presented below:

Receipts	\$ 5,294,584
Less disbursements	<u>5,665,436</u>
Excess of disbursements over receipts	(370,852)
Cash in bank per units' records, beginning of year	<u>4,801,692</u>
Cash in bank per units' records, end of year	<u>\$ 4,430,840</u>

**3. CASH**

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

<b>Contractually restricted by the USAF for:</b>	
Future aircraft maintenance, modernization and procurement	\$ 9,315,980
Administrative and other operational expenses	45,989
Counterdrug administration	43,762
<b>Restricted by donors for:</b>	
Cadet scholarships and activities	124,521
Other activities	<u>512,611</u>
Total restricted cash	<u>10,042,863</u>
<b>Designated by the governing board for:</b>	
Vehicle self-insurance program	76,994
Cadet scholarships and activities	108,612
Other activities	<u>323,590</u>
Total designated cash	<u>509,196</u>
<b>Cash unrestricted and not designated</b>	<u>7,526,328</u>
Total cash	<u>\$ 18,078,387</u>
<b>Balance sheet presentation</b>	
Cash and cash equivalents	\$ 8,035,524
Cash – restricted	<u>10,042,863</u>
Total	<u>\$ 18,078,387</u>

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

**4. INVESTMENTS**

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

Corporate bonds	\$ 9,593
Mutual funds	<u>4,089,398</u>
Total	<u>\$ 4,098,991</u>

The composition of the return on investments is as follows:

Investment income	\$ 250,635
Net unrealized and realized gain on investments	<u>66,870</u>
Total	<u>\$ 317,505</u>

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

<u>Description</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
<b>Restricted by donors:</b>			
Crossfield Fund	\$ 15,718	\$ 257	\$ 15,975
Clara Livingston Fund	112,033	1,849	113,882
Historical Fund	1,301	26	1,327
Wing and Region investments restricted for cadet scholarships and aerospace education	<u>423,441</u>	<u>(4,665)</u>	<u>418,776</u>
	<u>552,493</u>	<u>(2,533)</u>	<u>549,960</u>
<b>Designated by the governing board:</b>			
Reserve investments	2,486,131	(27,743)	2,458,388
Scholarship Fund	<u>834,253</u>	<u>(9,099)</u>	<u>825,154</u>
	<u>3,320,384</u>	<u>(36,842)</u>	<u>3,283,542</u>
<b>Investments unrestricted and undesignated</b>	<u>261,785</u>	<u>3,704</u>	<u>265,489</u>
Total	<u>\$ 4,134,662</u>	<u>\$ (35,671)</u>	<u>\$ 4,098,991</u>

**CIVIL AIR PATROL, INC.**  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006

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**4. INVESTMENTS (Continued)**

Balance sheet presentation:	
Short-term investments	\$ 3,549,031
Long-term investments	<u>549,960</u>
Total	<u>\$ 4,098,991</u>

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

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

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

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

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

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

CAP – Units below wing level	\$ 73,019
USAF	2,740,718
Others	705,935
Less allowance for doubtful accounts	<u>(59,906)</u>
Total	<u>\$ 3,459,766</u>

**6. UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consist of the following:

<b>Restricted unconditional promises to give:</b>	
Restricted for the purchase of aircraft	\$ 6,987,149
Restricted for the purchase of communications equipment	5,230,161
Restricted for the purchase of imaging equipment	<u>113,593</u>

        Total restricted unconditional promises to give \$ 12,330,903

Amounts due in:	
Less than one year – restricted	<u>\$ 12,330,903</u>

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

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

As of September 30, 2006, the Organization received from the USAF conditional promises to give of \$2,836,244 that are not recognized as assets in the statement of financial position. The promises are conditioned upon the Organization entering into legally binding USAF approved purchase orders for equipment.

**7. INVENTORIES**

Inventories for use and sale consist of the following:

Educational materials	\$ 91,497
Aircraft parts and other materials	<u>43,626</u>
Total	<u>\$ 135,123</u>

**8. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land	\$ 126,578
Building and improvements	3,998,639
Aircraft	91,321,257
Computers	2,372,739
Vehicles	15,478,591
Office furniture and equipment	144,467
Communication equipment	741,446
Building under capital lease	253,148
Other equipment	10,080,905
Construction in progress	170,556
Deposits on aircraft	<u>442,000</u>
	125,130,326
Accumulated depreciation	<u>72,820,502</u>
Net property and equipment	<u>\$ 52,309,824</u>

As of September 30, 2006, improvements with a book value of \$544,599 have been made to leased facilities.

Depreciation expense for the period ending September 30, 2006	<u>\$ 6,389,558</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.

**CIVIL AIR PATROL, INC.**  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006

**8. PROPERTY AND EQUIPMENT (Continued)**

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, 2006, property and equipment restricted for specific purposes amounted to \$116,819,692 less accumulated depreciation of \$68,648,850 resulting in a balance of \$48,170,842.

**9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses are scheduled as follows:

CAP – Units below wing level	\$ 64,436
Others	<u>6,328,776</u>
Total	<u>\$ 6,393,212</u>

**10. DEFERRED REVENUE**

Deferred revenue is detailed as follows:

CAP – Units below wing level	\$ 6,401
Others	<u>297,155</u>
Total	<u>\$ 303,556</u>

**11. NOTE PAYABLE**

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

Total obligations	\$ 68,038
Less current maturities of long-term debt	<u>4,010</u>
Total noncurrent maturities of long-term debt	<u>\$ 64,028</u>

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

Years ending September 30:	
2007	\$ 4,010
2008	3,884
2009	4,178
2010	<u>55,966</u>
Total	<u>\$ 68,038</u>

**CIVIL AIR PATROL, INC.**  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2006

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**11. NOTE PAYABLE (Continued)**

Total interest expense included in the statement of activities is \$20,923. Of this amount, \$5,777 was related to the above note and the remaining \$15,146, was related to the line of credit and capital leases.

**12. NET ASSETS**

*Temporarily Restricted Net Assets*

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

Aerospace education and training program activities:	
Education materials	\$ 21,199
Emergency services	1,637
Cadet program activities:	
Scholarships	199,446
Other	114,354
Other general activities:	
Subsequent years' use of property, equipment and inventories	63,772,479
Support, maintenance and modernization of aircraft fleet	1,088,174
Other	<u>682,756</u>
Total	<u>\$ 65,880,045</u>

*Permanently Restricted Net Assets*

Permanently restricted net assets are restricted for:

Scholarships	\$ 334,811
Other	<u>25,047</u>
Total	<u>\$ 359,858</u>

*Unrestricted Net Assets - Designated*

The governing board has designated unrestricted net assets for:

Reserve funds	\$ 3,105,568
Vehicle self-insurance program	76,994
Scholarships	<u>1,042,378</u>
Total	<u>\$ 4,224,940</u>

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

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**13. PRIOR PERIOD ADJUSTMENTS**

Net assets at the beginning of 2006 have been adjusted for the following classification errors relating to the prior year. The following corrections have no effect on the results of the current year's activity.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Understated cash at national headquarters	\$ 9,712	\$ -	\$ -	\$ 9,712
Understated fixed assets at wing locations	415,443	-	-	415,443
Understated receivables at wing locations	109,983	-	-	109,983
Understated payables at wing locations	1,063	-	-	1,063
Understated contributions at wing locations	32	-	-	32
Understated depreciation at wing locations	(646)	-	-	(646)
Subordinate units not reported in prior years	832,098	338,787	-	1,170,885
Correction of restrictions	<u>(178,971)</u>	<u>178,971</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,188,714</u>	<u>\$ 517,758</u>	<u>\$ -</u>	<u>\$ 1,706,472</u>

In prior years subordinate units below wing level were not included in the financial statements of CAP. In 2006, the Organization initiated a test program to include the accounts of the subordinate units below Wing level. Beginning net assets have been adjusted by \$1,170,885 to reflect the addition of these units. This initiative has been expanded nationally. Ultimate resolution, after a two-year phase in period, is that all subordinate units will be included in their respective wing's financial reporting.

**14. DESCRIPTION OF LEASING ARRANGEMENTS**

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

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

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**15. OPERATING LEASES**

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2006:

Years ending September 30:	
2007	\$ 4,012
2008	4,010
2009	<u>2,325</u>
Total	<u>\$ 10,347</u>

Total rental expense for all operating leases is \$4,007 for the year ended September 30, 2006.

**16. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 8,009,536
Expiration of time restrictions	<u>4,305,234</u>
Total	<u>\$ 12,314,770</u>

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

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

**18. EMPLOYEE BENEFIT PLAN**

The Organization sponsors a 401(k) and defined contribution plan for the benefit of its employees, substantially all of whom are eligible to participate after meeting minimum qualifying standards. Under the plan, employees may elect to defer a portion of their salary, subject to Internal Revenue Code limits. The Organization may contribute a discretionary amount to the plan with immediate vesting. Organization contributions to the plan were \$268,222 for the year ended September 30, 2006.

**19. RELATED PARTY TRANSACTIONS**

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

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

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**19. RELATED PARTY TRANSACTIONS (Continued)**

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

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

**Transactions Providing Revenue:**

From the USAF for:	
Governmental appropriations	\$ 20,692,652
Contributions for:	
Use of facilities and utilities	1,350,580
Property, equipment and inventory	19,703,815
Other	<u>102,963</u>
Total	<u>\$ 41,850,010</u>

From CAP units below wing level for:	
Aircraft insurance assessments	\$ 692
Vehicle insurance assessments	9,843
Other	<u>637,055</u>
Total	<u>\$ 647,590</u>

**Transactions Incurring Expenses:**

Expenses with the USAF for:	
Facilities	<u>\$ 1,350,580</u>
Expenses with units below wing level	<u>\$ 798,147</u>

**20. CONTINGENCIES AND COMMITMENTS**

***Legal Proceedings***

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

**CIVIL AIR PATROL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2006

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**20. CONTINGENCIES AND COMMITMENTS (Continued)**

*Concentration of Support*

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

*Self-Insured Accident Benefits*

The Organization has established self-insured accident coverage for its senior and cadet members which provides benefits in the event of injuries or death incurred on authorized CAP activities. The benefits have been set at \$10,000 for accidental death, and \$8,000 per accident for medical expenses. Management has not arrived at an estimate of this risk retention exposure. Accordingly, no provision for liability has been established in the accompanying financial statements. Management believes exposure not to be significant at September 30, 2006.

**21. DISCONTINUED OPERATIONS**

During the year ended September 30, 2006, Civil Air Patrol, Inc. discontinued the operations of CAPMart. The loss associated with the discontinuation is included in the change in net assets from operations section of the statement of activities and is comprised of losses from operations and actual closure. The components of the loss from discontinued operations are summarized as follows:

Sales	\$ 298,974
Less cost of goods sold or distributed	<u>130,183</u>
Gross profit	168,791
Less operating expenses	<u>304,518</u>
Operating loss in year of discontinuation	(135,727)
Loss on closure of operations	<u>(13,669)</u>
Total loss from discontinued operations	<u>\$ (149,396)</u>