

CIVIL AIR PATROL

2009 Financial Report



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*C.A.P. ... ordinary citizens
doing extraordinary things.*

GOVERNANCE

The 11-member Board of Governors serves as the strategic policymaking and guidance body for Civil Air Patrol by reviewing and determining short-term and long-range plans related to programs, finances, legislative relations, asset allocations and membership development. The BoG consists of representatives from CAP volunteers, the U.S. Air Force and civilians involved in education, aviation and emergency management. Their collective wisdom, vision and tenacity ensure CAP remains strong and that the organization continues to prosper and grow.





“CAP is available to assist federal, state and local authorities in performing various reconnaissance, emergency services, disaster relief and homeland security missions. With ever-expanding mission sets, CAP, as the Air Force auxiliary, plays an integral role in the defense of our country. From providing support during Operation Noble Eagle training sorties to coordinating with our federal partners, CAP has a direct impact on the safety of our nation's citizens. The Air Force auxiliary is a force multiplier and plays a large part in the success of the AFNORTH mission. I continue to be amazed at the true professionalism and dedication of the CAP volunteers — from the senior leaders down to the cadets, the service provided to the USAF is outstanding.”

– Maj. Gen. Garry C. Dean, 1st Air Force and AFNORTH commander



Lt. Gen. John D. Hopper Jr.
USAF retired
Chairman

Board affiliation:

U.S. Air Force

CAP/Air Force/Aviation background:

Air Force command pilot with more than 4,000 flying hours
 C-130 pilot, Vietnam War

Career:

CEO, Air Force Aid Society
 Lieutenant General, U.S. Air Force, retired 2005

Education:

Master's degree, logistics management, Air Force Institute of Technology
 Bachelor's degree, U.S. Air Force Academy



Maj. Gen. Amy S. Courter

Board affiliation:

Civil Air Patrol

CAP/Air Force/Aviation background:

CAP National Commander, preceded by a long list of previous CAP service, including Michigan Wing Commander; chair of CAP Cadet Programs, Professional Development and Infrastructure committees; and co-founder and director of CAP's Civic Leadership Academy

Career:

Self-employed since 2005, management consulting
 Former Vice President, Information Technology and Telecommunications, Valassis

Education:

Bachelor's degree, psychology, Kalamazoo College
 Secondary school teaching certification in psychology, computer science and mathematics



Brig. Gen. Reggie L. Chitwood

Board affiliation:

Civil Air Patrol

CAP/Air Force/Aviation background:

CAP National Vice Commander, with service on the CAP National Finance, Constitution and By-Laws and Posse Comitatus committees; Southwest Region and Arkansas Wing Commander
 CAP mission pilot
 FAA aviation safety counselor

Career:

Sergeant, Arkansas Highway Police, retired after 28 years

Education:

Associate degree, criminal justice, Westark Community College (now University of Arkansas at Fort Smith)



Brig. Gen. Richard L. Anderson

Board affiliation:

Civil Air Patrol

CAP/Air Force/Aviation background:

Former CAP National Commander (1993-1996)

Current Secretary, CAP National Advisory Council (former National Commanders)

Current National President, The Spatz Association

CAP command pilot with 2,100 flying hours

Federal Aviation Administration commercial pilot certificate

30 years of Air Force service in Missile/Space Ops and Pol-Mil/International Affairs

Career:

Representative, 51st House District, Virginia General Assembly

Colonel, U.S. Air Force, retired 2009

Education:

Master's degree, public administration, Webster University

Bachelor's degree, political science, Virginia Polytechnic Institute

Graduate, Air War College, Air Command and Staff College and Armed Forces Staff College



Maj. Gen. Garry C. Dean

Board affiliation:

U.S. Air Force

CAP/Air Force/Aviation background:

Air Force command pilot with more than 4,000 flight hours in T-38 and F-15 aircraft

Career:

Major General, U.S. Air Force, currently serving as Commander, Continental U.S. North American Aerospace Defense Command Region, 1st Air Force and Air Forces Northern

Previous service with Oregon Air National Guard's 142nd Fighter Wing; Georgia Air National Guard; and 12th Tactical Fighter Squadron at Kadena Air Force Base, Japan

Education:

Bachelor's degree, computer science, U.S. Air Force Academy
Air Command and Staff College, Air War College and Joint Task Force Commander's Course



Paul L. Graziani

Board affiliation:

Industry, government, education

CAP/Air Force/Aviation background:

Developer for Analytical Graphics Inc. (AGI) analysis software for land, sea, air and space

Associate fellow, American Institute of Aeronautics and Astronautics

Board member, Space Foundation, U.S. Geospatial Intelligence Foundation and Joint Military Intelligence College Foundation, among others

Career:

CEO and co-founder, AGI

Education:

Bachelor's degree, biology, LaSalle College



Lt. Gen. Nicholas B. Kehoe
USAF retired

Board affiliation:

U.S. Air Force

CAP/Air Force/Aviation background:

Air Force command pilot with more than 3,600 flying hours in trainer and fighter aircraft
F-4 pilot with 555th and 390th Tactical Fighter Squadrons, Thailand and South Vietnam, respectively

Career:

President, Congressional Medal of Honor Foundation
Lieutenant General, U.S. Air Force, retired 2000, with most recent service as Inspector General, Office of the Secretary of the Air Force, the Pentagon

Education:

Bachelor's degree, science, U.S. Air Force Academy
Royal Air Force Air War College, England



Lt. Gen. Charles J. Searock
USAF retired

Board affiliation:

Industry, government, education

CAP/Air Force/Aviation background:

Air Force command pilot with more than 7,000 flying hours
B-52 combat missions, South Vietnam

Career:

Director, Crystal Research Corp.
President, Air Victory Museum
Lieutenant General, U.S. Air Force, retired 1993, with most recent service as Vice Commander, Headquarters Air Force Materiel Command, Wright-Patterson AFB; service at the Pentagon and as Military Assistant to the President at the White House

Education:

Master's degree, management, Central Michigan University
Bachelor's degree, general education, University of Nebraska



Maj. Gen. John M. Spiegel
USAF retired

Board affiliation:

U.S. Air Force

CAP/Air Force/Aviation background:

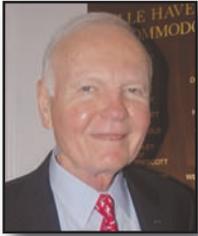
Numerous Air Force technical and command positions
Air Force long-range planning, including Airlift Master Plan and Total Force Plan

Career:

Lockheed Martin, Information Systems and Global Services
Major General, U.S. Air Force, retired 2005, with most recent service as Director of Personnel Policy, Deputy Chief of Staff for Personnel, Headquarters U.S. Air Force; commands at every level in the Air Force, including service at the Pentagon and in South Korea

Education:

Master's degree, journalism, Texas A&M at Commerce
Master's degree, national security and strategic studies, Naval War College
Bachelor's degree, business administration, Texas A&M at Commerce



Bruce N. Whitman

Board affiliation:

Industry, government, education

CAP/Air Force/Aviation background:

Pilot, navigator and bombardier ratings

Assistant to the Commander, Homestead AFB, Strategic Air Command

Board/trustee, Aerospace Industries Association, Congressional Medal of Honor Foundation, Falcon Foundation, General Aviation

Manufacturers Association, Kent School, NATA Air Charter Safety Foundation, National World War II Museum, ORBIS International, PASSUR Aerospace, Smithsonian National Air and Space Museum and The Wings Club

Career:

President and CEO, FlightSafety International

Former senior executive, National Business Aviation Association

Education:

Bachelor's degree, Trinity College

Attended George Washington University Law School



Don R. Rowland

Board affiliation:

Executive Secretary

Executive Director, Civil Air Patrol

CAP/Air Force/Aviation background:

Rated pilot with 3,400 flying hours

Helicopter pilot in the Pacific Background in search and rescue and aircraft system acquisitions

Career:

Twenty-five years at CAP National Headquarters, including service as Senior Director, Director of Plans and Requirements and Director of Strategic Communications and Plans

U.S. Air Force, both as a pilot and in System Requirements for Special Operations at Scott AFB

U.S. Coast Guard Exchange

Education:

Master's degree, management, Webster University

Bachelor's degree, biology, University of West Florida

U.S. Coast Guard SAR School at Governors Island, N.Y.



EMERGENCY SERVICES



bove and beyond” is more than a motto to Civil Air Patrol volunteers, because they live it every day. Ever vigilant, always

prepared, they are ready in a heartbeat to help their fellow citizens. They willingly leave hearth and home to battle the elements in times of natural disaster, to courageously and untiringly search for the lost and always to

protect America.



With 550 single-engine aircraft, the largest such fleet in the world, Civil Air Patrol is a true force multiplier for the U.S. Air Force as well as for other federal, state and local government agencies across America. This nonprofit, all-volunteer organization's flying operations increased 6 percent last year, with volunteers logging more than 112,000 hours in the sky.

CAP routinely performs 90 percent of U.S. continental inland search and rescue missions. More than 1,600 of these missions, as directed by the Air Force Rescue Coordination Center, were conducted in 2009, and CAP's citizen volunteers — bound by a strong sense of patriotism and commitment — were credited with saving 72 lives.

CAP is also heavily involved with disaster relief efforts, sometimes even before disaster strikes. In 2009 natural disasters called CAP into action when floods overran riverbanks and wildfires threatened to turn communities into piles of charred rubble. From the sky, CAP members conducted search and rescue missions and took photographs to help state and federal officials assess damage and plan future tactics. On the ground,

they filled sandbags, delivered water and food, moved victims to safety, checked on households and even transported blood. While disasters can occur in an instant, the aftermath can last for weeks or longer. Undeterred, CAP volunteers leave the comfort of their homes to serve their fellow citizens — above and beyond the call of duty.

Increasingly, there is another aspect to CAP's emergency services role. The organization's traditional missions were down by 24 percent in

2009, due in part to technological advances requiring fewer hours to search for emergency locator transmitters or missing aircraft. This freed CAP's citizen volunteers to perform new sophisticated protection and terrorism preparedness exercises, and CAP saw a 24 percent increase in homeland security duties. These exercises take CAP full circle, back to its founding, when it performed homeland security missions during World War II.



The underwing of a CAP plane frames a pursuing Air National Guard F-16 fighter in Wisconsin skies during practice intercept missions. When an unauthorized plane flew into U.S. airspace from Canada in 2009, the fighter pilots drew on such training to track the intruder, eventually directing it to land. The training, part of various air defense exercises, is held across the country. CAP flew 24 percent more hours on these types of missions in 2009. In Washington, D.C., for example, CAP tests the Air Force's Visual Warning System that signals aviators who fly into the capital's "no-fly" zones. National Capital Wing and Congressional Squadron aircrews flew more than 150 hours last year, acting as targets to support training for the ground and air defense forces.



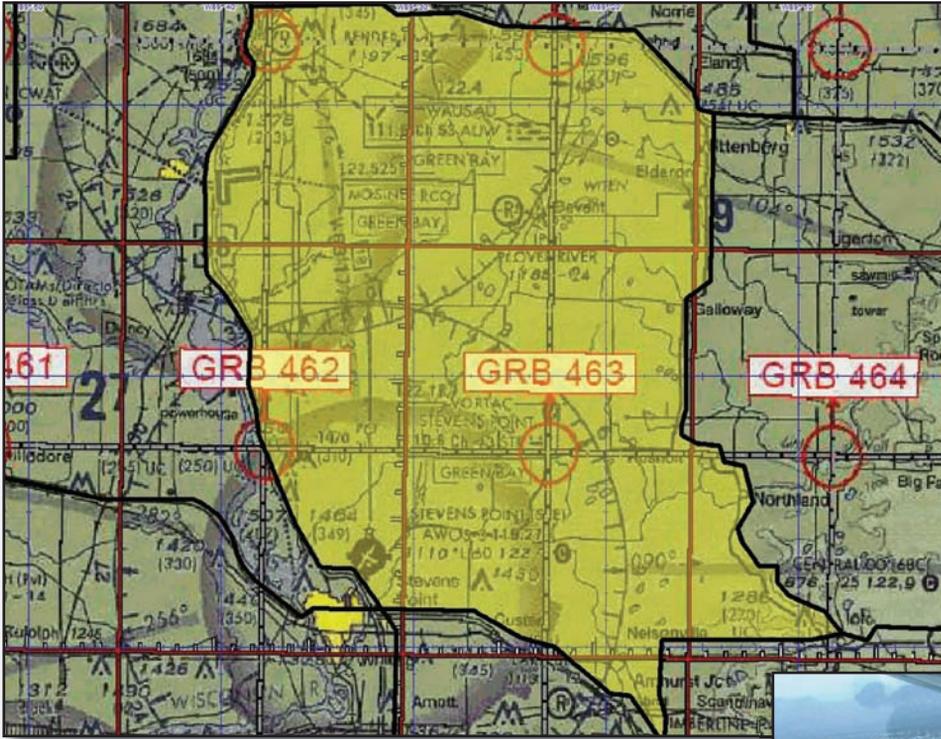
Sometimes manmade disasters require CAP assistance. A Puerto Rico Wing aircrew took to the sky to provide aerial photos like this one after 15 fuel tanks exploded at an oil refinery, rocking the entire San Juan metropolitan area with what residents first mistook as earthquake tremors. Within hours of the explosion CAP aircrews had taken more than 90 photos, which the Puerto Rico Emergency Management Agency used to assess the damage.



While their counterparts were in the air photographing vital infrastructure threatened by the rising Red River, hundreds of CAP volunteers — many of them cadets — were building dikes out of sandbags to stop the flow of water in Fargo, N.D., and Moorhead, Minn. In all, volunteers filled and placed more than a million sandbags.



The North Dakota, South Dakota and Minnesota wings' flood response in the upper Midwest was by far CAP's largest disaster response mission of the year. The Michigan, Tennessee and Washington wings conducted similar missions.



CAP's air and ground assets are a go-to resource for scientists. This map shows one of four Wisconsin deer management units surveyed by University of Wisconsin-Stevens Point wildlife students in 2009. In Oregon, CAP was called on to provide aerial photos of Mount Hood's majestic but unstable slopes for scientists to use in evaluating the risk of future landslides.

Senior members and cadets hone their survival skills through intense U.S. Air Force-evaluated training at hundreds of wing-level exercises nationwide. CAP's more than 2,400 ground team members, led by 1,600 ground team leaders, are equipped with survival gear appropriate to the terrain and climate. Ground team members usually make first physical contact with victims. They are a welcome sight for those needing first aid, food and water and other supplies. In cases where immediate extractions are not possible, CAP members have been known to wait with victims for hours in extreme conditions until the rescue can be completed.





When an 8.0-magnitude earthquake hit Chile, setting off a tsunami warning in the Hawaiian Islands, CAP's Hawaii Wing put its nine aircraft in the air with full crews within one hour to sound tsunami warning sirens and, as necessary, broadcast warnings via a speaker system attached to the outside lower portion of each plane's fuselage. With 80 percent of the Hawaiian shoreline without fixed-base sirens, CAP aircraft are sometimes the only means for issuing warnings in those areas.

When a plane goes missing, search areas often cover hundreds of square miles at altitudes ranging from 12,000 feet in mountainous terrain to just 1,000 feet above the ground. CAP aircrews create specialized search patterns and then scan small grid sections one at a time, aided by electronic locator transmitters and radar analysis. Members' quick response and perseverance can lead to positive results — pinpointing the crash site and rescuing victims. Last year, CAP participated in more than 1,600 search and rescue missions and was credited with saving 72 lives. In protection of its own members, CAP has outstanding safety records, both in the air and on the ground; in fact, its air safety record averages 60 percent better than that of general aviation.



A CAP aircraft patrols Elephant Butte Lake in New Mexico. Six other wings — Arizona, Florida, Georgia, Maryland, Mississippi and North Carolina — also fly lake and coastal water "sundown patrols," looking for emergencies such as boat fires or sinking boats, or boaters in the water and in trouble. The season typically runs from Memorial Day through Labor Day but is a year-round initiative in Florida. The CAP aircrews often work with the Coast Guard and its auxiliary, locating and getting help to stranded boaters. In addition, CAP aircraft protect America's coastal and inland waterways by escorting ships and monitoring infrastructure along U.S. shores.

YOUTH PROGRAMS



Civil Air Patrol is the wind beneath the wings of many American youth through CAP's cadet programs. Cadets enjoy a comprehensive and engaging approach that teaches leadership qualities such as respect, community service and civic duty, as well as aerospace education and physical fitness. The comprehensive aerospace education program includes history, aerospace principles and the technological relevance of flight in today's world. Even nonmember youth benefit from CAP aerospace education, which is delivered to America's schools in the form of textbooks, lesson plans, learning aids and hands-on activities. Additionally, teachers are provided orientation flights and educator memberships to help ensure CAP's aerospace education is passed on to students both today and into the future.





Civil Air Patrol's programs for youth are specifically designed to nurture the talents, skills and abilities of civic-minded, aviation-oriented cadets who aspire to become America's future leaders.

Participants enjoy a comprehensive cadet program that teaches respect, leadership, community service and the importance of maintaining aerospace supremacy for America's national security. The popular program, which added nearly 2,000 members last year, serves more than 24,000 youth ages 12-20. Cadets participate in squadron meetings and attend a host of skill-building activities that make it fun to learn about advanced leadership concepts and aerospace-related careers. CAP's cadet program turns out future leaders who are savvy about technology, skilled at search and

rescue, disciplined to lead healthy lives, respectful of America and motivated to serve.

A second CAP mission impacting youth is CAP's aerospace education program, which annually encourages thousands of America's students and teachers to reach for the stars. The curricula emphasize STEM subjects — science, technology, engineering and math — and include the use of CAP-written texts, lesson plans and hands-on activities designed to ignite interest in aerospace exploration and careers.

Through the efforts of 1,600 CAP aerospace education (teacher) members, more than 96,000 students nationwide are provided AE experiences. CAP's orientation flights and professional development programs provide these educator members with firsthand knowledge of aviation and the thrill of flight —

information that fans the flames of enthusiasm for aerospace education in classrooms across America.

At the same time, partnerships with like-minded organizations boost CAP's aerospace education outreach.



Being a cadet in CAP can be the ticket to fly — and not just as a passenger. Capt. Robert Wilson earned his pilot's wings while still a cadet, tutored by experienced CAP aviators, including Col. Gene Hartman, recipient of the 2009 Federal Aviation Administration's Wright Brothers Master Pilot Award. More than \$300,000 in college and flight scholarships are available to help CAP cadets fulfill their dreams of becoming pilots.





Orientation flights — “O-flights” — are CAP’s way of introducing cadets to the basics of flight operations and safety. Cadets ages 12-17 participate in both powered and glider flights. Before takeoff in a CAP Cessna, Maryland Wing Cadet Airman 1st Class Ryan Brown, center, and Cadet Airman David LeBair go over the preflight checklist with 1st Lt. Yudis Coreas, left. During the flight, they’ll wear headsets for communication with the pilot, others in the air and air traffic controllers; each cadet also will get to sit up front with the pilot. CAP flew more than 22,000 cadets in 2009, an increase of 21 percent over the previous year.

Constructing model airplanes makes learning the principles of aerodynamics fun. With proper turning, Cadet Master Sgt. Abby Smith, from the Michigan Wing, will be able to keep her Sig Cub model airplane, built of balsa wood and tissue and powered by rubber bands, aloft for several minutes. In addition, cadets and other students interested in taking their aerospace education to the next level can opt to participate in CAP’s model rocketry program.



The National Cadet Competition is one of CAP’s oldest and most revered special activities. Featuring team competitions in drill and color guard, where precision is paramount, events include uniform inspection, a mile run, indoor and outdoor activities and academic quizzes about aerospace history and U.S. Air Force customs and courtesies. Left, winning color guard team members from the New York Wing represented CAP’s Northeast Region at the 2009 competition.



Come fly with CAP! While boasting the largest fleet of single-engine aircraft in the world, CAP has other ways to get airborne. For example, gliders are used at academies across the country. At the Johnson Flight Academy in Illinois, CAP can even meet the needs of those who want to pursue one of the earliest forms of flying — hot air ballooning.





Recent realignment in the U.S. Air Force's organizational structure, placing CAP under the Jeanne M. Holm Center for Officer Accession and Citizen Development, expanded CAP's flight operations and its

partnership with Air Force Junior ROTC. CAP now provides flights for 40 percent of the Junior ROTC orientation flight program, flying more than 2,000 Junior ROTC cadets over the past couple of years. CAP also flew more than 4,000 senior Air Force ROTC cadets from universities across the country in 2009. This reflected an 18 percent increase in flying hours for the program over the previous year.



In Washington, D.C., for the Civic Leadership Academy, CAP cadets toured CIA Headquarters, one of many federal agencies opening its doors to CAP's outstanding young men and women. With public service already embedded in their CAP education and reinforced by their attendance at the academy, many graduates are inspired to pursue civil service careers.

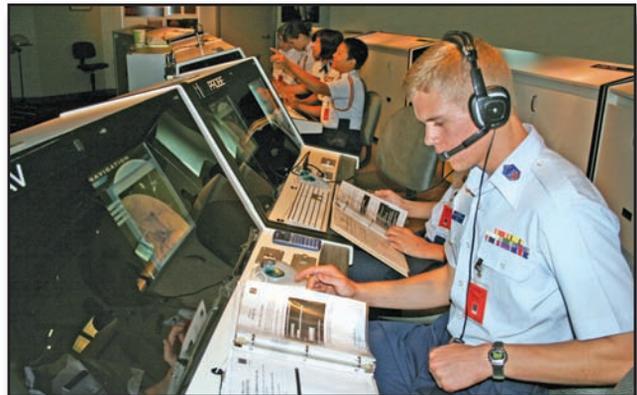


Maureen Adams, an elementary teacher and principal from Killeen, Texas, is one of four CAP aerospace education members among seven teachers across America named to the national Teachers in Space program. Following their NASA training, they will have the opportunity to fly into space before returning to their classrooms to pass on their experiences to their students. Teachers are also the focus for CAP's Teacher Orientation Program; more than 250 educators who flew in CAP planes in 2009 were provided information about routine maintenance and the forces of flight that work to keep a plane aloft.



Students learn "the right stuff" in programs like CAP's K-6 Aerospace Connections in Education. This cross-curricular, grade-level-specific program, currently implemented at 62 sites in 23 states, impacts 300 volunteer teachers and almost 7,000 students annually. The program's curriculum targets academics, especially reading and STEM subjects; career exploration; character education; and physical fitness, including a drug-free lifestyle.

Nevada Wing Cadet 2nd Lt. Ruben Cruz-Colon was one of 1,200 cadets taking advantage of special activities in 2009. In the Basic Communications Course at the National Emergency Services Academy, Cruz-Colon practiced radio repairs that can be made in the field. Depending on the activity chosen, cadets learn hands-on search and rescue techniques, military history and ceremonies, problem-solving, leadership skills, business planning and more, and along the way they are exposed to top national and military leaders.



Whether visiting CAP's cadet website, which includes a comprehensive and informative cadet blog averaging 198,000 hits per year, or uncovering cyber bugs and criminals in the Air Force Association's CyberPatriot competition, Civil Air Patrol's cadets are exposed to a full range of cyberspace technology. Advanced computer technology also allowed for a mock mission to Mars. Above, Cadet Tech. Sgt. Randall Ross of the California Wing mans the navigation console in the space shuttle simulator at the Reuben H. Fleet Science Center's Nierman Challenger Learning Center in San Diego.



EQUIPMENT/
TECHNOLOGY

AAP



With

today's versatile fleet of 550 aircraft, numerous ground assets and a group of citizen volunteers nearly 60,000-strong, Civil Air Patrol is considered a force multiplier available for real-world missions at a very attractive cost. Its members are true patriots who volunteer to serve and professionally execute their duties with excellence every day in service to their country.



Civil Air Patrol pilots operate 550 powered aircraft, many equipped with sophisticated Garmin glass-cockpit technology or airborne real-time cueing hyperspectral enhanced reconnaissance (ARCHER) systems. Two of CAP's newest planes are even outfitted as "Surrogate Predators," used to help train U.S. military ground forces in remotely piloted aircraft operations before they deploy to Afghanistan and Iraq.

Each of CAP's airworthy craft — even older planes being enhanced with the latest avionics packages as well as new engines and props — contain high-frequency, digital emergency locator transmitters and the latest in radio equipment needed to communicate easily

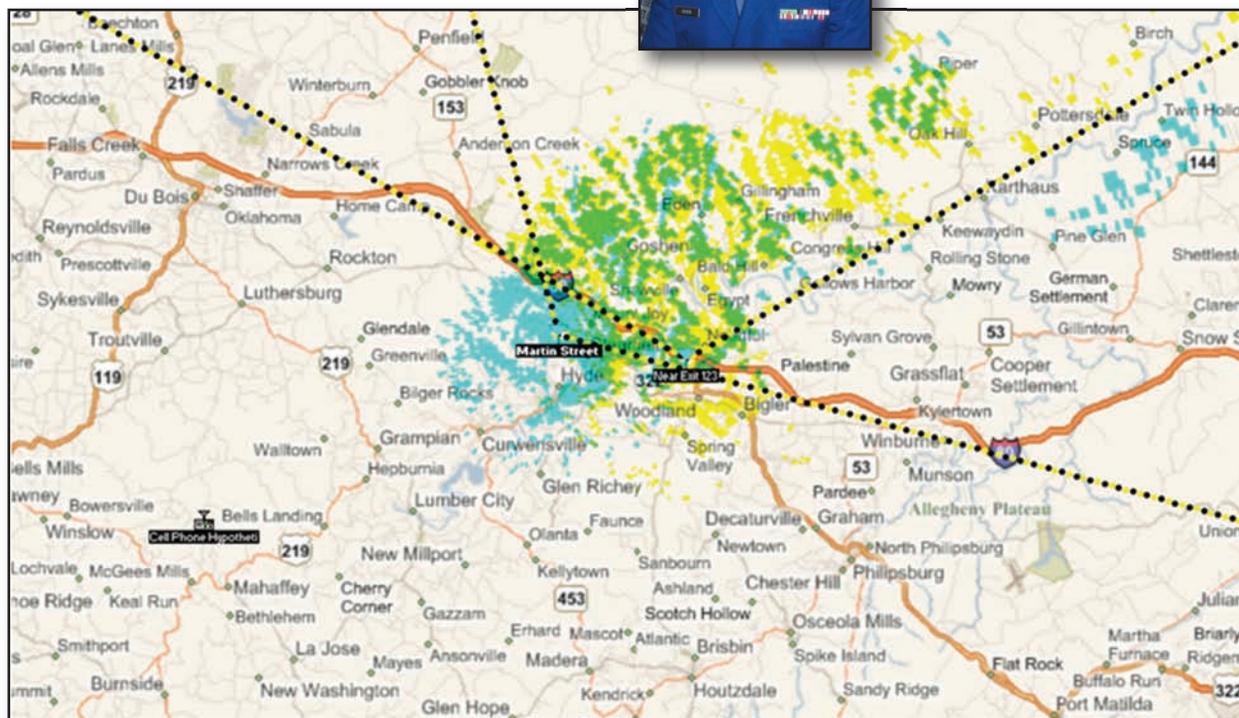
with ground teams at all times, which is especially important when disaster strikes.

CAP's top-notch equipment and technology require professional development programs to be vast and multifaceted, allowing members to increase their knowledge, skills and expertise while providing optimum service to their communities. The organization's nearly 35,000 senior members join the all-volunteer organization as "unpaid professionals," bringing diverse skills honed in their "day jobs" as physicians, businessmen, pilots, writers, mechanics and on and on. In CAP, their expertise encompasses everything from first aid to communications,

and they become familiar with pertinent equipment, from the simplistic to high-tech.

Members receive training in their own units as well as at the wing, region and national levels to stay mission-ready. Others travel to national-level colleges or seek job-performance support from the popular CAP Knowledgebase, an online Q&A resource available 24/7.

Capt. Justin Ogden (inset), one of CAP's pioneers in cell phone forensics, created this image as a training tool simulating a real search. It depicts radio frequency coverage from two different cell towers and shows the sectors used, illustrating how analysts might look for a phone engaged with two towers at the same time. Coverage for one is shown in yellow, the other in blue. Areas where they intersect to produce green indicate places to focus search efforts.



A Predator sensor ball mounted underneath the left wing of this CAP Cessna 182 turns the aircraft into a “Surrogate Predator” suitable for predeployment training for American soldiers. The ball gives the plane the capability of mimicking the U.S. Air Force’s MQ-1 Predator and MQ-9 Reaper — remotely piloted aircraft capable of locking onto and tracking a battlefield target, providing real-time data to U.S. forces. CAP provides highly effective training with its dedicated and patriotic citizen volunteers at a fraction of the cost of a real predator, thus filling a critical need in U.S. troop training.



This Civil Air Patrol photo superimposed over an image from Google Earth showcases CAP’s aerial reconnaissance and photographic technology. A GPS unit in the plane provides date, time, latitude and longitude — information that is synchronized with each photo and imprinted on it. On Google Earth’s website, the airplane’s path is depicted as a red line. These photos are valuable to scientists tracking phenomena such as tsunamis and to officials charged with assessing damage and making decisions about safety.



CAP continued the modernization of its fleet in 2009 by adding 19 new state-of-the-art Cessna Skylane 182T aircraft equipped with Garmin G1000 flight equipment. The all-glass, jet-like cockpit with Garmin technology provides more situational awareness for CAP pilots as well as a terrain avoidance system, which helps ensure their safety.



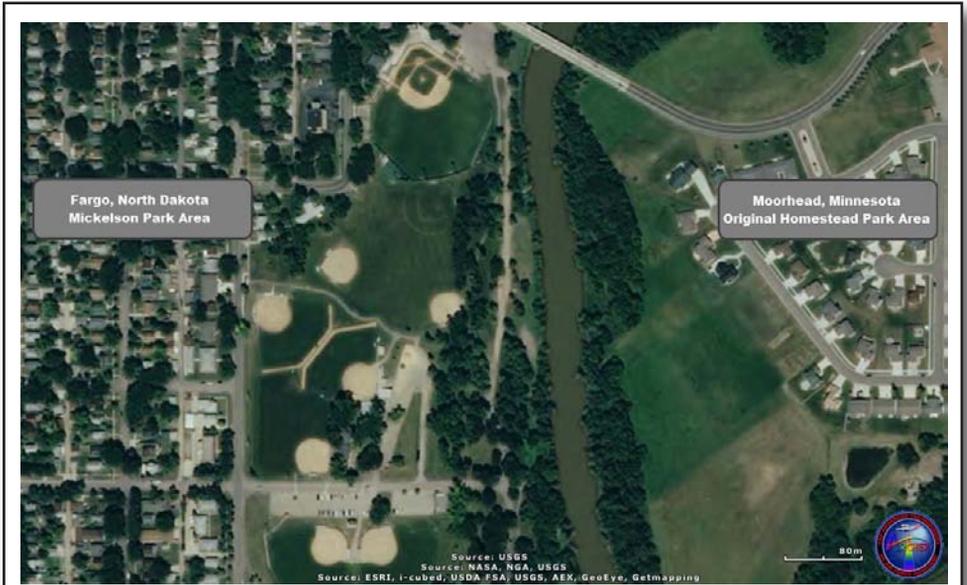
Refurbished Cessna aircraft in the field are receiving rave reviews; the quality of the modernized planes is so high, a Cessna dealer mistook one of the refurbs for a new aircraft. Refurbishment costs run about \$100,000 per aircraft, while a new plane costs nearly five times that amount. Most of the planes in the CAP fleet are now under the consolidated maintenance program, which standardizes and improves maintenance practices while ensuring CAP receives the best prices for parts and labor.

Each October, Civil Air Patrol members are primed for executive-level success at National Staff College at Maxwell Air Force Base, Ala. This professional development opportunity is one of dozens offered annually at the wing, region and national levels. These specialized training programs ensure CAP's volunteers are prepared with the professional-quality skills and knowledge required to perform their Missions for America.





CAP's emergency services missions often call for aerial imagery, and the organization's highly trained photographers are among the best in the business. Their high-resolution photos are used to document damage and plan the emergency response in the wake of natural disasters. Photos taken before flooding in the upper Midwest, as well as hundreds more taken during the crisis, helped federal and local emergency officials track floodwaters more accurately, allowing them to keep residents in flood-prone areas out of harm's way.



USGS – 2008



ARCHER - 2010

CAP's sophisticated ARCHER images proved extremely helpful during spring flooding in the upper Midwest, helping emergency management officials better survey the damage and plan their response. Compared with the human eye, which can detect three bands of light, ARCHER sees 50. Aircrews from a number of CAP wings and regions provided more than 1,300 gigabytes of images and information from the Midwest flooding to the Federal Emergency Management Agency, the U.S. Geological Survey and a number of state emergency operations centers.



COMMUNITY SERVICE



ong identified with emergency services, Civil Air Patrol is becoming equally well known for its community service endeavors. Led by an array of notable Americans, CAP members have aligned themselves with causes like Wreaths Across America, which pays tribute to our country's veterans, and with anti-drug messages, through CAP's Drug Demand Reduction initiatives. CAP members have also joined humanitarian missions overseas, supported America's troops and helped secure recognition for deserving fellow citizens. In its efforts, CAP has enjoyed alliances with other patriotic-minded groups and businesses that share this common goal of service to our citizens, our communities and our country.

Community service has emerged as a major endeavor for CAP and is a perfect match for an organization with so much courage and heart.

Premier among CAP's community service projects is Wreaths Across America. Since 2006, CAP has been a major sponsor of this program, which honors veterans around the world during the holidays by adorning their graves with simple wreaths of green.

CAP also supports the country's active troops. In 2009, one longtime CAP member, Col. George Boyd, joined three fellow original Tuskegee Airmen for a week overseas in Iraq, Qatar and Kuwait to visit some 6,000 combat-zone personnel in the Army, Navy, Air Force and civilian ranks.

With the country at war, members of CAP's Chaplain Corps have stepped forward to shoulder duties for their Air Force counterparts who are deployed. "There's a tremendous respect in the Chaplain Corps for the Civil Air Patrol chaplain," said U.S. Air Force Chief of Chaplains Maj. Gen. Cecil Richardson. "They show up in

uniform and they do all the things a military chaplain could do. They honor those who have given so many years in service." At the same time, CAP chaplains continue to tend to the needs in their own ranks, teaching cadets, counseling disaster victims and supporting first responders.

In addition to chaplains, CAP's core missions have attracted some of America's finest citizens to its ranks. Lt. Col. Nicole Malachowski, the U.S. Air Force's first female Thunderbird, is assigned to the secretary of the Air Force for International Affairs, Disclosure Technology Transfer and Weapons Division. A NASA astronaut, U.S. Air Force Col. Eric Boe still

finds time for CAP, as both a member and strong supporter. Col. Gene Hartman, on staff with CAP National Headquarters, was recently honored by the Federal Aviation Administration with the prestigious Wright Brothers Master Pilot Award, recognizing 50 or more consecutive years of safe flight operations. Such members have helped cement CAP's standing as one of America's foremost volunteer community-service organizations, leading to CAP's recognition with the National Business Aviation Association's 2009 Al Ueltschi Award for Humanitarian Leadership.

A former CAP cadet, U.S. Air Force Lt. Col. Nicole Malachowski, far right, was motivated by a group of women who inspired her all her life. She pushed for and got passage of legislation that finally recognizes Women Airforce Service Pilots, an all-female force, 1,078 strong, that flew more than 60 million miles stateside during World War II to relieve male fliers who were sent overseas. President Barack Obama signed the legislation into law, awarding the WASP members with the Congressional Gold Medal for their heroic service.



Meinhardt Raabe, known for his role as the Munchkin coroner in the classic 1939 film, "The Wizard of Oz," is a prime example of Civil Air Patrol determination. A pilot in the organization's early days, he was undeterred by not being able to find a CAP uniform appropriate for his small stature, noting, "I used a Boy Scout uniform and just put on the CAP insignia."



CAP National Commander Maj. Gen. Amy S. Courter accepts the 2009 Al Ueltschi Award for Humanitarian Leadership during the 62nd annual meeting and convention of the National Business Aviation Association. With Courter, at right, is Bruce Whitman, president and chief executive officer of Al Ueltschi's company, FlightSafety International, and also a member of CAP's Board of Governors. On the left is Ed Bolen, NBAA's president and CEO.





Currently celebrating 60 years of service, the CAP Chaplain Corps is the largest volunteer chaplaincy in the world, with 560 chaplains and 333 character development officers. In 2009, corps members participated in 27,292 events, volunteering 190,932 hours and traveling 2,352,658 miles. Led by CAP Chief of Chaplains Col. Whit Woodard, left, with U.S. Rep. Ed Royce from California's 40th District, CAP chaplains are visible and involved — whether at disaster sites, in America's schools or on Capitol Hill.



Retired U.S. Air Force Maj. and longtime CAP Col. George Boyd, right, was one of four original Tuskegee Airmen — joined here by then 9th Air Force Commander Lt. Gen. Gary North, center — to visit American troops in Iraq, Qatar and Kuwait in 2009. The Tuskegee Airmen, part of the now-famous specially trained group of African-Americans who wanted to fight and fly in the Army Air Corps during World War II, inspired those in the combat zone through panel discussions, seminars and one-on-one support. Among the units they visited was the 332nd Air Expeditionary Wing, whose lineage is linked to the 332nd Fighter Group, which the Tuskegee Airmen led during World War II. At Al Udeid Air Base in Qatar, Boyd inscribed on a bomb: "With my regards, Doc Boyd."

You can take the member out of CAP but not CAP out of the member. Dedicated to service, Dr. Ralph Abraham, a captain in CAP's Louisiana Wing, arrived in Haiti as part of a team of doctors from Hospitals for Humanity just days after the country was devastated by an earthquake. There he treated life-threatening conditions in makeshift hospitals like this one — set up outside for fear of a building collapse should another quake hit.



CAP takes its anti-drug message not only to its own members but also into America's communities and schools each October during National Red Ribbon Week. The oldest and largest community awareness event in the country, the Red Ribbon campaign in 2009 distributed 220,000 ribbons, which were worn by those joining CAP in choosing healthy drug-free lifestyles. CAP promotes Drug Demand Reduction throughout the year with the program's mascot, Cadet Ken, an inflatable 9-foot figure that crisscrosses the country visiting schools and community events. Meanwhile, CAP aircrews are used to spot marijuana fields and are active in interdiction exercises that help intercept drug shipments coming into this country by air.



CAP takes great pride in being the official auxiliary of the U.S. Air Force and in other partnerships, including those with the Air Force Association, Wreaths Across America, Vanguard Industries Inc. and Evergreen International Aviation Inc. Evergreen makes its Aviation & Space Museum, home to the famous Spruce Goose, available for cadet special activities such as CAP's premier cadet showcase, the National Cadet Competition, and the Aviation Business Academy. On the floor of the museum, the Aviation Business Academy's 2009 activity director, Col. Ted Kyle, left, congratulates Indiana Wing Cadet Chief Master Sgt. Jarrett L. McGinness, attending the program for the second year, this time as a staff member.



Emerging as CAP's foremost community service project, Wreaths Across America not only honors veterans but also is a powerful teaching tool for CAP cadets, like these at Arlington National Cemetery outside Washington, D.C. CAP's involvement with Wreaths Across America has exploded within just a few years. More than 161,000 American veteran gravesites were decorated with wreaths at 405 stateside and 24 overseas cemeteries and memorials in 2009. CAP members played prominent roles in selling the wreaths and placing them at more than half the ceremonies held nationwide.



Financial Statements



Civil Air Patrol continues to focus on financial accountability, increasing transparency in financial operations and striving to set new standards in

fiscal integrity and responsibility. As a result, for the second consecutive year, CAP achieved an unqualified audit opinion on its financial statements. CAP's volunteer finance officers, like Lt. Col. DeEtte Riley, director of finance for the Pennsylvania Wing, right, shown with CAP National Commander Maj. Gen. Amy S. Courter, and the organization's wing commanders play an integral role in maintaining organizational excellence designed to achieve this ultimate goal of ongoing fiscal accountability.



CAP FINANCIAL STATEMENTS

To the Board of Governors

Civil Air Patrol

Maxwell Air Force Base, Alabama

We have audited the accompanying statement of financial position of Civil Air Patrol (a nonprofit organization) as of September 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Civil Air Patrol's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Civil Air Patrol as of September 30, 2009, 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 April 23, 2010, on our consideration of the 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 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 important for assessing the results of our audit.

Nelson, Price, Baranca, Blankenship & Billingsley, P.C.

April 23, 2010

CAP FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 12,179,016
Short-term investments	4,168,008
Accounts, grants and loans receivable	2,051,736
Inventories	31,663
Prepaid expenses	254,369
	<hr/>
Total current assets	18,684,792

NONCURRENT ASSETS

Cash - restricted	6,344,526
Long-term investments	650,637
Unconditional promises to give	6,014,453
Property and equipment, net of accumulated depreciation	81,333,533
	<hr/>
Total noncurrent assets	94,343,149

TOTAL ASSETS

\$ 113,027,941

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 6,375,625
Note payable	38,147
Deferred revenue	287,549
	<hr/>

TOTAL LIABILITIES 6,701,321

NET ASSETS

Unrestricted:	
Undesignated	18,107,613
Board designated	4,086,380
	<hr/>
	22,193,993
Temporarily restricted	83,793,634
Permanently restricted	338,993
	<hr/>

Total net assets 106,326,620

TOTAL LIABILITIES AND NET ASSETS \$ 113,027,941

CAP FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND OTHER SUPPORT				
Governmental appropriations and grants	\$ 29,357,488	\$ 19,869	\$ -	\$ 29,377,357
Other program revenue	2,130,302	1,241,686	-	3,371,988
Membership dues	2,894,951	-	-	2,894,951
Governmental contributions	5,822,357	13,415,008	-	19,237,365
Contributions	1,738,390	186,753	-	1,925,143
Fundraising	948,059	-	-	948,059
Registration fees and events	678,911	-	-	678,911
Publications and advertising	21,835	-	-	21,835
Sale of materials, supplies and surplus property	121,083	-	-	121,083
Interest income	157,423	526	-	157,949
Investment income	243,324	19,761	-	263,085
Other	821,230	-	14,550	835,780
Net assets released from restrictions	10,275,606	(10,274,467)	(1,139)	-
Total operating revenues and other support	55,210,959	4,609,136	13,411	59,833,506
OPERATING EXPENSES				
Program services:				
Aerospace education and training	3,109,501	-	-	3,109,501
Cadet programs	6,682,328	-	-	6,682,328
Communication maintenance	1,600,966	-	-	1,600,966
Counterdrug	746,909	-	-	746,909
Drug demand reduction	710,131	-	-	710,131
Emergency services	21,788,196	-	-	21,788,196
Total program services	34,638,031	-	-	34,638,031
Supporting services:				
Fundraising	264,670	-	-	264,670
Management and general	15,794,758	-	-	15,794,758
Membership development	3,365,242	-	-	3,365,242
Strategic communications	223,557	-	-	223,557
Total supporting services	19,648,227	-	-	19,648,227
Total operating expenses	54,286,258	-	-	54,286,258
Change in net assets from operations	924,701	4,609,136	13,411	5,547,248

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NONOPERATING GAINS AND LOSSES				
Gain on disposition of property and equipment	\$ 1,998	\$ 259,080	\$ -	\$ 261,078
Net unrealized and realized gain on investments	179,989	7,710	-	187,699
Total nonoperating gains and losses	<u>181,987</u>	<u>266,790</u>	<u>-</u>	<u>448,777</u>
CHANGE IN NET ASSETS	1,106,688	4,875,926	13,411	5,996,025
NET ASSETS AT BEGINNING OF YEAR	<u>21,087,305</u>	<u>78,917,708</u>	<u>325,582</u>	<u>100,330,595</u>
NET ASSETS AT END OF YEAR	<u>\$ 22,193,993</u>	<u>\$ 83,793,634</u>	<u>\$ 338,993</u>	<u>\$ 106,326,620</u>

CAP FINANCIAL STATEMENTS

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

PROGRAM SERVICES

	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 2,237	\$ 2,981	\$ 447	\$ 746	\$ 299	\$ 4,472
Aircraft maintenance	126,372	338,735	-	189,559	-	5,314,641
Awards	98,775	151,963	-	-	-	-
Bad debts	-	-	-	-	-	-
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	-	2,440,045	-	-	7,833	131,470
Conference	99,894	137,626	19,834	33,055	13,221	198,548
Contingency	-	532	-	-	-	-
Cost of goods sold	27,396	109,586	-	-	-	-
Depreciation	39,391	52,521	10,136	13,130	5,251	6,190,890
Equipment maintenance	60,135	80,180	259,503	20,045	8,018	597,345
Facility maintenance	1,063,366	1,370,381	400,873	334,787	133,915	2,086,082
Fundraising events	-	-	-	-	-	-
Insurance	8,959	11,946	1,792	2,986	1,194	17,919
Interest expense	-	-	-	-	-	-
Legal and accounting	2,354	3,139	471	785	314	4,709
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	40,703	-	67,518	-	-	5,931
Miscellaneous	10,425	13,901	2,085	3,019	1,390	80,519
Mission support	-	-	-	729	-	4,532,121
Payroll taxes and benefits	116,661	69,438	48,571	4,311	15,056	217,598
Professional services	41,909	41,155	339,299	-	33,537	130,172
Professional development	96,120	7,005	-	-	2,562	10,089
Postage	12,812	72,659	78,670	4,269	1,728	25,625
Printing and publications	7,685	10,247	1,537	2,561	1,024	15,371
Salaries	694,078	438,474	223,605	30,553	100,816	989,558
Senior activities	165,060	-	-	-	-	7,463
Supplies	130,851	761,480	88,279	35,327	329,930	600,276
Telephone	70,937	94,584	14,625	23,646	9,459	145,384
Travel	111,662	364,792	24,177	20,161	33,688	328,745
Vehicle maintenance	81,719	108,958	19,544	27,240	10,896	153,268
	<u>\$ 3,109,501</u>	<u>\$ 6,682,328</u>	<u>\$ 1,600,966</u>	<u>\$ 746,909</u>	<u>\$ 710,131</u>	<u>\$ 21,788,196</u>

SUPPORTING SERVICES

	Fundraising	Management and General	Membership Development	Strategic Communications	Total
Advertising	\$ -	\$ 22,506	\$ 44,879	\$ 20,771	\$ 99,338
Aircraft maintenance	-	-	-	-	5,969,307
Awards	4,000	1,905	14,538	-	271,181
Bad debts	-	13,161	1,027	-	14,188
Bank and credit card expense	-	24,442	-	-	24,442
Cadet activities	-	-	18,771	-	2,598,119
Conference	-	230,579	278,310	-	1,011,067
Contingency	-	37,005	-	-	37,537
Cost of goods sold	-	-	-	-	136,982
Depreciation	-	1,856,675	13,130	-	8,181,124
Equipment maintenance	-	74,144	20,045	-	1,119,415
Facility maintenance	-	1,653,152	550,636	-	7,593,192
Fundraising events	226,740	-	-	-	226,740
Insurance	-	1,728,437	2,986	-	1,776,219
Interest expense	-	3,177	-	-	3,177
Legal and accounting	-	206,692	785	-	219,249
Lobbying	6,082	12,000	-	-	18,082
Maintenance and equipment rental	-	212,627	-	-	326,779
Miscellaneous	-	60,599	10,720	-	182,658
Mission support	-	99	-	-	4,532,949
Payroll taxes and benefits	5,670	1,113,228	292,440	-	1,882,973
Professional services	-	383,227	611,368	-	1,580,667
Professional development	-	92,965	7,101	-	215,842
Postage	-	94,229	20,151	-	310,143
Printing and publications	-	11,184	2,561	202,786	254,956
Salaries	22,178	5,551,190	1,280,750	-	9,331,202
Senior activities	-	12,607	-	-	185,130
Supplies	-	736,892	76,073	-	2,759,108
Telephone	-	800,113	24,448	-	1,183,196
Travel	-	732,459	67,283	-	1,682,967
Vehicle maintenance	-	129,464	27,240	-	558,329
	<u>\$ 264,670</u>	<u>\$ 15,794,758</u>	<u>\$ 3,365,242</u>	<u>\$ 223,557</u>	<u>\$ 54,286,258</u>

CAP FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 5,996,025
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,181,124
Net unrealized and realized gain on investments	(187,699)
Gain on disposition of property and equipment	(261,078)
Changes in operating assets and liabilities:	
Receivables	2,153,043
Prepaid expenses	(49,308)
Inventories	120,808
Unconditional promises to give	(3,071,153)
Accounts payable and accrued expenses	1,967,759
Deferred revenue	24,913

Net cash provided by operating activities 14,874,434

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of property and equipment	297,202
Purchase of property and equipment	(13,116,771)
Proceeds from sale of investments	1,010,863
Purchase of investments	(1,341,658)

Net cash used by investing activities (13,150,364)

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of borrowings	(5,621)
Release of contractually restricted cash	(1,258,754)

Net cash used by financing activities (1,264,375)

NET INCREASE IN CASH AND CASH EQUIVALENTS 459,695

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 11,719,321

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 12,179,016

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	<u>\$ 3,177</u>
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CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

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

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis, and include the accounts and financial transactions of the National Headquarters and the Regions, Wings and Units below Wing level of Civil Air Patrol. All material transactions between the divisions of the Organization have been eliminated.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions are recorded at their fair value in the period received.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates in these statements include useful lives for depreciation, contributed facilities and allocation of expenses by function. Actual results could differ from those estimates.

CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred. Total advertising costs expensed for the year ended September 30, 2009, were \$99,338.

Cash and Cash Equivalents

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

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized and realized gains and losses are included in the change in net assets in the statement of activities as nonoperating gains and losses. Investment income reported as operating revenues consists of interest and dividend income from investments. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Accounts, Grants and Loans Receivable

Accounts, grants and loans receivable consist primarily of amounts due from members, CAP organizations and governmental agencies, related to exchange transactions with those parties.

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific receivables.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories for use and sale are stated at the lower of cost or market, with cost determined by the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost or, if contributed, at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is computed using the straight-line method over the 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 are 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.

CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

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

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

Functional Expenses

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

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 Company 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Level 2 (continued)

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 23, 2010, which is the date the financial statements were available to be issued.

Uncertain Tax Positions

In June 2006, the Financial Accounting Standards Board (FASB) released new guidance pertaining to accounting for uncertainty in income taxes, the effective date of which has been deferred until fiscal years beginning after December 15, 2008.

CAP has elected not to implement the new guidance related to accounting for uncertainty in income taxes prior to the deferred implementation date. Therefore, CAP continues to account for any uncertain tax positions under provisions related to loss contingencies. As such, disclosure of a loss contingency involving an unasserted claim or assessment is not required unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. As of September 30, 2009, CAP has no uncertain tax positions that qualify for either recognition or disclosure on the financial statements.

CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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	\$ 5,355,733
Administrative and other operational expenses	31,436
Counterdrug administration	18,164

Restricted by donors for:

Cadet scholarships and activities	191,481
Other activities	747,712

Total restricted cash 6,344,526

Designated by the governing board for:

Cadet scholarships and activities	77,740
Other activities	103,976

Total designated cash 181,716

Cash unrestricted and not designated 11,997,300

Total cash \$ 18,523,542

Statement of financial position presentation:

Cash and cash equivalents	\$ 12,179,016
Cash – restricted	6,344,526

Total \$ 18,523,542

3. INVESTMENTS

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

Annuities	\$ 70,060
Common stock	1,739,650
Corporate bonds	174,168
Mutual funds	2,351,929
Real estate investment trusts	482,838

Total \$ 4,818,645

3. INVESTMENTS (Continued)

The composition of the return on investments is as follows:

Investment income	\$ 263,085
Net unrealized and realized gain on investments	<u>187,699</u>
Total	<u><u>\$ 450,784</u></u>

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

Description	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Restricted by donors:			
Clara Livingston Fund	\$ 185,158	\$ (24,115)	\$ 161,043
Historical Fund	2,153	(279)	1,874
Jack Sorenson Aerospace Education Fund	7,552	(1,544)	6,008
Wing and Region investments restricted for cadet scholarships and aerospace education	<u>494,279</u>	<u>(67,251)</u>	<u>427,028</u>
	<u>689,142</u>	<u>(93,189)</u>	<u>595,953</u>
Designated by the governing board:			
Reserve investments	3,645,902	(666,782)	2,979,120
Scholarship Fund	<u>1,129,066</u>	<u>(203,522)</u>	<u>925,544</u>
	<u>4,774,968</u>	<u>(870,304)</u>	<u>3,904,664</u>
Investments unrestricted and undesignated	<u>325,555</u>	<u>(7,527)</u>	<u>318,028</u>
Total	<u><u>\$ 5,789,665</u></u>	<u><u>\$ (971,020)</u></u>	<u><u>\$ 4,818,645</u></u>
Statement of financial position presentation:			
Short-term investments			\$ 4,168,008
Long-term investments			<u>650,637</u>
Total			<u><u>\$ 4,818,645</u></u>

CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

3. INVESTMENTS (Continued)

Investments have been restricted for the following specific purposes:

Clara Livingston Fund – Investments restricted for the Cadet Program.

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

Jack Sorenson Aerospace Education Fund – Investments restricted for aerospace education.

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

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

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

4. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

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

USAF	\$	1,418,254
Others		<u>633,482</u>
Total	\$	<u><u>2,051,736</u></u>

5. UNCONDITIONAL PROMISES TO GIVE

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

Restricted unconditional promises to give:

Restricted for the purchase of aircraft	\$	<u><u>6,014,453</u></u>
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As of September 30, 2009, the Organization received from the USAF conditional promises to give of \$450,174 that are not recognized as assets in the statement of financial position. The promises are conditioned upon the Organization entering into legally binding USAF approved purchase orders for equipment.

6. INVENTORIES

Inventories for use and sale consist of the following:

Educational materials	\$ 31,663
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7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 139,478
Building and improvements	6,090,133
Aircraft	111,966,974
Computers	2,618,717
Vehicles	19,261,167
Office furniture and equipment	56,661
Communication equipment	6,663,198
Building under capital lease	253,148
Office equipment under capital lease	9,995
Other equipment	16,768,645
Construction in progress	814,705
Deposits on aircraft	760,000
	<hr/>
	165,402,821
Accumulated depreciation	84,069,288
	<hr/>
Net property and equipment	\$ 81,333,533

As of September 30, 2009, improvements with a book value of \$256,517 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$120,666 and \$135,851, respectively.

Depreciation expense for the period ending September 30, 2009	\$ 8,181,124
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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, 2009, property and equipment restricted for specific purposes amounted to \$150,617,842, less accumulated depreciation of \$80,192,114, resulting in a balance of \$70,425,728.

CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are scheduled as follows:

Accrued payroll and payroll taxes	\$	1,102,685
Vendor payables		<u>5,272,940</u>
Total	\$	<u><u>6,375,625</u></u>

9. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$	254,206
Other		<u>33,343</u>
Total	\$	<u><u>287,549</u></u>

10. NOTE PAYABLE

The Organization has a note payable secured by a building with a book value of \$478,764. The mortgage has an interest rate of 7% and monthly payments of \$688 through June 1, 2010, with a final payment of \$33,855 due on July 1, 2010.

Total interest expense included in the statement of activities is \$3,177. Of this amount, \$3,157 was related to the above note and the remaining \$20, was related to a line of credit.

11. NET ASSETS

Unrestricted Net Assets - Designated

The governing board has designated unrestricted net assets for:

Reserve funds	\$	3,007,555
Scholarships		935,088
Other		<u>143,737</u>
Total	\$	<u><u>4,086,380</u></u>

11. NET ASSETS (Continued)

Temporarily Restricted Net Assets

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

Aerospace education activities:	
Scholarships	\$ 1,001
Other	26,107
Emergency services	13,000
Cadet program activities:	
Scholarships	308,481
Other	127,644
Other general activities:	
Subsequent years' use of property, equipment and inventories	78,836,471
Support, maintenance and modernization of aircraft fleet	3,661,946
Other	818,984
Total	\$ 83,793,634

Permanently Restricted Net Assets

Permanently restricted net assets are restricted for:

Scholarships	\$ 324,092
Other	14,901
Total	\$ 338,993

12. 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.

CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

13. 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, 2009:

Years ending September 30:	
2010	\$ <u>2,421</u>

Total rental expense for all operating leases is \$2,369 for the year ended September 30, 2009.

14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 2,714,110
Expiration of time restrictions	<u>7,561,496</u>
Total	<u>\$ 10,275,606</u>

15. 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 \$350,000 for the year ended September 30, 2009, and are included in payroll taxes and benefits in the statement of functional expenses.

16. 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.

16. RELATED PARTY TRANSACTIONS (Continued)

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

Transactions Providing Revenue:

From the USAF for:

Governmental appropriations	\$ 23,152,995
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Contributions for:

Use of facilities and utilities	2,016,770
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Property, equipment and inventories	13,415,008
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Other	32,954
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Total	\$ 38,617,727
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Transactions Incurring Expenses:

Expenses with the USAF for:

Facilities	\$ 2,016,770
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Other	32,954
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Total	\$ 2,049,724
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17. 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, 2009.

CAP FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

18. FAIRVALUE MEASUREMENTS

The level of an asset or liability within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement. The following table presents the financial instruments subject to fair value measurement by valuation hierarchy level as of September 30, 2009.

	Level 1	Level 2	Level 3	Total
Annuities	\$ 70,060	\$ -	\$ -	\$ 70,060
Common stock	1,739,650	-	-	1,739,650
Corporate bonds	174,168	-	-	174,168
Mutual funds	2,351,929	-	-	2,351,929
Real estate investment trusts	-	-	482,838	482,838
	<u>\$ 4,335,807</u>	<u>\$ -</u>	<u>\$ 482,838</u>	<u>\$ 4,818,645</u>

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 following table presents a roll forward of the amounts for the year ended September 30, 2009, for Level 3 inputs:

	Beginning Balance	Net Acquisitions (Dispositions)	Net Gains (Losses)	Ending Balance
Real estate investment trusts	<u>\$ -</u>	<u>\$ 482,838</u>	<u>\$ -</u>	<u>\$ 482,838</u>

19. 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, 2009, the Organization's uninsured cash balances totaled \$10,987,546.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 raised the Federal Deposit Insurance Corporation (FDIC) limit from \$100,000 to \$250,000 per financial institution.



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