

CIVIL AIR PATROL
CITIZENS SERVING
COMMUNITIES

FINANCIAL
REPORT
2011

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

CAP prepares cadets to serve their communities and nation as patriotic citizens and leaders of tomorrow.

Cadet Tech. Sgt. Taira Maloni of the Pennsylvania Wing is thrilled to meet first lady Michelle Obama during her visit with service members at the 911th Airlift Wing in Moon, Pa., where Maloni's unit is based.



[YOUTH PROGRAMS]

Civil Air Patrol's emphasis on ensuring its young members possess strong leadership skills and the vision, desire and experience to serve their communities and their country is reflected in the fact that two of its three congressionally mandated missions are dedicated to youth — cadet programs and aerospace education. Inside classrooms as well as at squadron meetings in the field, CAP inspires youth to be responsible citizens who embody the organization's core values of integrity, volunteer service, excellence and respect for one another. CAP's influence on the development of America's youth also extends to educators nationwide, who play a critical role in shaping their students' lives and futures. CAP provides these teachers with free materials that focus on leadership, physical fitness, character development and aerospace education and stir interest in science, technology, engineering and math (STEM) subjects and professions.



Nearly 700 educators and 18,000 students in 27 states are participating in CAP's Aerospace Connections in Education program.

Civil Air Patrol's emphasis on serving youth touches the lives of the organization's nearly 27,000 cadet members as well as its aerospace education participants; the programs reach more than 125,000 K-12 students nationwide.

Aerospace Connections In Education for K-6

Thousands of children in grades K-6 who are too young to be cadets can enroll in CAP's Aerospace Connections in Education (ACE) program. Taught by CAP aerospace education members, ACE uses the program's aerospace-oriented lesson plans to promote academics, character development and physical fitness.

Teacher Flights

TOP Flights take the organization's teacher members out of the classroom and into the sky, making aviation and aerospace education even more engaging for the teachers and, by extension, their students.

During 2011 Teacher Orientation Program (TOP) Flights were provided to some 250 CAP educator members, who shared their enthusiasm from the experience with more than 15,000 students.

STEM Education

Cadets' exploration of science, technology, engineering and math concepts ranges from study of the scientific principles behind flight to hands-on lessons in building rockets, simple model planes and – more ambitiously – even robotic devices and homemade hovercraft.



The Aerospace Education Excellence Award program includes 150 inquiry-based activities easily accomplished within the squadron and/or classroom.



CyberPatriot Champions

CAP cadet teams have finished first overall in CyberPatriot, the Air Force Association's national high school cyber security competition, for two straight years, besting their counterparts from the U.S. Air Force, Army, Navy and Marine Corps Junior ROTC programs. First, a team of cadets from three Florida Wing squadrons captured the CyberPatriot III national crown. A year later, a team from the Colorado Wing gave CAP its second straight overall title in the competition's All Services Division.

CyberPatriot competition replicates real-life cyber security situations, which excites, educates and motivates participants to be America's next cyber defenders.



Through CAP's National Flight Academies, cadets learn the ins and outs of powered flight and can qualify to solo and earn their Federal Aviation Administration private pilot license.

Each year, thousands of cadets experience the thrill of powered flight through orientation rides.



Drug Demand Reduction

For Red Ribbon Week in October 2011, CAP incorporated a slogan provided by a New Mexico Wing cadet: "Follow Your Dream & Stay Clean." Some wings and squadrons also promote the anti-drug message on mini-planes and in other displays.

Education Partnerships

The Air Force Association annually provides Civil Air Patrol with more than \$22,000 in grants used to support STEM programs. CAP also collaborates with the Academy of Model Aeronautics to nurture and support the growth of aviation participation, aerospace education and model aviation, including remote-control flying.



Cadet Special Activities

CAP conducts 30 National Cadet Special Activities across the nation, allowing its young members to hone their skills in such areas as aerospace technology, aircraft manufacture and Air Force careers, as well as flight, leadership and search and rescue.

Encampments

Wing encampments provide cadets with full-immersion, weeklong engagement in activities ranging from physical fitness and leadership exercises to search and rescue training and team building.

Aerospace Programs

CAP offers more than 40 free aerospace education products and programs designed to generate interest in STEM careers for CAP cadets and K-12 students nationwide.

CAP's cadet program is helping build the nation's next generation of leaders.

CAP's cadet program annually grooms the leadership and team-building skills of thousands of cadets 12-20 years old who command the respect and success associated with achievement in a global learning environment.

Each year 152 cadets
earn the right to
compete for National
Cadet Competition color
guard and drill team
honors, and about 800
more compete locally.



**Civil Air Patrol cadets
are problem-solvers
who are prepared to
face the challenges of
the 21st century.**

Civic Leadership Academy

Civic Leadership Academy enables top cadets to visit with Washington, D.C., policymakers, elected officials and subject-matter experts in a wide variety of positions. Participants gain a well-rounded understanding of government leadership and public service principles that guide the nation.



[MISSIONS]

Throughout 2011, Civil Air Patrol members nationwide responded to the needs of their communities in crisis. CAP handled 123 requests for disaster relief, contributing tens of thousands of man-hours in the air and on the ground to assist federal, state and local authorities. The organization's unpaid professional volunteers practically bounced from one disaster to another.

CAP provided aerial reconnaissance and ground support after winter storms, floods caused by spring thaws and summer rains, tornadoes, wildfires, hurricanes and tsunamis. Well-trained aircrews flew thousands of hours providing digital imagery — at minimal cost to taxpayers — to help emergency managers effectively respond to the disasters. On the ground, CAP members filled sandbags, delivered water and food, moved victims to safety, checked on households and even transported blood and medical supplies.

Ever vigilant, always prepared, both in the air and on the ground, these true American patriots made a difference in their communities, not only in assisting in times of disaster but also in searching for the lost and protecting their homeland.

Civil Air Patrol members willingly leave hearth and home to battle the elements during and after natural disasters.





Civil Air Patrol members helped save 54 lives across America in 2011.

Search and Rescue

Terrain and weather permitting, CAP offers a dual approach to searches for downed aircraft and lost individuals nationwide. Its ground teams use a search grid to cover the countryside, while its pilots and observers do the same from the air.

Flooding Responses

CAP's flood response operations took on new meaning in 2011, as members supported an unprecedented 39 separate missions across all eight CAP regions. In Missouri and South Dakota, operations lasted for almost six months. Snowmelts in North Dakota and more rain than usual prompted widespread flooding there as well. Thousands of aerial images provided to emergency management officials were used to plan for expected deluges as well as to assess damage from past or ongoing flooding.

Aerial imagery is now a "bread-and-butter" mission for CAP.

Flooding responses made up nearly one-third of CAP's disaster relief missions last year.



Homeland Security

CAP has been participating in homeland security missions since World War II. In addition to escorting naval vessels and supporting combat deployment preparation training, CAP pilots simulate hostile aircraft for U.S. Air Force and Air National Guard fighters during practice intercept missions. Aircrews flew 4,367 hours in support of U.S. Department of Defense Homeland Security missions in 2011, an increase of more than 35 percent over the previous year.

Digital Photography

Having a digital eye in the sky was crucial to CAP's emergency services operations. CAP aircrews delivered tens of thousands of high-resolution photos to federal, state and local agencies last year in support of disaster relief.

CAP flew more than 2,500 hours on 272 air intercept missions in 2011.



CAP's stellar performance in documenting damage from 9/11 opened the floodgates for using the organization to provide aerial imaging to government emergency management agencies.

CAP's drug interdiction flights help law enforcement agencies fight the War on Drugs.



Counterdrug

Aircrews' efforts led to the seizure of \$475 million in illegal drugs and currency and 212 arrests.

Counterdrug and drug interdiction missions often result in drug finds like these two marijuana patches.

Tsunami Warnings

Within an hour after a tsunami warning was issued in response to a magnitude 9.0 earthquake in Japan, eight CAP Cessnas with full crews began flying predetermined routes around the remote shoreline areas of Hawaii, broadcasting a warning to an estimated 800,000 residents and tourists.

Aircrews from the California Wing conducted 21 flights for damage assessment in the aftermath of the Japan tsunami.



Aircrews from the Alabama, Mississippi, Missouri, North Carolina, Oklahoma, Tennessee and Virginia wings flew nearly 100 sorties to capture thousands of photos of tornado-stricken communities.



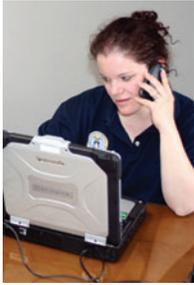
Tornadoes

In late April 2011, after what weather officials called one of the largest tornado outbreaks in history, CAP members from Midwestern and Southern states stepped up. CAP aircrews helped document the path of destruction wrought by the massive spring storms by taking thousands of georeferenced digital photos, which assisted emergency responders in pinpointing infrastructure needs in real time.

Ground Teams

CAP ground teams comforted and supported tornado victims. Their relief efforts included cleaning up debris as well as providing essential items like food and water and distributing Federal Emergency Management Agency handouts to residents affected by the violent storms.

Spring tornadoes left more than 300 dead and thousands injured or homeless.



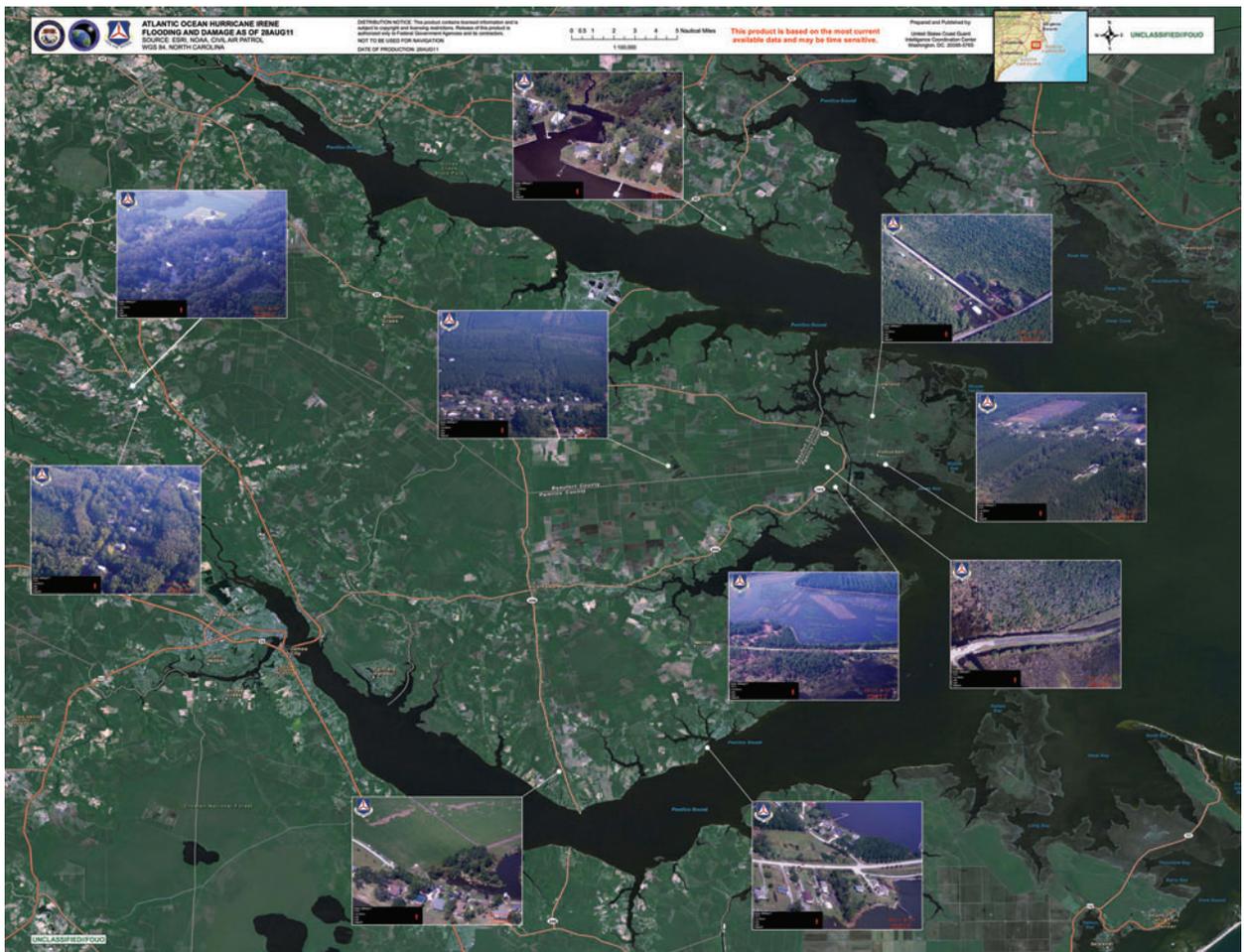
Aerial photos helped identify dam, road and bridge damage caused by rising floodwaters.

Earthquake Exercise

Ardent Sentry 11 tested the National New Madrid Fault Response Plan to make sure proper systems were in place and working in the event of a major earthquake in the center of the U.S. Approximately 350 CAP members representing 16 states were involved in this annual disaster exercise; a number of federal, state and local agencies also participated.

Hurricane Irene Response

Hundreds of CAP aerial images were provided daily to state and local emergency managers, FEMA and other first responders for use in developing damage and impact assessments after Hurricane Irene struck the Northeast. On the ground, CAP helped people forced from their homes, monitored evacuation traffic, delivered meals, located and deactivated emergency locator transmitters and provided logistical and administrative assistance in state emergency operations centers.



When Hurricane Irene wreaked havoc along the East Coast, CAP units from North Carolina to Vermont answered the call for help as the Category 2 storm came ashore in August.



Cruise Missile Test Support

CAP's Utah Wing flew more than 50 sorties totaling more than 200 hours, and mission base personnel contributed more than 1,300 man-hours to provide flight support for calibration of the U.S. Army's surveillance radar Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System (JLENS). This test of JLENS reaffirmed confidence in the system's technical maturity to successfully track targets of opportunity via radar carried by an unmanned tethered aerostat.



Super Bowl Security

Some CAP airspace security flights are more recognizable than others, particularly those tied to major events like Super Bowl XLVI. Every year since 2002, aircrews have participated in an exercise that helps prepare DoD and other federal agency resources to protect the airspace around this major national event.



CAP annually partners with multiple agencies, including the Federal Aviation Administration, Customs and Border Protection and the U.S. Air Force, to practice airspace violation procedures for the Super Bowl.



CAP Knowledgebase's 2,000-plus active answers to commonly asked questions attract more than 1 million online visits per year.

Online Training

Members train annually at the wing and region levels and constantly at the squadron level. Web-based training programs are also available through CAP's Learning Management System. These training opportunities help ensure CAP's unpaid professionals are equipped with the sophisticated skills and knowledge required to perform their missions.

Chaplain Corps

CAP's Chaplain Corps' 833 members offer moral and spiritual support throughout America and abroad. Its members often fill in for U.S. military chaplains who are deployed overseas.



CAP's Chaplain Corps — with 514 chaplains and 319 character development instructors — is the nation's largest volunteer chaplaincy.

CAP operates 550 general aviation aircraft in support of its aerospace education, cadet programs and emergency services missions.

[TECHNOLOGY & EQUIPMENT]

CAP has relied on small general aviation aircraft to help conduct its emergency services and disaster relief missions throughout its 70-year history. Many of the planes are equipped with glass cockpit technology — recognized as the industry’s best — that provides improved situational awareness for search and rescue missions and a terrain avoidance system that helps ensure safety. The CAP fleet is also outfitted with the latest in digital emergency locator beacon tracking technology and radio equipment needed to communicate easily with ground teams and other agencies at all times.

High-tech tools also include aerial photography equipment as well as infrared cameras and full-motion video. Members stay abreast of this sophisticated technology by taking advantage of top-notch training offered nationwide in their areas of specialization.



When it comes to technology and equipment, CAP is second to none. In the capable hands of the organization’s trained volunteer professionals, these tools position CAP as a cost-effective force multiplier for federal, state and local agencies.



The consolidated maintenance program standardizes and improves maintenance practices while ensuring CAP receives the best prices for parts and labor.

CAP's more than 61,000 professionally trained volunteers and its technologically up-to-date assets are a cost-effective aerial and ground-support resource for emergency services and disaster relief agencies nationwide.

Versatile Fleet

CAP recently ordered two Cessna T206H Turbo Stationairs and 17 182 Skylanes to replace older, less capable aircraft in the fleet. These planes will position CAP to support emergency response in communities across the country for decades to come. CAP also has 42 gliders, two hot air balloons and 960 vehicles.

CAP communications have truly gone digital, making the days of listening for static-filled radio calls a distant memory.



Emergency Locator Transmitters

Using direction-finding equipment, CAP responded to more than 1,800 distress signals from emergency locator transmitters in 2011. Most beacon signals aren't triggered by distress situations. Just the same, it's important to clear them from the airwaves so real emergencies won't be overlooked.

No matter how successful CAP's aerial missions are, some search and rescue operations require groundwork — literally. About 3,500 officers and cadets are qualified ground team members. Of those, 1,330 are qualified ground team leaders.



Refurbished aircraft help keep CAP's fleet up-to-date and cost-effective.

Safety

CAP reduced powered aircraft accidents to 0.98 per 100,000 flying hours during 2011 — almost five times better than general aviation's 15-year average. An emphasis on safety supported by a new Web-based training and safety management system has helped improve the statistics.

Members took
502,378 CAP
safety courses
last year.

Professional Development

CAP's equipment and technology require professional development programs to be vast and multifaceted, allowing members to increase their knowledge and expertise while providing optimum service to their communities.

Equipment Upgrades

The cost to refurbish a Cessna 172 is about \$100,000 per aircraft, while a new one costs nearly five times that amount.



Members' safety in providing emergency services and disaster relief is a top priority for CAP, as reflected in the organization's consistently low accident and incident rates.

CAP's high-tech emergency services toolkit features cutting-edge technology that positions members to play an active role in homeland security and disaster relief.

Narrowband Radios

Part of a recent multimillion-dollar communications upgrade, narrowband radios rely on a digital repeater network that makes it easier for CAP's aircrews and ground teams to respond to emergencies.



Infrared Camera

The North Dakota Wing's new FLIR infrared camera attached to a CAP plane can easily detect heat given off by an engine or a human body, which helps increase rescues and decrease recovery time. The camera sensor's thermal imaging and video capabilities were used effectively during the spring and summer as part of CAP's response to heavy flooding in the upper Midwest.

Demand for high-resolution imagery continues to increase for CAP disaster relief as well as other homeland security missions.



More than 7,500 CAP members are
aircrew personnel and more than
31,000 are emergency responders.

GIIEP Go-Kits

GIIEP (Geospatial Information Interoperability Exploitation Portable) Go-Kits are the ultimate multitaskers, consisting of a laptop, hand-held video and still cameras, a satellite phone and a cellular aircard. The kits allow imagery to be streamed live to emergency operations centers while the plane is still in the air, enabling decision-makers to receive information in near-real time and to immediately decide where to place resources.

Full-Motion Video

CAP aircraft outfitted with full-motion, in-flight video equipment are used to help train U.S. military ground forces in remotely piloted aircraft operations before they deploy overseas.

CAP was recognized with the World Peace Prize in 2011 as a Roving Ambassador for Peace.

[SERVICE]

The civic-minded adults and youth who make up Civil Air Patrol's more than 61,000 volunteers don't wait for a disaster to step forward and contribute to the well-being of their communities. Whether offering their CAP-cultivated gifts to serve the public through such community-enriching causes as food drives and cleanup campaigns or providing color guards for a wide variety of gatherings, the organization's cadets and officers are constantly enriching the lives and experiences of those around them. They also show their support for soldiers deployed overseas by collecting and distributing care packages for them. Their service extends as well to those no longer serving. Since 2006, CAP has played a prominent role in Wreaths Across America ceremonies throughout the nation and abroad to salute the nation's fallen.



CAP honor guards' highly disciplined performances at public events reflect members' love of country and enthusiasm for sharing it with their communities.



Wreaths were placed on over 325,000 veterans' graves at more than 700 cemetery or memorial sites in all 50 states as well as 20 foreign sites.

Wreaths Across America

Every December, CAP members across the nation lay wreaths at the gravesites of fallen veterans, honoring their selfless courage and sacrifice, as part of the Wreaths Across America initiative. In 2011 more than 600 squadrons participated in paying tribute to the 25 million men and women who have served in the U.S. armed forces, guarding and preserving the nation's freedom.

CAP's Wreaths Across America reach now includes evergreen exchanges with Canada coordinated by the Maine, Michigan and Montana wings.

**The economic impact
of CAP's volunteer
man-hours exceeded
\$153 million in 2011.**

CAP participates in
more than 90 percent of
America's inland search
and rescue missions.

Legislative Day

Recognition for CAP resonates through the halls of Congress in Washington, D.C., every February when officers and cadets visit their states' U.S. representatives and senators to share information about their wings' value, significance and performance.



U.S. Sen. Joe Manchin of West Virginia reviews the organization's accomplishments over the past year with West Virginia Wing Commander Col. Dennis Barron during CAP's annual Legislative Day.



CAP's unpaid professionals have been serving the needs of their communities for 70 years.

Recognition bestowed on CAP in 2011 honored not only the overall organization itself but also specific programs, wings and individual accomplishments.

Every year, heroic individuals selflessly draw on their CAP experience and training to provide lifesaving assistance to those in harm's way. That's what happened in 2011 when a former Georgia cadet, Thomas McArthur, now a U.S. Coast Guard petty officer, dashed into Lake Michigan time and again to save a dozen swimmers from the threat of a sudden, treacherously powerful rip tide. McArthur was honored with the Coast Guard's Silver Lifesaving Medal for his heroism.



Honor Flights

Just as squadrons across the nation honor the fallen as part of Wreaths Across America, numerous CAP units also pay tribute to the living as well. CAP cadets and officers help see World War II veterans off and then welcome them home from flights to and from Washington, D.C., courtesy of the nonprofit national Honor Flight Network. The program allows participants to experience firsthand the memorials recognizing their service and to visit other sites in the nation's capital.





On an individual level, many CAP members' lifetime of devotion and service to aviation has earned them numerous accolades. One longtime pilot, Lt. Col. Don Donovan of the Wisconsin Wing, was inducted into his state's Aviation Hall of Fame in 2011 in recognition of more than seven decades and 43,000 hours of flying.

The Maine Wing's escort of a newly built U.S. Navy destroyer down the Kennebec River harkens back to some of CAP's World War II missions.

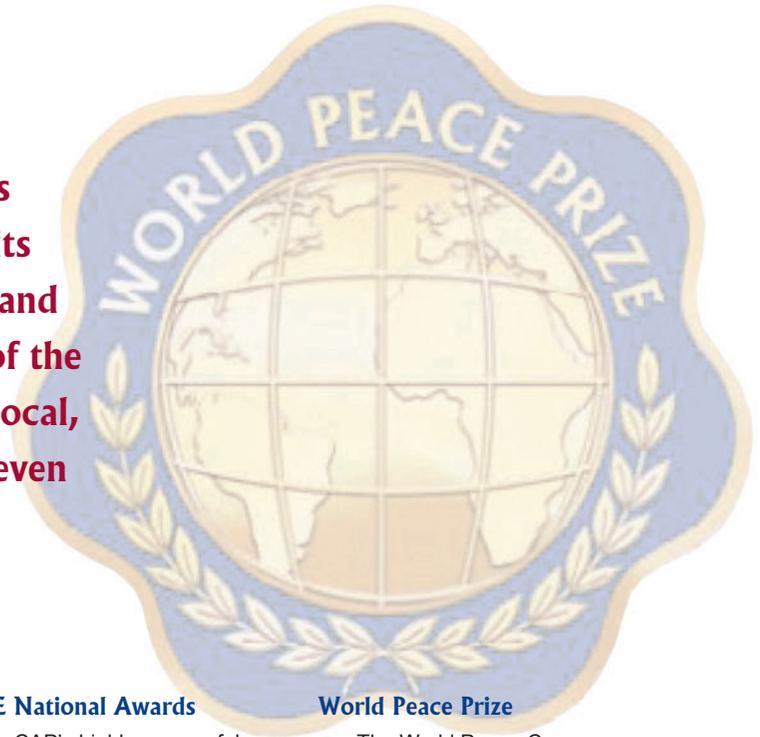


Aegis Excellence Award

The U.S. Navy honored the Maine Wing with the Aegis Excellence Award for its role on a Super Trials Force Protection Team that escorted a newly built 510-foot destroyer from a shipyard in Bath down the Kennebec River to the Atlantic Ocean. During its earliest days, not long after the U.S. entered World War II, much of CAP's service was devoted to aerial missions flown to help safeguard American oil tankers from German U-boat attacks.

CAP's all-volunteer network consists of more than 1,500 units in all 50 states, the nation's capital, Puerto Rico and the Virgin Islands.

CAP's devotion to service has earned the organization and its members not only accolades and appreciation from members of the public but also honors from local, state, regional, national and even international organizations.



CAP National Commander Maj. Gen. Charles L. Carr Jr. accepts the Dr. Mervin K. Strickler Jr. Aerospace Education Leadership Award from Sheila Bauer, a representative of the National Coalition for Aviation and Space Education.

AE National Awards

CAP's highly successful aerospace education program received a pair of prestigious national honors from the National Coalition for Aviation and Space Education — the 2011 Crown Circle for Aerospace Education Leadership Award and the Dr. Mervin K. Strickler Jr. Aerospace Education Leadership Award. The awards recognize the organization's decades of outstanding aerospace education programming for youth and its record of outstanding overall achievement.

World Peace Prize

The World Peace Corps Mission, a global missionary organization, awarded CAP its World Peace Prize as a Roving Ambassador for Peace, citing its tradition of service in providing disaster relief, emergency services and humanitarian missions.

[GOVERNANCE]

The 11 members of the Board of Governors direct the work of Civil Air Patrol. The board's distinguished members are leaders in their own right, drawn from the ranks of CAP volunteers — who have careers in a cross-section of America's workforce — along with U.S. Air Force officers and civilians involved in the fields of education, aviation and emergency management. Board members meet periodically throughout the year to move the organization forward through collective decision making that generates strategic policies, plans and programs designed to guide the organization now and in the future.



Brig. Gen. Richard L. Anderson, CAP, Chairman

CAP/Air Force/Aviation background:

- Secretary, CAP National Advisory Council
- Former CAP National Commander (1993-1996)
- Former National President, Spaatz Association
- CAP Command Pilot with 2,100 flying hours
- Federal Aviation Administration commercial pilot certificate
- 30 years of Air Force service in Missile/Space Operations and Political-Military/International Affairs

Career:

- Representative, 51st House District, Virginia General Assembly; elected 2009
- Colonel, U.S. Air Force (Ret)



Maj. Gen. John M. Speigel, USAF (Ret) Vice Chairman

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:

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



Maj. Gen. Charles L. (Chuck) Carr Jr., CAP

CAP/Air Force/Aviation background:

- CAP National Commander, with previous service as CAP National Vice Commander, Great Lakes Region Commander and Ohio Wing Commander, as well as Group Commander and Squadron Commander
- CAP Pilot with instrument rating
- Master rating in CAP's Personnel and Finance professional development specialty tracks

Career:

- Owner of ABC Academy Daycare Center in Columbus, Ohio
- More than 17 years in retail sales and management
- Master Sergeant, Superintendent of Security Police, U.S. Air Force (Ret)

Lt. Gen. Stanley E. (Sid) Clarke III, USAF

CAP/Air Force/Aviation background:

- Numerous Air Force command positions
- Air Force Command Pilot with more than 4,000 flight hours in T-38, C-26, A-10 and F-16 aircraft, including more than 100 combat hours

Career:

- Lieutenant General, U.S. Air Force, currently serving as first three-star Commander of Continental Region, North American Aerospace Defense Command (NORAD) and 1st Air Force and Air Forces Northern (USNORTHCOM)
- Former service includes Senior Defense Official and Defense Attaché, Office of Defense Cooperation Turkey, U.S. European Command, and Military Assistant Deputy Chief of Staff, Strategic Plans and Programs, Headquarters U.S. Air Force, Washington, D.C.



William A. Davidson Jr., USAF (Ret)

CAP/Air Force/Aviation background:

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

Career:

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



Paul L. Graziani

CAP/Air Force/Aviation background:

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

Career:

- CEO and Co-Founder, Analytical Graphics Inc.

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

CAP/Air Force/Aviation background:

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

Career:

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



Lt. Col. Edward (Ned) F. Lee, CAP

CAP/Air Force/Aviation background:

- Major, Army National Guard (Ret)
- National Cadet Adviser, with long list of previous service, especially with Cadet Programs, including Director of Civic Leadership Academy, Cadet Officer School Faculty Member and extensive work with Drug Demand Reduction Program
- Gen. Carl A. Spaatz Award, highest honor for cadets

Career:

- Supervising Judge, California Superior Court, Santa Clara County
- California Army National Guard, called to active duty after Sept. 11 attacks and served in Panama, Ukraine and Japan
- Former Police Detective



Maj. Gen. Susan Pamerleau, USAF (Ret)

CAP/Air Force/Aviation background:

- Director, Personnel Force Management, U.S. Air Force, Pentagon
- Commander, Air Force Personnel Center, Randolph AFB, Texas
- Commandant, Air Force ROTC, Maxwell AFB, Ala.
- Chief, Resource Allocation Division, U.S. Air Force, Pentagon
- Chief of Staff, Plans and Policy Division, International Military Staff, NATO, Brussels, Belgium
- Federal Aviation Administration private pilot license

Career:

- Director, Government Personnel Mutual Life Insurance Co.
- Senior Executive (Ret), United Services Automobile Association (USAA)
- Director/Trustee on various boards, including Air Force Aid Society, Arnold Air Society and Silver Wings and University of Wyoming Foundation Board





Brig. Gen. Joseph (Joe) R. Vazquez, CAP

CAP/Air Force/Aviation background:

- CAP National Vice Commander, preceded by long list of previous CAP service, including Middle East Region Commander, National Operations Advisor and Virginia Wing Commander
- CAP Command Pilot with 3,150 flying hours
- Flight Instructor and Check Pilot
- CAP Incident Commander

Career:

- Retired as Operations Manager of Computer Sciences Corp.'s North American Service Restoration Team
- Former Software Engineer with E.I. DuPont



Brig. Gen. S. Sanford (Sandy) Schlitt, USAF (Ret)

CAP/Air Force/Aviation background:

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

Career:

- Chairman of Air Force Association Board of Directors
- Senior Managing Director of mortgage investment trust, with other private business ventures, including startups
- Chairman or Member of executive committee and committees on governance, audit and finance for several nonprofit and for-profit entities
- Former Member of Board of Directors of several nonprofits and for-profit entities, including NASDAQ-listed firm
- Senate Staff Member for U.S. Sens. Hubert H. Humphrey and Walter Mondale
- Candidate for U.S. Congress, 1980



Don R. Rowland

Executive Secretary/Executive Director, Civil Air Patrol

CAP/Air Force/Aviation background:

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

Career:

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



Maj. Gen. Charles L. Carr Jr., CAP national commander, left, and Brig. Gen. Joseph R. Vazquez, national vice commander, look over a financial report during a National Board meeting.

[FINANCIAL STATEMENTS]

Civil Air Patrol continues to meet the financial community's highest standards for accountability, transparency, fiscal integrity and responsibility, as its 2011 audit demonstrates.

Top officers, accountants and analysts in CAP National Headquarters' Financial Management Directorate work with the organization's eight region directors of finance and 52 wing directors of finance and commanders to maintain fiscal accountability throughout the organization.

The groundwork for this record of excellence was laid by the Wing Banker Program, devised by a Virginia Wing member and launched in 2006, which consolidated and streamlined CAP's accounting procedures nationwide.

Independent Auditors' Report

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, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Civil Air Patrol's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from Civil Air Patrol's 2010 financial statements and, in our report dated June 1, 2011, we expressed an unqualified opinion on those financial statements.

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, 2011, 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 June 6, 2012, on our consideration of Civil Air Patrol's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Warren Averett, LLC
Montgomery, Alabama
June 6, 2012

CIVIL AIR PATROL

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2011

(WITH COMPARATIVE INFORMATION AS OF SEPTEMBER 30, 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,836,443	\$ 13,258,278
Short-term investments	4,850,206	4,282,402
Accounts, grants and loans receivable	4,335,923	4,099,541
Inventories	159,992	205,560
Prepaid expenses	<u>351,481</u>	<u>372,186</u>
Total current assets	<u>22,534,045</u>	<u>22,217,967</u>
NONCURRENT ASSETS		
Cash - restricted	1,983,680	2,069,027
Long-term investments	358,840	382,885
Unconditional promises to give	4,739,968	7,882,753
Property and equipment, net of accumulated depreciation	<u>83,152,785</u>	<u>81,178,438</u>
Total noncurrent assets	<u>90,235,273</u>	<u>91,513,103</u>
TOTAL ASSETS	<u>\$ 112,769,318</u>	<u>\$ 113,731,070</u>

See independent auditors' report and notes to financial statements.

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,952,634	\$ 3,414,920
Current maturities of long-term debt	6,135	5,729
Deferred revenue	<u>308,278</u>	<u>398,787</u>
Total current liabilities	<u>3,267,047</u>	<u>3,819,436</u>
NONCURRENT LIABILITIES		
Noncurrent maturities of long-term debt	<u>21,082</u>	<u>27,217</u>
TOTAL LIABILITIES	<u>3,288,129</u>	<u>3,846,653</u>
NET ASSETS		
Unrestricted:		
Undesignated	21,774,071	20,317,819
Board designated	<u>3,616,369</u>	<u>4,457,845</u>
	25,390,440	24,775,664
Temporarily restricted	83,996,037	85,015,727
Permanently restricted	<u>94,712</u>	<u>93,026</u>
Total net assets	<u>109,481,189</u>	<u>109,884,417</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 112,769,318</u>	<u>\$ 113,731,070</u>

CIVIL AIR PATROL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2010)

	UNRESTRICTED	TEMPORARILY	PERMANENTLY	TOTALS	
		RESTRICTED	RESTRICTED	2011	2010
OPERATING REVENUES AND OTHER SUPPORT					
Governmental appropriations and grants	\$ 29,993,739	\$ 23,763	\$ -	\$ 30,017,502	\$ 30,978,401
Other program revenue	1,657,831	1,890,417	-	3,548,248	3,655,930
Membership dues	3,076,925	-	-	3,076,925	3,041,094
Governmental contributions	5,953,174	7,543,851	-	13,497,025	16,583,319
Contributions	1,813,263	174,007	2,500	1,989,770	1,856,169
Fundraising	1,169,035	-	-	1,169,035	1,093,084
Registration fees and events	828,273	-	-	828,273	770,154
Publications and advertising	30,793	-	-	30,793	24,940
Sale of materials, supplies and surplus property	153,648	-	-	153,648	138,402
Interest income	47,791	37	1,079	48,907	77,755
Investment income	214,267	7,947	-	222,214	261,015
Other	914,520	-	-	914,520	833,701
Net assets released from restrictions	10,882,376	(10,882,376)	-	-	-
Total operating revenues and other support	56,735,635	(1,242,354)	3,579	55,496,860	59,313,964
OPERATING EXPENSES					
Program services:					
Aerospace education and training	3,464,496	-	-	3,464,496	3,358,862
Cadet programs	6,849,586	-	-	6,849,586	6,685,661
Communication maintenance	1,008,056	-	-	1,008,056	1,649,241
Counterdrug	594,884	-	-	594,884	669,892
Drug demand reduction	629,935	-	-	629,935	677,243
Emergency services	22,710,154	-	-	22,710,154	22,855,925
Total program services	35,257,111	-	-	35,257,111	35,896,824
Supporting services:					
Fundraising	351,221	-	-	351,221	306,819
Management and general	14,194,033	-	-	14,194,033	16,503,098
Membership development	5,889,159	-	-	5,889,159	3,075,519
Strategic communications	176,452	-	-	176,452	183,309
Total supporting services	20,610,865	-	-	20,610,865	20,068,745
Total operating expenses	55,867,976	-	-	55,867,976	55,965,569
Change in net assets from operations	867,659	(1,242,354)	3,579	(371,116)	3,348,395

See independent auditors' report and notes to financial statements.

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS	
				2011	2010
NONOPERATING GAINS AND LOSSES					
Gain on disposition of property and equipment	\$ 45,015	\$ 229,839	\$ -	\$ 274,854	\$ 199,522
Net unrealized and realized gain (loss) on investments	(297,898)	(7,175)	(1,893)	(306,966)	279,022
Total nonoperating gains and losses	<u>(252,883)</u>	<u>222,664</u>	<u>(1,893)</u>	<u>(32,112)</u>	<u>478,544</u>
CHANGE IN NET ASSETS BEFORE PRIOR PERIOD ADJUSTMENTS	614,776	(1,019,690)	1,686	(403,228)	3,826,939
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(269,142)</u>
CHANGE IN NET ASSETS	614,776	(1,019,690)	1,686	(403,228)	3,557,797
NET ASSETS AT BEGINNING OF YEAR	<u>24,775,664</u>	<u>85,015,727</u>	<u>93,026</u>	<u>109,884,417</u>	<u>106,326,620</u>
NET ASSETS AT END OF YEAR	<u>\$ 25,390,440</u>	<u>\$ 83,996,037</u>	<u>\$ 94,712</u>	<u>\$109,481,189</u>	<u>\$109,884,417</u>

CIVIL AIR PATROL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2010)

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 1,369	\$ 1,825	\$ 274	\$ 456	\$ 183	\$ 2,736
Aircraft maintenance	26,830	124,953	-	41,798	-	4,801,794
Awards	89,880	128,336	-	-	-	-
Bad debts	-	-	-	-	-	-
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	1,007	2,615,374	-	-	1,490	178,261
Conference	115,482	159,732	22,662	37,771	15,109	228,024
Contingency	-	-	-	-	-	-
Cost of goods sold	28,966	115,869	-	-	-	-
Depreciation	43,760	58,347	9,931	14,587	5,835	6,841,272
Equipment maintenance	100,642	134,189	208,679	33,549	13,419	209,107
Facility maintenance	1,028,600	1,326,664	185,111	316,342	126,538	2,291,991
Fundraising events	-	-	-	-	-	-
Insurance	8,357	11,258	1,671	2,785	1,115	16,788
Interest expense	-	-	-	-	-	-
Legal and accounting	1,995	2,660	399	665	266	3,990
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	46,372	-	110,050	-	-	18,336
Miscellaneous	2,262	3,053	453	755	302	5,585
Mission support	754	-	-	2,601	-	5,475,963
Payroll taxes and benefits	192,945	86,877	66,779	3,407	16,336	213,628
Professional services	126,758	19,869	8,539	-	10,092	241,449
Professional development	84,635	5,016	-	-	2,500	2,680
Postage	11,125	87,368	23,635	3,708	1,484	22,253
Printing and publications	6,233	8,313	1,247	2,079	831	12,467
Salaries	957,632	454,544	277,067	24,483	101,020	998,458
Senior activities	176,825	-	-	-	-	-
Supplies	151,819	922,678	44,442	37,332	280,329	283,549
Telephone	69,145	91,152	13,672	22,789	9,116	157,086
Travel	108,308	381,115	16,040	22,178	32,930	524,977
Vehicle maintenance	82,795	110,394	17,405	27,599	11,040	179,760
	<u>\$ 3,464,496</u>	<u>\$ 6,849,586</u>	<u>\$ 1,008,056</u>	<u>\$ 594,884</u>	<u>\$ 629,935</u>	<u>\$ 22,710,154</u>

See independent auditors' report and notes to financial statements.

	Supporting Services				Totals	
	Fundraising	Management and General	Member Services	Strategic Communications	2011	2010
Advertising	\$ -	\$ 7,487	\$ 19,063	\$ 9,577	\$ 42,970	\$ 90,013
Aircraft maintenance	-	507	-	-	4,995,882	5,340,353
Awards	8,000	8,301	13,093	-	247,610	230,936
Bad debts	-	-	-	-	-	22,065
Bank and credit card expense	-	30,207	-	-	30,207	36,726
Cadet activities	-	-	-	-	2,796,132	2,640,485
Conference	-	265,774	246,696	-	1,091,250	1,078,170
Contingency	-	17,410	-	-	17,410	15,015
Cost of goods sold	-	-	-	-	144,835	174,574
Depreciation	-	2,784,770	14,587	-	9,773,089	9,536,152
Equipment maintenance	-	161,494	33,549	-	894,628	501,273
Facility maintenance	-	1,762,155	640,460	-	7,677,861	7,617,621
Fundraising events	279,674	-	-	-	279,674	254,232
Insurance	-	1,691,045	2,785	-	1,735,804	1,124,156
Interest expense	-	2,447	-	-	2,447	3,104
Legal and accounting	-	300,836	665	-	311,476	337,056
Lobbying	6,928	-	-	-	6,928	18,090
Maintenance and equipment rental	-	239,040	-	-	413,798	496,552
Miscellaneous	-	133,000	5,425	-	150,835	130,579
Mission support	-	1,288	-	-	5,480,606	5,663,113
Payroll taxes and benefits	13,340	853,183	787,050	-	2,233,545	2,151,337
Professional services	-	587,613	259,163	-	1,253,483	1,394,574
Professional development	-	86,040	6,843	-	187,714	222,268
Postage	-	100,137	21,952	-	271,662	259,218
Printing and publications	-	10,779	2,079	166,839	210,867	192,143
Salaries	43,279	3,593,919	3,257,171	-	9,707,573	9,747,887
Senior activities	-	23,934	-	-	200,759	173,054
Supplies	-	514,917	70,438	-	2,305,504	3,284,535
Telephone	-	150,204	435,590	-	948,754	959,701
Travel	-	736,591	44,951	36	1,867,126	1,706,882
Vehicle maintenance	-	130,955	27,599	-	587,547	563,705
	<u>\$ 351,221</u>	<u>\$ 14,194,033</u>	<u>\$ 5,889,159</u>	<u>\$ 176,452</u>	<u>\$ 55,867,976</u>	<u>\$ 55,965,569</u>

CIVIL AIR PATROL

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2010)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (403,228)	\$ 3,557,797
Prior period adjustments	-	269,142
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,773,089	9,536,152
Net unrealized and realized (gain) loss on investments	306,966	(279,022)
Gain on disposition of property and equipment	(274,854)	(199,522)
Contributed property and equipment	(196,315)	-
Changes in operating assets and liabilities:		
Accounts, grants and loans receivable	(236,382)	(2,047,805)
Prepaid expenses	20,705	(117,817)
Inventories	45,568	(173,897)
Unconditional promises to give	3,142,785	(1,868,300)
Accounts payable and accrued expenses	(462,286)	(2,960,705)
Deferred revenue	(90,509)	111,238
Net cash provided by operating activities	<u>11,625,539</u>	<u>5,827,261</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	361,759	328,046
Purchase of property and equipment	(11,638,026)	(9,509,581)
Proceeds from sale of investments	1,671,606	1,033,359
Purchase of investments	<u>(2,522,331)</u>	<u>(870,121)</u>
Net cash used by investing activities	<u>(12,126,992)</u>	<u>(9,018,297)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of borrowings	(5,729)	(5,201)
Release of contractually restricted cash	<u>85,347</u>	<u>4,275,499</u>
Net cash provided by financing activities	<u>79,618</u>	<u>4,270,298</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(421,835)	1,079,262
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>13,258,278</u>	<u>12,179,016</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 12,836,443</u>	<u>\$ 13,258,278</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 2,447</u>	<u>\$ 3,104</u>
Cash paid for income taxes - unrelated business income	<u>\$ -</u>	<u>\$ 12,160</u>

See independent auditors' report and notes to financial statements.

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

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

Basis of Accounting

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

Financial Statement Presentation

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

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended September 30, 2010, from which the summarized information was derived.

Use of Estimates in the Preparation of Financial Statements

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

Advertising

Advertising costs are expensed as incurred. Total advertising costs expensed for the year ended September 30, 2011, was \$42,970.

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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.

Investments

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

Accounts, Grants and Loans Receivable

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

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

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

Inventories

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

Property and Equipment

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

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

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

Deferred Revenue

Deferred revenue 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

CAP has received notification from the Internal Revenue Service recognizing it as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. However, certain types of income may be subject to tax from unrelated business income as defined by the tax code. The accompanying financial statements include a provision for estimated taxes on 2011 unrelated business income in the amount of \$13,754.

As of September 30, 2011, the Organization has no uncertain tax positions that qualify for recognition or disclosure in the financial statements and no interest and penalties related to income taxes. CAP has filed its tax returns through September 30, 2010. The tax returns of the Organization for years ended September 30, 2008, and thereafter are subject to audit by the taxing authorities.

Contributions

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

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

Functional Expenses

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

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

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

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

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Subsequent Events

Management has evaluated subsequent events through June 6, 2012, which is the date the financial statements were available to be issued.

CIVIL AIR PATROL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

2. CASH

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

Contractually restricted by the USAF for:	
Future aircraft maintenance, modernization and procurement	\$ 1,216,542
Administrative and other operational expenses	4,684
Counterdrug administration	2,704
Restricted by donors for:	
Cadet scholarships and activities	170,330
Aerospace scholarships and activities	39,648
Construction of facility	411,252
Other activities	<u>138,520</u>
Total restricted cash	<u>1,983,680</u>
Designated by the governing board for:	
Cadet scholarships and activities	43,444
Facility maintenance	110,152
Other activities	<u>204,782</u>
Total designated cash	<u>358,378</u>
Cash unrestricted and not designated	<u>12,478,065</u>
Total cash	<u>\$ 14,820,123</u>
Statement of financial position presentation:	
Cash and cash equivalents	\$ 12,836,443
Cash – restricted	<u>1,983,680</u>
Total	<u>\$ 14,820,123</u>

3. INVESTMENTS

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

Annuities	\$ 73,721
Corporate bonds	422,752
Municipal bonds	159,277
Mutual funds	4,032,673
Real estate investment trusts	<u>520,623</u>
Total	<u>\$ 5,209,046</u>

CIVIL AIR PATROL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

3. INVESTMENTS (Continued)

The composition of the return on investments is as follows:

Investment income	\$ 222,214
Net unrealized and realized loss on investments	<u>(306,966)</u>
Total	<u>\$ (84,752)</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>
Restricted by donors:			
Clara Livingston Fund	\$ 159,422	\$ (13,841)	\$ 145,581
Historical Fund	2,166	(188)	1,978
Wirtschafter	9,871	(858)	9,013
Wing and Region investments restricted for cadet scholarships and aerospace education	<u>215,064</u>	<u>(12,796)</u>	<u>202,268</u>
	<u>386,523</u>	<u>(27,683)</u>	<u>358,840</u>
Designated by the governing board:			
Reserve investments	3,922,083	(380,275)	3,541,808
Scholarship Fund	<u>832,067</u>	<u>(80,675)</u>	<u>751,392</u>
	<u>4,754,150</u>	<u>(460,950)</u>	<u>4,293,200</u>
Investments unrestricted and undesignated	<u>628,242</u>	<u>(71,236)</u>	<u>557,006</u>
Total	<u>\$ 5,768,915</u>	<u>\$ (559,869)</u>	<u>\$ 5,209,046</u>
Statement of financial position presentation:			
Short-term investments			\$ 4,850,206
Long-term investments			<u>358,840</u>
Total			<u>\$ 5,209,046</u>

CIVIL AIR PATROL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

3. INVESTMENTS (Continued)

Investments have been restricted for the following specific purposes:

Clara Livingston Fund – Investments restricted for the Cadet Program.

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

Wirtschaftler Fund – Investments restricted for cadet scholarships.

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

Reserve Investments – Reserve investments are intended for use only in cases of extreme emergency and only when approved by a resolution of 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	\$ 3,087,618
Others	1,251,870
Less allowance for doubtful accounts	<u>(3,565)</u>
Total	<u>\$ 4,335,923</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 and vehicles	<u>\$ 4,739,968</u>
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As of September 30, 2011, the Organization received from the USAF conditional promises to give of \$827,932 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	<u>\$ 159,992</u>
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CIVIL AIR PATROL
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 90,400
Building and improvements	7,275,508
Aircraft	124,728,880
Computers	2,674,479
Vehicles	21,380,198
Office furniture and equipment	165,819
Building under capital lease	253,148
Office equipment under capital lease	9,995
Communication and other equipment	19,313,045
Construction in progress	192,513
Deposits on aircraft	130,000
Equipment not placed into service	3,241,065
	<u>179,455,050</u>
Accumulated depreciation	<u>96,302,265</u>
Net property and equipment	<u>\$ 83,152,785</u>

As of September 30, 2011, improvements with a book value of \$215,476 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$102,496 and \$112,980, respectively.

Depreciation expense for the period ending September 30, 2011	<u>\$ 9,773,089</u>
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Property and equipment donated directly or indirectly by the Department of Defense (DOD) can only be used for mission accomplishment, must be kept a minimum of one year before disposal action, and must be returned to the donor unless a waiver is granted, or unless the equipment is classified by the donor as nonreturnable.

Property and equipment purchased with funding from the DOD is restricted for mission support. Disposition of these assets requires approval and instructions from CAP USAF. As of September 30, 2011, property and equipment restricted for specific purposes amounted to \$165,651,895, less accumulated depreciation of \$90,196,334, resulting in a balance of \$75,455,561.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are scheduled as follows:

Accrued payroll and payroll taxes	\$ 1,268,714
Vendor payables	<u>1,683,920</u>
Total	<u>\$ 2,952,634</u>

CIVIL AIR PATROL
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9. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 133,953
Other	<u>174,325</u>
Total	<u>\$ 308,278</u>

10. NOTE PAYABLE

The Organization has a note payable secured by a building with a book value of \$443,999. The note has an interest rate of 6.95% with monthly payments of \$653, and matures on September 30, 2015.

Total obligations	\$ 27,217
Less current maturities of long-term debt	<u>6,135</u>
Noncurrent maturities of long-term debt	<u>\$ 21,082</u>

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

Years ending September 30:	
2012	\$ 6,135
2013	6,580
2014	7,052
2015	<u>7,450</u>
Total	<u>\$ 27,217</u>

Total interest expense related to the above note is \$2,397 for the year ended September 30, 2011.

11. NET ASSETS

Unrestricted Net Assets - Designated

The governing board has designated unrestricted net assets for:

Reserve funds	\$ 2,746,590
Scholarships	794,836
Other	<u>74,943</u>
Total	<u>\$ 3,616,369</u>

CIVIL AIR PATROL
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11. NET ASSETS (Continued)

Temporarily Restricted Net Assets

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

Aerospace education activities:	
Scholarships	\$ 37,648
Other	12,005
Cadet program activities:	
Scholarships	264,911
Other	108,762
Other general activities:	
Subsequent years' use of property, equipment and inventories	76,212,031
Support, maintenance and modernization of aircraft fleet	6,445,153
Other	915,527
	83,996,037
Total	\$ 83,996,037

Permanently Restricted Net Assets

Permanently restricted net assets are restricted for:

Scholarships	\$ 79,626
Other	15,086
	94,712
Total	\$ 94,712

12. OPERATING LEASES

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

CIVIL AIR PATROL
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12. OPERATING LEASES (Continued)

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, 2011:

Years ending September 30:	
2012	\$ 200,785
2013	128,505
2014	114,693
2015	<u>72,000</u>
	<u>\$ 515,983</u>

Total rental expense for all operating leases is \$244,534 for the year ended September 30, 2011.

13. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 1,540,573
Expiration of time restrictions	9,294,431
Other	<u>47,372</u>
Total	<u>\$ 10,882,376</u>

14. EMPLOYEE BENEFIT PLAN

The Organization sponsors a 401(k) and defined contribution plan for the benefit of its employees, substantially all of whom are eligible to participate after meeting minimum qualifying standards. Under the plan, employees may elect to defer a portion of their salary, subject to Internal Revenue Code limits. The Organization may contribute a discretionary amount to the plan with immediate vesting. Organization contributions to the plan were \$374,751 for the year ended September 30, 2011, and are included in payroll taxes and benefits in the statement of functional expenses.

15. RELATED PARTY TRANSACTIONS

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

CIVIL AIR PATROL
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15. RELATED PARTY TRANSACTIONS (Continued)

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

Transactions Providing Revenue:

From the USAF for:		
Governmental appropriations		\$ 23,342,321
Contributions for:		
Use of facilities and utilities		2,490,269
Property, equipment and inventories		<u>6,525,034</u>
Total		<u>\$ 32,357,624</u>

Transactions Incurring Expenses:

Expenses with the USAF for:		
Facilities		<u>\$ 2,490,269</u>

16. CONTINGENCIES AND COMMITMENTS

Legal Proceedings

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

Self-Insured Accident Benefits

The Organization has established self-insured accident coverage for its senior and cadet members which provides benefits in the event of injuries or death incurred on authorized CAP activities. The benefits have been set at \$10,000 for accidental death, and \$8,000 per accident for medical expenses. Management has not arrived at an estimate of this risk retention exposure. Accordingly, no provision for liability has been established in the accompanying financial statements. Management believes exposure not to be significant at September 30, 2011.

CIVIL AIR PATROL
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17. FAIR VALUE 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, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Annuities	\$ 73,721	\$ -	\$ -	\$ 73,721
Corporate bonds	422,752	-	-	422,752
Municipal bonds	159,277	-	-	159,277
Mutual funds	4,032,673	-	-	4,032,673
Real estate investment trusts	-	-	520,623	520,623
	<u>\$ 4,688,423</u>	<u>\$ -</u>	<u>\$ 520,623</u>	<u>\$ 5,209,046</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, 2011, for Level 3 inputs:

	<u>Beginning Balance</u>	<u>Net Acquisitions (Dispositions)</u>	<u>Net Gains (Losses)</u>	<u>Ending Balance</u>
Real estate investment trusts	<u>\$ 495,017</u>	<u>\$ 33,590</u>	<u>\$ (7,984)</u>	<u>\$ 520,623</u>

18. CONCENTRATIONS

Concentration of Support

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

Concentration of Credit Risk

The Organization maintains its cash in bank accounts, which at various times during the fiscal year exceed the federally insured limits.

As of September 30, 2011, the Organization's uninsured cash balances totaled \$7,710,036.

CIVIL AIR PATROL

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19. SUBSEQUENT EVENTS

CAP programs and activities are primarily supported by governmental appropriations and contributions, through a cooperative agreement with the United States Air Force. CAP's 2013 federal funding has been reduced by \$4,657,000 in the current Presidential budget. CAP is hopeful this funding will be restored. However, the 2013 appropriated budget has been prepared and approved considering the anticipated reduction.



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