

CIVIL AIR PATROL
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

**CIVIL AIR PATROL
TABLE OF CONTENTS
SEPTEMBER 30, 2022**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements	9

INDEPENDENT AUDITORS' REPORT

To the Board of Governors
Civil Air Patrol

Opinion

We have audited the accompanying consolidated financial statements of Civil Air Patrol (the Organization), which comprise the consolidated statement of financial position as of September 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2023, on our consideration of the Organization'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 solely 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 effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Organization's 2021 consolidated financial statements and expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 11, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Warren Averett, LLC

Montgomery, Alabama
April 18, 2023

CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2022
(WITH COMPARATIVE INFORMATION AS OF SEPTEMBER 30, 2021)

ASSETS		
	2022	2021
Cash and cash equivalents	\$ 20,443,413	\$ 20,231,553
Cash and cash equivalents – restricted	5,014,702	5,533,902
Accounts and grants receivable	12,812,619	10,921,454
Prepaid expenses	831,959	848,323
Unconditional promises to give	19,312,998	3,209,941
Investments	8,802,675	10,929,736
Investments – restricted	2,394,810	2,735,592
Property and equipment, net of accumulated depreciation	134,308,306	126,422,376
TOTAL ASSETS	\$ 203,921,482	\$ 180,832,877
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 5,332,246	\$ 5,189,846
Deferred revenue	814,626	766,094
Other liabilities	67,736	-
TOTAL LIABILITIES	6,214,608	5,955,940
NET ASSETS		
Without donor restrictions	37,843,260	38,617,866
With donor restrictions	159,863,614	136,259,071
TOTAL NET ASSETS	197,706,874	174,876,937
TOTAL LIABILITIES AND NET ASSETS	\$ 203,921,482	\$ 180,832,877

See notes to the consolidated financial statements.

CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2022	2021
OPERATING REVENUES AND OTHER SUPPORT				
Governmental appropriations and grants	\$ 46,746,184	\$ 12,904,760	\$ 59,650,944	\$ 49,999,887
Other program revenue	1,487,623	2,225,038	3,712,661	3,186,835
Membership dues	2,907,937	-	2,907,937	2,782,885
Governmental contributions	233,202	25,442,901	25,676,103	1,603,829
Contributions	4,556,664	723,829	5,280,493	4,653,179
Nonfinancial asset contributions	8,931,574	-	8,931,574	8,161,520
Fundraising	1,021,304	-	1,021,304	698,982
Registration fees and events	829,650	-	829,650	375,033
Publications and advertising	14,261	-	14,261	8,010
Sale of materials, supplies and surplus property	130,833	-	130,833	87,339
Interest income	20,138	11,040	31,178	20,417
Investment income	206,274	48,266	254,540	161,773
Other	691,590	22,150	713,740	380,739
Net assets released from restrictions	17,471,944	(17,471,944)	-	-
Total operating revenues and other support	85,249,178	23,906,040	109,155,218	72,120,428
OPERATING EXPENSES				
Program services:				
Aerospace education and training	5,575,564	-	5,575,564	5,663,411
Cadet programs	11,842,546	-	11,842,546	7,026,840
Communication maintenance	2,110,730	-	2,110,730	2,694,560
Counterdrug	1,161,584	-	1,161,584	969,095
Drug demand reduction	271,756	-	271,756	249,845
Emergency services	37,335,618	-	37,335,618	34,981,302
Total program services	58,297,798	-	58,297,798	51,585,053
Supporting services:				
Fundraising	728,946	-	728,946	638,320
Management and general	18,506,460	-	18,506,460	15,096,730
Membership development	5,918,812	-	5,918,812	5,183,929
Strategic communications	211,772	-	211,772	176,605
Total supporting services	25,365,990	-	25,365,990	21,095,584
Total operating expenses	83,663,788	-	83,663,788	72,680,637
Change in net assets from operations	1,585,390	23,906,040	25,491,430	(560,209)
NONOPERATING GAINS AND LOSSES				
Gain (loss) on disposition of property and equipment	(27,500)	354,130	326,630	516,978
Net unrealized and realized gain (loss) on investments	(2,332,496)	(655,627)	(2,988,123)	1,677,895
Total nonoperating gains and losses	(2,359,996)	(301,497)	(2,661,493)	2,194,873
CHANGE IN NET ASSETS	(774,606)	23,604,543	22,829,937	1,634,664
NET ASSETS AT BEGINNING OF YEAR	38,617,866	136,259,071	174,876,937	173,242,273
NET ASSETS AT END OF YEAR	\$ 37,843,260	\$ 159,863,614	\$ 197,706,874	\$ 174,876,937

See notes to the consolidated financial statements.

CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2021)

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 3,840	\$ 5,118	\$ 769	\$ 1,279	\$ 511	\$ 7,676
Aircraft maintenance	6,252	618,999	-	9,378	-	9,406,381
Awards	84,176	236,266	-	-	-	-
Bad debts	-	-	-	-	-	-
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	-	4,784,440	-	-	-	708,423
Conference	122,346	192,224	24,470	40,783	16,313	245,993
Contingency	-	-	-	-	-	-
Contributed flying	12,970	1,255,349	-	194,612	-	726,903
Cost of goods sold	29,764	119,062	-	-	-	-
Depreciation	48,140	64,185	9,628	16,048	6,418	12,249,980
Equipment maintenance	56,016	74,689	1,593,702	18,671	7,469	324,083
Facility maintenance	1,585,018	2,043,533	331,231	495,066	198,027	3,384,110
Fundraising events	-	-	-	-	-	-
Insurance	11,959	18,378	2,392	3,986	1,595	23,917
Interest expense	-	-	-	-	-	-
IT expense	10,079	13,439	2,016	3,360	1,344	20,157
Legal and accounting	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	18,000	-	74,085	-	-	109,496
Miscellaneous	4,477	6,112	895	1,492	596	10,945
Mission support	13,297	264	-	278,205	-	4,848,789
Payroll taxes and benefits	250,755	116,590	1,161	1,936	775	380,872
Professional services	142,339	619,787	-	-	-	774,264
Professional development	87,033	4,965	-	-	-	6,887
Postage	7,226	9,635	13,747	2,408	963	14,452
Printing and publications	2,495	3,325	499	832	332	4,989
Salaries	879,775	612,445	5,592	9,321	3,729	1,478,820
Senior activities	132,479	-	-	-	-	10,793
Supplies	1,887,933	803,360	23,793	39,656	15,863	955,539
Telephone	68,781	91,709	13,757	22,928	9,171	254,624
Travel	96,055	129,526	10,121	16,838	6,736	656,518
Vehicle maintenance	14,359	19,146	2,872	4,785	1,914	731,007
	<u>\$ 5,575,564</u>	<u>\$ 11,842,546</u>	<u>\$ 2,110,730</u>	<u>\$ 1,161,584</u>	<u>\$ 271,756</u>	<u>\$ 37,335,618</u>

See notes to the consolidated financial statements.

CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2021)

	Supporting Services				Totals	
	Fundraising	Management and General	Membership Development	Strategic Communications	2022	2021
Advertising	\$ 1,651	\$ 27,165	\$ 9,798	\$ 76,690	\$ 134,497	\$ 120,308
Aircraft maintenance	-	13,770	468	-	10,055,248	9,216,932
Awards	-	5,280	14,280	616	340,618	333,222
Bad debts	-	16,085	-	-	16,085	19,474
Bank and credit card expense	-	94,183	-	-	94,183	139,531
Cadet activities	222	-	-	-	5,493,085	3,277,028
Conference	-	234,439	495,930	-	1,372,498	438,863
Contingency	-	2,392	-	-	2,392	21,114
Contributed flying	-	-	-	-	2,189,834	1,029,769
Cost of goods sold	-	-	-	-	148,826	95,984
Depreciation	-	3,127,497	16,048	-	15,537,944	13,402,975
Equipment maintenance	-	371,571	18,671	-	2,464,872	3,004,990
Facility maintenance	7,456	2,368,934	574,882	-	10,988,257	11,115,835
Fundraising events	190,444	-	-	-	190,444	166,140
Insurance	-	2,292,954	4,183	-	2,359,364	2,018,573
Interest expense	-	2,248	-	-	2,248	329
IT expense	-	13,439	3,360	-	67,194	80,678
Legal and accounting	-	269,375	-	-	269,375	267,812
Lobbying	-	-	-	2,698	2,698	1,868
Maintenance and equipment rental	-	454,475	-	-	656,056	644,348
Miscellaneous	830	138,811	1,492	-	165,650	24,409
Mission support	-	84	-	2,629	5,143,268	4,056,712
Payroll taxes and benefits	89,112	1,222,563	776,829	-	2,840,593	2,695,379
Professional services	75,800	992,401	555,520	26,263	3,186,374	2,171,925
Professional development	4,445	167,450	-	-	270,780	125,346
Postage	3,773	123,658	2,408	5,514	183,784	147,198
Printing and publications	-	3,325	832	85,359	101,988	94,129
Salaries	320,483	5,373,944	2,950,614	-	11,634,723	10,949,302
Senior activities	-	18,405	-	-	161,677	98,420
Supplies	2,511	388,080	49,453	975	4,167,163	4,467,554
Telephone	-	111,062	421,372	-	993,404	1,015,144
Travel	32,219	642,069	17,887	11,028	1,618,997	753,148
Vehicle maintenance	-	30,801	4,785	-	809,669	686,198
	<u>\$ 728,946</u>	<u>\$ 18,506,460</u>	<u>\$ 5,918,812</u>	<u>\$ 211,772</u>	<u>\$ 83,663,788</u>	<u>\$ 72,680,637</u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2021)**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 22,829,937	\$ 1,634,664
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,537,944	13,402,975
Net unrealized and realized (gain) loss on investments	2,988,123	(1,677,895)
Gain on disposition of property and equipment	(326,630)	(516,978)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(1,891,165)	(506,778)
Prepaid expenses	16,364	(275,242)
Unconditional promises to give	(16,103,057)	6,416,579
Accounts payable and accrued expenses	142,400	(123,718)
Deferred revenue	48,532	(2,632)
Other liabilities	67,736	-
Net cash provided by operating activities	<u>23,310,184</u>	<u>18,350,975</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	829,478	1,660,630
Purchase of property and equipment	(23,926,722)	(15,834,719)
Proceeds from sale of investments	4,293,492	3,418,411
Purchase of investments	<u>(4,813,772)</u>	<u>(4,895,991)</u>
Net cash used in investing activities	<u>(23,617,524)</u>	<u>(15,651,669)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(307,340)	2,699,306
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>25,765,455</u>	<u>23,066,149</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 25,458,115</u>	<u>\$ 25,765,455</u>
COMPOSITION OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Unrestricted	\$ 20,443,413	\$ 20,231,553
Restricted	<u>5,014,702</u>	<u>5,533,902</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 25,458,115</u>	<u>\$ 25,765,455</u>

See notes to the consolidated financial statements.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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 and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with authoritative guidance related to the accounting for financial statements of not-for-profit organizations. This guidance requires the Organization to present a statement of cash flows and display its activities and net assets in two classes based on the existence or absence of donor-imposed restrictions, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the governing board.

Net Assets With Donor Restrictions

Net assets with donor restrictions are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Financial Statement Presentation

The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2021, from which the summarized information was derived.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

Accounting Pronouncements Adopted in the Current Year

In 2022, the Organization, adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires that a not-for-profit present contributed nonfinancial assets as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash and other financial assets and some other main provisions. ASU 2020-07 was applied retroactively and had no impact on previously reported total change in net assets.

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. For purposes of the consolidated statement of cash flows, cash and cash equivalents exclude 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 consolidated statement of financial position. Unrealized and realized gains and losses are included in the change in net assets in the consolidated 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 net assets without restrictions 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 and Grants Receivable

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

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accounts and Grants Receivable – Continued

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. Useful lives by major asset class are as follows:

Building and improvements	20 – 50 years
Aircraft	20 years
Vehicles	5 years
Other equipment	3 – 10 years

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 consolidated statement of financial position.

Deferred Revenue

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

Income Tax Status

CAP has received notification from the Internal Revenue Service recognizing it as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. However, certain types of income may be subject to tax from unrelated business income as defined by the tax code.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Tax Status – Continued

As of September 30, 2022, 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, 2021. The tax returns of the Organization for years ended September 30, 2018, and thereafter are subject to audit by the taxing authorities.

Contributions

Contributions are considered available for the Organization's general operations unless specifically restricted by the donor. Amounts received that are restricted by the donor for use in future periods or for specific purposes are reported as restricted support increasing net assets with donor restrictions. Contributions received with restrictions that are met in the same reporting period and conditional contributions for which the conditions and restrictions are met in the same period are reported as unrestricted support increasing net assets without donor restrictions.

Nonfinancial Asset Contributions

Contributions of the use of facilities and utilities and use of long-lived assets are recorded at fair rental value. Contributed services and materials for use are recorded at fair value. Contributed flying services are valued at the estimated fair value based on nationally determined pilot wage rates for similar aviation services.

Functional Expenses

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

Fair Value Measurement

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. |
|---------|---|

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurement – Continued

Level 2 Inputs to the valuation methodology include:

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

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

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

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

Subsequent Events

Management has evaluated subsequent events through April 18, 2023, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications may have been made in the prior year's amounts to conform with current year financial statement presentation.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents which have been either restricted by the donor or designated by the governing board of the Organization are presented below:

Contractually restricted by the USAF for:

Future aircraft maintenance, modernization and procurement	\$ 3,976,156
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Restricted by donors for:

Cadet scholarships and activities	645,294
Aerospace scholarships and activities	93,775
Construction of facility	124,854
Wing missions and operations	63,261
Squadron operations	29,153
Other activities	82,209

Total restricted cash and cash equivalents	5,014,702
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Designated by the governing board for:

Cadet scholarships and activities	66,565
Facility maintenance	439,642
Reserve	379,360

Total designated cash and cash equivalents	885,567
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Cash and cash equivalents unrestricted and not designated	19,557,846
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Total cash and cash equivalents	\$ 25,458,115
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Statement of financial position presentation:

Cash and cash equivalents	\$ 20,443,413
Cash and cash equivalents – restricted	5,014,702

Total	\$ 25,458,115
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CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

3. INVESTMENTS

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

Annuities	\$ 65,868
U.S. Treasuries	592,053
Bonds	730,373
Equities	725,977
Exchange traded funds	2,018,793
Mutual funds	6,984,836
Real estate investment funds	79,585
	<hr/>
Total	<u><u>\$ 11,197,485</u></u>

The composition of the return on investments is as follows:

Investment income	\$ 350,605
Investment advisory fees	(96,065)
	<hr/>
Net investment income	254,540
Net unrealized and realized loss on investments	(2,988,123)
	<hr/>
Total	<u><u>\$ (2,733,583)</u></u>

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

3. INVESTMENTS – CONTINUED

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

Description	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Restricted by donors for:			
Cadet scholarships and activities	\$ 1,030,659	\$ (67,692)	\$ 962,967
Aerospace scholarships and activities	14,604	(515)	14,089
Senior activities	5,797	(205)	5,592
Wing missions and operations	1,065,603	(130,104)	935,499
Squadron missions and operations	491,214	(60,101)	431,113
Other activities	49,442	(3,892)	45,550
	<u>2,657,319</u>	<u>(262,509)</u>	<u>2,394,810</u>
Designated by the governing board for:			
Reserve	6,088,825	(214,910)	5,873,915
Cadet scholarships and activities	840,515	(29,667)	810,848
	<u>6,929,340</u>	<u>(244,577)</u>	<u>6,684,763</u>
Investments unrestricted and undesignated	<u>2,310,097</u>	<u>(192,185)</u>	<u>2,117,912</u>
Total	<u><u>\$ 11,896,756</u></u>	<u><u>\$ (699,271)</u></u>	<u><u>\$ 11,197,485</u></u>
Statement of financial position presentation:			
Investments	\$ 8,802,675		
Investments – restricted	<u>2,394,810</u>		
Total	<u><u>\$ 11,197,485</u></u>		

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

4. ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable are due from the following:

USAF	\$ 11,563,229
Others	1,249,390
	<u> </u>
Total	<u><u>\$ 12,812,619</u></u>

5. PROMISES TO GIVE

Unconditional Promises to Give

Unconditional promises to give consist of the following:

USAF – Aircraft procurement	\$ 18,914,331
USAF – Vehicle procurement	398,667
	<u> </u>
	<u><u>\$ 19,312,998</u></u>

Amount due in:

Less than one year	<u><u>\$ 19,312,998</u></u>
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Conditional Promises to Give

As of September 30, 2022, the Organization received from the USAF conditional promises to give of \$3,820,929 that are not recognized as assets in the consolidated statement of financial position. The promises are conditioned upon the Organization entering into legally binding USAF approved purchase orders for equipment.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 35,900
Buildings and improvements	10,638,327
Aircraft	223,862,226
Computers	3,410,275
Vehicles	28,870,367
Office furniture and equipment	216,057
Building under capital lease	253,148
Communication and other equipment	29,955,403
Construction in progress	1,544,482
Equipment not placed into service	13,561,498
	<u>312,347,683</u>
Accumulated depreciation	<u>178,039,377</u>
Net property and equipment	<u><u>\$ 134,308,306</u></u>

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

6. PROPERTY AND EQUIPMENT – CONTINUED

Depreciation expense for the period ending September 30, 2022	<u>\$ 15,537,944</u>
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As of September 30, 2022, improvements with a book value of \$304,781 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$260,488 and \$44,293, respectively.

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, 2022, property and equipment restricted for specific purposes amounted to \$283,940,644 less accumulated depreciation of \$169,590,078, resulting in a balance of \$114,350,566.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are as follows:

Accrued payroll and payroll taxes	\$ 1,560,653
Vendor payables	<u>3,771,593</u>
Total	<u>\$ 5,332,246</u>

8. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 776,467
Other	<u>38,159</u>
Total	<u>\$ 814,626</u>

9. LINE OF CREDIT

The Organization maintains a revolving line of credit with a local bank in the amount of \$2,000,000. The term of this line of credit is through September 1, 2024, with interest computed utilizing a variable interest rate. During the 2022 fiscal year, there were no advances on the line of credit and therefore no interest expense was incurred.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

10. NET ASSETS

Net assets consisted of the following as of September 30, 2022:

Net Assets Without Donor Restrictions

Undesignated	\$ 29,963,981
Board Designated:	
Reserve funds	6,253,275
Scholarships	736,607
Other activities	580,448
Net investment in property and equipment	<u>308,949</u>
Total net assets without donor restrictions	<u><u>\$ 37,843,260</u></u>

Net Assets With Donor Restrictions

Subject to expenditure for specified purpose:

Aerospace education activities:	
Scholarships	\$ 81,850
Other	37,842
Emergency Services	23,000
Cadet Program Activities:	
Scholarships	1,340,868
Other	153,826
Senior Program Activities:	
Other	5,671
Support, maintenance and modernization of aircraft fleet	13,141,345
Wing missions and operations	1,393,389
Squadron missions and operations	73,806
Other	<u>647,811</u>
Total subject to expenditure for specified purpose	<u>16,899,408</u>

Subject to passage of time:

Subsequent years' use of property, equipment and inventories	<u>142,787,801</u>
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Subject to restrictions in perpetuity:

Scholarships	52,063
Squadron missions and operations	104,247
Other	<u>20,095</u>

Total subject to restrictions in perpetuity	<u>176,405</u>
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Total net assets with donor restrictions	<u><u>\$ 159,863,614</u></u>
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CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

11. 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 2026. 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 under operating leases. The majority of the leases require the Organization to pay taxes, insurance, and repairs and maintenance. In most cases, management expects that, in the normal course of activities, leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2022:

Years ending September 30:

2023	\$ 381,318
2024	251,332
2025	83,094
2026	<u>10,752</u>
	<u><u>\$ 726,496</u></u>

Total rental expense for all operating leases is \$906,789 for the year ended September 30, 2022.

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 2,296,247
Expiration of time restrictions	<u>15,175,697</u>
Total	<u><u>\$ 17,471,944</u></u>

13. EMPLOYEE BENEFIT PLAN

The Organization sponsors a 401(k) 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 \$454,334 for the year ended September 30, 2022, and are included in payroll taxes and benefits in the consolidated statement of functional expenses.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

14. RELATED PARTY TRANSACTIONS

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

A description of significant related party transactions for the year ended September 30, 2022, is presented below:

Transactions Providing Revenue

From USAF for:

Governmental appropriations	\$ 56,504,210
Contributions for:	
Use of facilities and utilities	1,664,261
Property and equipment	<u>6,941,063</u>
Total	<u><u>\$ 65,109,534</u></u>

Transactions Incurring Expenses:

Expenses with USAF for:

Facilities	<u><u>\$ 1,664,261</u></u>
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15. 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, 2022.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

16. FAIR VALUE MEASUREMENTS

The Organization's assets measured at fair value are based on one or more of three valuation techniques, which include the following:

Market approach – prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – amount that would be required to replace the service capacity of an asset (that is, replacement cost).

Income approach – techniques to convert future amounts to a single, present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

The Organization's Level 3 investments consist of investments in real estate investment trusts (REITs). These investments are valued at estimated fair value, based upon the Organization's interest, as determined in good faith and reported by the REIT.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of September 30, 2022.

The following fair value hierarchy table presents information about the Organization's investments measured at fair value on a recurring basis as of September 30, 2022.

	Level 1	Level 2	Level 3	Total
Annuities	\$ 65,868	\$ -	\$ -	\$ 65,868
U.S. Treasuries	592,053	-	-	592,053
Bonds	730,373	-	-	730,373
Equities	725,977	-	-	725,977
Exchange traded funds				
Fixed income	1,125,098	-	-	1,125,098
Domestic equities	893,695	-	-	893,695
Mutual funds				
Fixed income	1,530,863	-	-	1,530,863
Domestic equities	3,205,863	-	-	3,205,863
International equities	2,248,110	-	-	2,248,110
Real estate investment trusts	50,943	-	28,642	79,585
	<u>\$ 11,168,843</u>	<u>\$ -</u>	<u>\$ 28,642</u>	<u>\$ 11,197,485</u>

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

16. FAIR VALUE MEASUREMENTS – CONTINUED

The following table presents a roll forward of the amounts for the year ended September 30, 2022, for Level 3 inputs:

	<u>Beginning Balance</u>	<u>Acquisitions (Dispositions)</u>	<u>Gains (Losses)</u>	<u>Ending Balance</u>
Real estate investment trusts	\$ 37,875	\$ -	\$ (9,233)	\$ 28,642

As a measure of liquidity, the frequencies that investments may be redeemed or liquidated are noted in the following table, along with the number of days' notice required to liquidate investments at September 30, 2022.

<u>Description</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Annuities	\$ 65,868	\$ -	Illiquid	Illiquid
U.S. Treasuries	592,053	-	Daily, Monthly	3 - 10 Days
Bonds	730,373	-	Daily, Monthly	3 - 10 Days
Equities	725,977	-	Daily, Monthly	3 - 10 Days
Exchange traded funds	2,018,793	-	Daily, Monthly	3 - 10 Days
Mutual funds	6,984,836	-	Daily, Monthly	3 - 10 Days
Real estate investment trusts	79,585	-	Illiquid	Illiquid

17. NONFINANCIAL ASSET CONTRIBUTIONS

Nonfinancial asset contributions for the period ending September 30, 2022, consisted of the following:

Contributed facilities and utilities	\$ 6,741,740
Contributed flying	2,189,834
Total	<u>\$ 8,931,574</u>

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

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, 2022, the Organization's uninsured cash balances totaled \$17,325,165.

19. LIQUIDITY AND FUNDS AVAILABLE

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the consolidated statement of financial position date, comprise the following as of September 30, 2022:

Financial assets:	
Cash and cash equivalents	\$ 25,458,115
Accounts and grants receivable	12,812,619
Investments	11,197,485
	<hr/>
Total financial assets	49,468,219
Less assets unavailable for general expenditures because of donor-imposed restrictions:	
Cash and cash equivalents contractually restricted by the USAF (Note 2)	(3,976,156)
Cash and cash equivalents restricted by donors (Note 2)	(1,038,546)
Investments restricted by donors (Note 3)	(2,394,810)
Accounts receivable from the USAF	(11,563,229)
Less assets unavailable because of board designations:	
Cash and cash equivalents designated by the governing board (Note 2)	(885,567)
Investments designated by the governing board (Note 3)	(6,684,763)
	<hr/>
	<u>\$ 22,925,148</u>

As part of the Organization's liquidity management plan, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

20. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, increasing the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2021. The Organization does not expect this guidance to have a significant impact on the consolidated financial statements.